



Bank of Ireland Sectors Team Food and Drink Review and Outlook

January 2022



Classification: **Green**

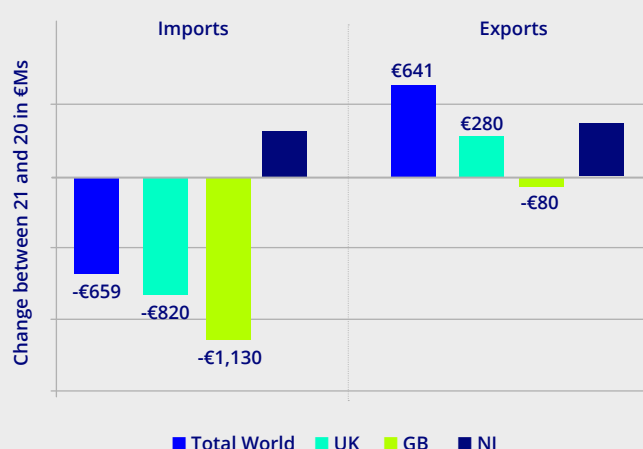
2021 Insights: While 2021 was a turbulent period for the food & drink industry with Brexit related adjustments, rolling COVID-19 lockdowns and rising commodity prices, the majority of food & drink businesses coped well and took advantage of the foodservice recovery and the increased opportunities for Brexit related import substitutions to grow both sales and cash margin.

Summary

2021 saw a significant positive change (€1.3bn from Jan -Nov¹) in the balance of trade in the sector. While exports increased, imports decreased significantly, largely driven by the impact of Brexit. Retailers and foodservice operators increasingly turned to local Irish producers in order to avoid the significant level of administration and extra costs that food from Britain now attracts. While COVID-19 continued to provide plenty of challenges - in terms of labour availability, health and safety and forecasting difficulties

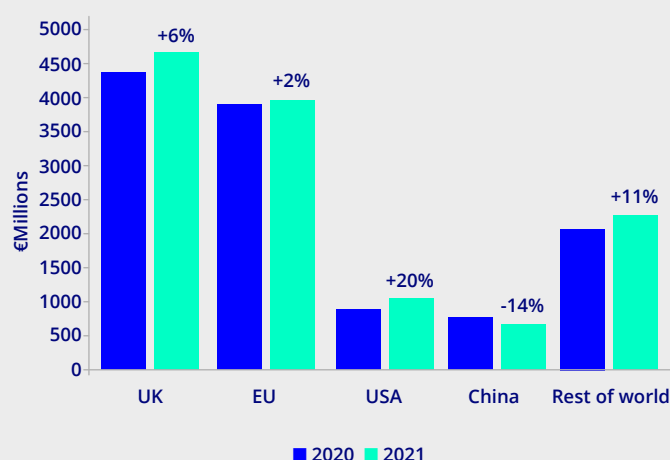
- the majority of businesses in the sector have adapted well to its challenges. As the year continued, the sector's main focus was around adjustment to supply chain difficulties and commodity increases, as businesses struggled to pass on the full effects of the cost increases to their customers in a timely manner. Although this impacted percentage gross margins, the overall effect was mitigated by growth in topline sales.

Fig 1: Change in Food and Drink Balance of Trade (Exports vs imports) Jan-Nov 2021 vs same period in 2020



Source: CSO "Food & Live Animal" and "Beverages & Tobacco"

Fig 2: Irish Food and Drink Exports 2021 vs 2020 (Jan -Nov)



Source: CSO "Food & Live Animal" and "Beverages & Tobacco"

Irish Food & Drink Export Sales by Sector

	2019 €M	2020 €M	2021 €M	% ch vs 2020	% ch vs 2019
Dairy	5,044	5,093	5,041	-1%	0%
Meat & livestock	3,316	3,415	3,544	4%	7%
- Beef inc. offal	2,125	2,126	2,236	5%	5%
- Pigmeat	517	561	542	-3%	5%
- Sheep	319	364	420	15%	31%
- Poultry	158	151	128	-15%	-19%
- Other Meat	14	12	3	-75%	-78%
- Live Animals	183	202	214	6%	17%
Seafood	487	457	484	6%	-1%
Horticulture	206	238	271	14%	32%
Prepared Consumer Foods	2,597	2,460	2,526	3%	-3%
Drinks	1,602	1,364	1,620	19%	1%
Total	13,252	13,028	13,486	4%	2%

Source Bord Bia

Key Sector Trends in 2021

- **Brexit Impacts Evolving:** While firms have adjusted well to Brexit, it has had a significant influence on both domestic and external trade in 2021. Despite the Trade & Cooperation Agreement, Brexit has led to additional complexity, uncertainty and cost, which have particularly affected the food and drink industry due to the interlinked nature of UK and Irish food chains. 90% of businesses surveyed by Bord Bia stated that Brexit had increased their cost base². However, the UK remains our single biggest export destination (see figure 2) and the Republic of Ireland is the number one destination for food and drink exports³ from the UK.

As the UK delayed full border control, exports have generally flowed freely (+6%⁴) and additional non-tariff related costs have been offset by stronger sterling. Brexit related challenges in the UK supply chain, around labour and HGV driver shortages, have created opportunities for Irish suppliers to win new business in the UK.

The decision by the UK government to delay full implementation of border control on Irish exports, due to challenges around ensuring “unfettered access” for Northern Irish exporters, have given a temporary but welcomed boost to Irish suppliers compared to their continental competitors, who are now subject to increasing border controls when accessing the British market. Irish operators are also picking up additional business on the continent, where British operators have been struggling to cope with the additional customs paperwork and attendant delays.

In contrast, imports from the UK are down by 21%⁵, resulting in opportunities for import substitution, particularly in the SME sector, where local operators may have been previously uncompetitive against UK product. However, in the case of some imports such as specific ingredients or machine parts, British suppliers have been more difficult to replace, causing increased input costs and delays for affected manufacturers.

Trade with Northern Ireland has also increased. Exports to Northern Ireland are up by 39% and imports are up by 37%⁶. This reflects the way in which the Single Market for goods is now operating on the island of Ireland as a result of the Northern Ireland Protocol, but it also may reflect operators' perception on relative ease of transit via Northern Ireland compared to the Republic, particularly in the case of imports from Britain.



- **COVID-19 Impact on Foodservice:** While not as severe as in 2020, rolling restrictions on foodservice outlets have been challenging for sectors that are most dependent on out of home consumption. Domestically, Bord Bia estimates that Island of Ireland foodservice food and drink purchases were 14.6% up on 2020 but were still 41% behind 2019 numbers⁷. From an export perspective, the picture has been more positive with seafood and whiskey (both categories that had been very impacted by Covid shutdowns) showing strong recovery on exports.
- **Commodity & Freight Increases:** Agricultural commodities reached their highest level in a decade in 2021, with a 23%⁸ year on year increase in the UN FAO (Food & Agricultural Organisation) index reported in December. Other key inputs such as freight, energy, labour and packaging also rose significantly. Input cost increases of almost 30% were reported by Irish SMEs in a survey by Love Irish Food⁹. Initially producers tried to absorb the cost increases, however as the year went on most opened pricing discussions with key customers.

The challenge in passing on the price increases to retail customers can be seen in the fact that food and drink prices as measured by the CPI only began increasing at the last quarter of 2021, with December's prices only up by 1.6% on a year on year basis. This had the effect of reducing producer gross margin percentages as the year went on. This was reflected in static deposit balances for the sector towards the year end, in comparison to strong growth earlier in the year.

Key Sector Activity 2021

While appetite for investment has been strong in the industry, high cash balances at the start of 2021 saw developments being increasingly funded from cash reserves.

Investments relating to warehousing development, both on and off the home site, were a significant feature. Due to Brexit, using warehouses in Britain for 'just in time' deliveries to Ireland is no longer feasible. Supply chain delays are forcing operators to hold more stock. This has increased the cost and reduced the availability of third party warehousing, so increasingly, food operators are extending their warehousing capacity on site.

Supply related uncertainty has put pressure on cash flow, due to forecasting challenges and the need to carry more stock. Companies are increasingly looking to build resilience into their operating models by incorporating flexible sources of working capital, for example invoice discounting.

Due to the growth of the industry over the last decade, equity investments – particularly state sponsored investments such as those by Enterprise Ireland or the EIS schemes – have become a prevalent feature. As companies become more established we are increasingly seeing refinancing of this equity by debt as established companies seek to take advantage of low interest rates.

At a sub-sectoral level, credit demand continues strongly in the whiskey sector as established operators look to lay down additional stock for maturation, consequently demand for whiskey warehouse space continues to grow.

2022 Outlook: The 2022 outlook is broadly positive. Bord Bia research indicates 82% of businesses are optimistic about future trading prospects¹⁰. Despite initial wariness and increased complexity, in broad terms the initial effects of Brexit have delivered a boost to Irish suppliers. Exports are performing well and a growing global population continues to value the high quality of product that Ireland supplies. The intellectual capital that exists in the Irish food industry and its ability to innovate and take advantage of a strong state supported research and development ecosystem, means that it is well placed to capitalise on opportunities.

Key Trends 2022

- **Continued Brexit Impacts:** Irish exporters are yet to feel the impact of full Brexit controls on exports into Britain, following moves by the UK government to push back deadlines on their implementation. July 2022 is the current deadline for implementation. There are significant efforts in place by state agencies to prepare for this change, through training and increased personnel, however the quantum of documentation due to relative importance of the UK for our market could be challenging. It is also likely to have a significant impact on groupage, which may affect smaller SMEs that rely on mixed loads for frequent delivery.
- **Sustainability Focus:** Carbon reduction budgets are due to be finalised in March 2022. The sector will be watching closely the final decision on the reduction attached to agriculture from the current range of 22% to 30%. The industry is confident that it can reach an 18% reduction in emissions without any negative impact on farm output. Regardless of the final number, what is clear, is the industry focus needs to be on added value and innovation. Added value development is likely to drive significant investment in research and development and ultimately processing facilities. The focus at present is very much around the twin pillars of carbon reduction and reducing packaging waste, however potential impacts of an enhanced green agenda extend to all areas of the supply chain. For example, we have seen recent focus on ensuring animal feed in the meat supply chain is not contributing to Amazon deforestation, this is leading to new innovations, particularly in the area of growing insects for animal feed. Key retail customers have set science based targets¹¹. Increasingly data capture of a company's climate based impacts by product will be necessary when seeking product listings with major retail customers. The move towards increasing the amount of plant based food in consumers' diet is set to continue.



- **Development of Fisheries & Marine Resources:** The focus of the Irish food industry has long been on meat and dairy, however Brexit has been a catalyst to review the opportunities presented by our marine based economy. A specific task force was commissioned to look at the impact of the loss of fishing quota (c15% by 2026¹²) due to Brexit and to make recommendations to develop the industry given potential investment from the Brexit Adjustment Reserve. The range of stakeholders involved resulted in a wide ranging and potentially transformative report for the industry. It recommended overall funding of €423M¹³ primarily via the Brexit Adjustment Reserve. €145M of this is to be allocated for decommissioning and other short term measures to allow for adjustment to post Brexit conditions. However, €277M will be allocated to focus on longer term growth initiatives to the sector. It is these initiatives, in particular, that have the potential to transform the sector in 2022 and beyond. The initiatives include support for aquaculture, development of added value processing capabilities, improved coastal infrastructure and marine enterprise development. This development will also be supported by the streamlining of the marine licensing process as part of the recently passed Maritime Planning Bill.¹⁴
- **Commodity Prices & Food Inflation:** The effect of price increases negotiated by industry suppliers with key customers in 2021 will begin to be seen more significantly in 2022. However, it is likely that producers may have to negotiate additional increases in 2022 as many of 2021's price increases did not capture some of the input increases that occurred towards the back end of the year and there are strong prospects for supply inputs to continue increasing in cost in 2022.

Bank of Ireland

Bank of Ireland is committed to its role as a key partner for Ireland's largest indigenous Industry. This is amply demonstrated by our ongoing support of the Blas Na hÉireann food quality awards and our deep sectoral knowledge. COVID-19 has highlighted the necessity for companies to have an in market, long term, stable, finance partner that can offer timely support, dedicated relationship managers and an understanding of the cyclical nature of the various sub sectors.



¹ CSO Jan- November 2021 vs 2020 for "Food & Live Animal" and "Beverages & Tobacco"

² https://www.bordbia.ie/globalassets/bordbia.ie/industry/readiness-radar/readiness-radar_report_webversion.pdf

³ <https://www.fdf.org.uk/fdf/business-insights-and-economics/facts-and-stats/>

⁴ CSO Jan- November 2021 vs 2020 for "Food & Live Animal" and "Beverages & Tobacco"

⁵ CSO Jan- November 2021 vs 2020 for "Food & Live Animal" and "Beverages & Tobacco"

⁶ CSO Jan- November 2021 vs 2020 for "Food & Live Animal" and "Beverages & Tobacco"

⁷ Bord Bia 2021 Foodservice Report

⁸ Global food prices dip in December (fao.org)

⁹ RTE The Business: Food firms being hit with price rises of up to 30% (loveirishfood.ie)

¹⁰ Bord Bia 2021 Readiness Radar

¹¹ <https://www.tescopl.com/sustainability/taking-action/environment/climate-change/>

¹² Quotas cut by 15%, and a €1 billion industry on the brink: The confusing figures fuelling fishers' anger (thejournal.ie)

¹³ Government taskforce recommends €423m for fishing industry to help tackle Brexit losses (irishexaminer.com)

¹⁴ gov.ie - Maritime Area Planning Bill 2021 passes through all stages of the Oireachtas (www.gov.ie)



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Roisin joined Bank of Ireland in 2019 as Head of the Food & Drink Sector, in order to support the Bank's business in this strong, indigenous industry. She brings an in depth understanding of the Food & Drink sector to the role due to her wealth of experience in both Ireland and the UK, across a number of companies and product categories. She has held senior commercial positions in both indigenous and multinational consumer goods companies including PepsiCo, Valeo Foods, Carbery, Boyne Valley and Robert Roberts Ltd. Her knowledge base spans end to end product development, from procurement and new product development, to branding, marketing and sales achievement. Her most recent role was in the Sports Nutrition Industry. Roisin holds an undergraduate Law Degree from UCC, an MBA from Warwick Business School and Post Graduate qualifications in Digital Business and Digital Marketing.

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