

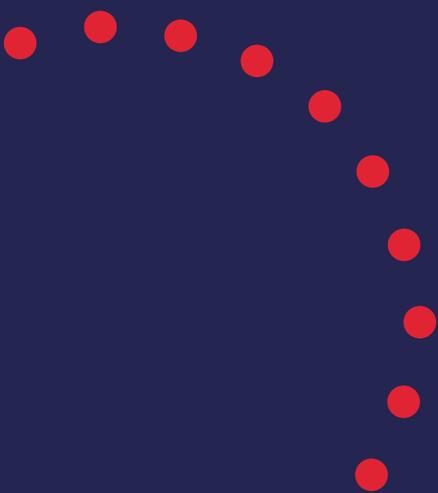


Bord Bia's **Brexit** **Barometer**



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Introduction

In the year since the UK made the historic decision to chart its future outside the EU, much ink has been spilled on fathoming the political and economic implications for Ireland and the food and drink industry in particular. The UK is by far our largest food and drink export market, worth over €4 billion in 2016, and while our trading relationship predates the EU and the European Single Market, it has flourished to an exceptional degree within the framework of both. This relationship is very much a two-way street: Ireland is also the UK's most important food and drink export market, with imports from our nearest neighbour valued in the region of €3.8 billion last year.

While geographical proximity and a finely matched profile of supply and demand underpin this relationship, so too do shared cultural values and complementary worldviews: we are uniquely well suited to support and meet each other's food needs. It is against this backdrop that Brexit, and particularly the variant that puts the UK not only outside the EU but also the European Economic Area and the Customs Union, presents itself as a deep and unparalleled challenge.

Bord Bia laid the preparatory groundwork for addressing the challenge of Brexit in advance of the June referendum and, notwithstanding the fact that, a year later, no greater clarity has emerged on the ultimate form departure will take, our response has evolved into a strategy and series of supports that takes into account likely short, medium and long-term impacts.

In March 2017, with support from the Department of Agriculture, Food and the Marine, we launched Bord Bia's Brexit Barometer, a risk analysis tool designed to help individual companies assess their exposure to six specific risk areas associated with Brexit – routes to market, customs and tax, supply chain, trade, currency and human resources. An expression of our commitment to provide supports that are based on facts and data rather than speculation or anecdote, the Barometer is designed to give individual, tailored feedback to companies with regard to their risks and vulnerabilities, and to flag those areas where pre-emptive action can and should be taken. This report outlines our findings and insight to date, based on detailed consideration and input by almost 140 Irish food, drink and horticulture companies.

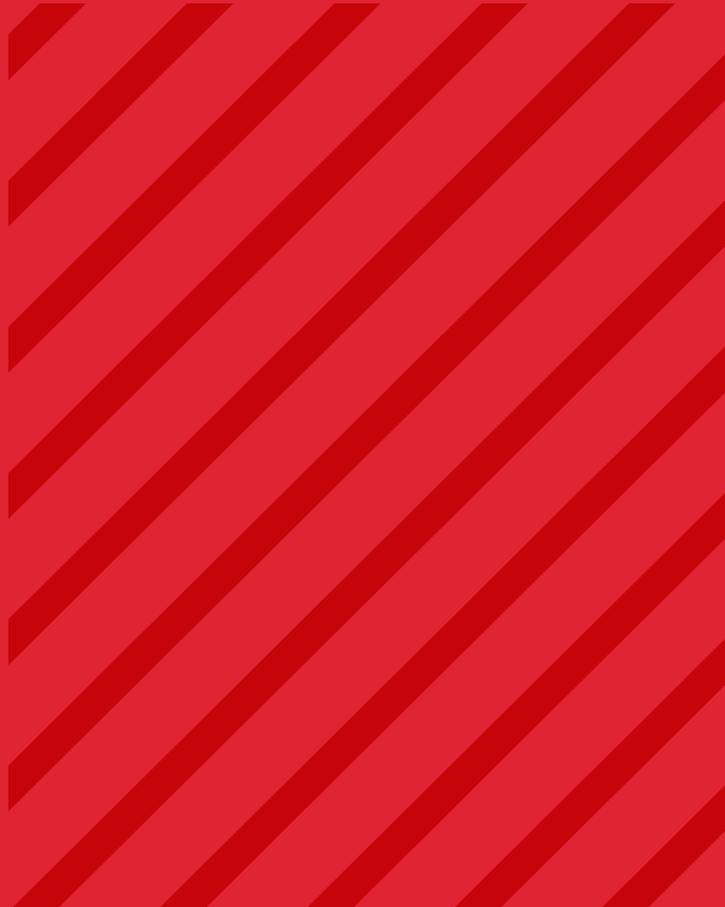
Brexit will demand a nuanced and concerted response from every level of the food industry. It will require new skills, new approaches and new thinking. It is a battle that will not be fought on one front but on many. It will require deepening and growing customer relationships and will demand a deep immersion in the areas of risk mitigation, diversification, customs and tariff management, currency management and relationship building. We will need to be innovative, agile, informed and prepared as never before.

These are demands that will be made on Bord Bia as much as the industry we represent, and we are currently engaged in a comprehensive review of our structures and programmes to ensure that we perform to the level required of us in this changing and challenging environment.

Ireland's food and drink industry has weathered significant challenges in the past. It has done so demonstrating a firm conviction that our best response is a collective one. As we await the first evidence of how Brexit will take form, neither Bord Bia nor the industry will observe passively. An enduring commitment to be the source of the world's highest quality and sustainably produced food and drink and to develop trade relationships built on trust and responsiveness have been the platform on which our industry's success has been built to date. This is one certainty that will not change as we embrace and manage the challenge ahead.

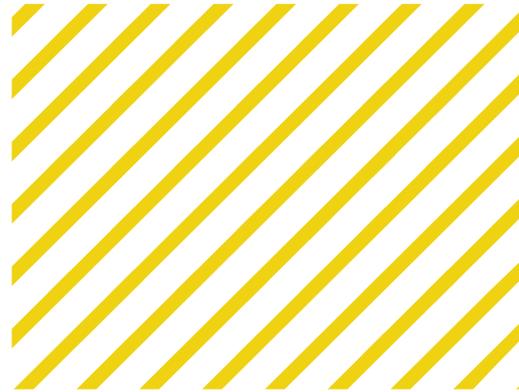


**Tara McCarthy, CEO,
Bord Bia**



UK Market Challenges

The UK is the most important export market for the Irish food, beverage & horticulture industry with 37% of total exports destined for the market.



Food service and retail are the dominant channels for these sales. Despite the deeply embedded relationships Irish suppliers share with British customers, the UK's decision to leave the European Union has led to a number of direct and indirect challenges.

Most immediately, the political and economic uncertainty caused by this decision has reduced the value of Sterling by 12% against the Euro in June 2017 compared to the night of the referendum (an average of 88p in June to date). This depreciation amounted to an 8% reduction in the value of our UK exports in 2016. However, Sterling's impacts runs deeper than net export values. It is also the driving force behind the highest UK inflation rate in four years.

Despite a 2% target set by the Bank of England, inflation in May 2017 rose by 2.9%. Overall food prices rose with it, illustrating the UK's dependence on both imported food and inputs for its own food production. Staples such as butter and fish have seen prices rise by over 5% in the UK in early 2017, as well as increases in frozen, fresh and chilled foods. However, this is not universal and prices fell across some categories including fresh poultry and snacks.

Whilst prices are rising overall, living standards are threatened by a decline in real wages. Growth in pay has not kept up with inflation in

recent weeks, leaving British consumers with the tightest squeeze on spending power since the financial crisis.

Consumer confidence remains in negative territory. However, despite higher prices and lower wages, adjustments in confidence have been relatively stable. Retail sales are only recently starting to slow, growing in May 2017 at the slowest rate for four years. With sales volumes falling 1.2% month on month, it's expected the UK's economic difficulties will continue to trickle down to consumers. Concerns remain about the basis of consumer spending since last summer, if this is based on using up savings or taking out loans it could cause future problems, and the Bank of England is increasingly poised to raise borrowing interest rates in the near future.

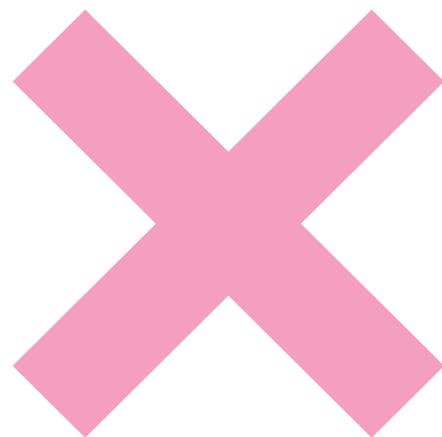
There are a number of ways UK consumers have managed higher prices in the past and are likely to deploy in the weeks and months ahead. According to Kantar research, shoppers trade down to cheaper products, switch to cheaper stores, make use of more promotional offers, or simply buy fewer products. Private label and staple sales grow while discretionary purchases decline. Out of home consumption declines and shoppers take fewer risks with their food choices.

These conditions generally leave Irish food and drink suppliers with three options. Firstly, to absorb cost increases and reduce profit margins. Price increases can be sought and passed on to the customer or consumer. Finally, packaging and pack sizes can be adjusted to maintain margins and avoid disruptive price adjustments.

The pressures facing the UK market since June 2016 provide an array of challenges for the Irish food and drink sector. Brexit has highlighted the need to deepen customer engagement and follow market insights to ensure customer needs are being met.

It also emphasises the importance of extending market reach, both within the UK and to European markets, where two thirds of Barometer respondent's non-UK sales are accounted for. International markets account for a smaller proportion of sales, but this is where overall Irish export growth is being driven from and before long will grow in importance.

Looking ahead, the Bank of England expects inflation to peak at just under 3 per cent in 2018 before falling back to 2 per cent in 2019, contingent on the UK securing a "smooth Brexit transition". In the meantime, Irish suppliers can leverage their world-class brands and a globally recognised food safety, traceability and sustainability scheme to overcome the current and forthcoming challenges.





Barometer Objectives

In October 2016 Bord Bia commissioned PwC to support the development of a 'Brexit Impact Assessment Tool'. The tool aimed to assess the exposure of Bord Bia's clients to Brexit across six key pillars – see figure below.

In conjunction with PwC, Bord Bia drew up a series of questions across each of the pillars. The questions were designed to:

1. Stimulate discussion and raise awareness of key Brexit issues amongst core Irish food, beverage and horticulture exporters.
2. Capture the level of risk that each company will be exposed to, given its structure and trade profile.
3. Inform Bord Bia of the key pressure points facing the industry.
4. Influence Bord Bia's strategic initiatives in the short, medium and longer term.

Between the 22nd of March and the 3rd of May, 139 Irish food, beverage and horticulture companies undertook the Barometer. Cross functional senior management participation was the norm and in many cases, it was the first time companies had looked at their business through a Brexit lens in a structured way.

90 of the Barometer Assessments were carried out face to face with Bord Bia personnel. Lasting between 1.5hrs and 4hrs, the meetings were thorough and marked a significant shift in knowledge and information amongst client companies.

Key Pillars

International Trade

- Profiling existing exports to the UK
- Accessing new markets
- UK-sourced ingredients & inputs

Route to Market

- Diversification within the UK
- UK relationships
- Other market opportunities

Supply Chain

- Shelf life and lead times
- Dealing with reduced volumes
- Cost structure
- Supply chain partners

Customs & Excise

- Import/export profile
- Customs compliance
- Excise & VAT profile

People

- EU nationals working in the UK
- UK nationals working in the EU

Currency

- Currency risk identification
- Currency risk management



Figure: Brexit Impact Assessment Tool Key Pillars

Profile of Respondents

Over half of respondents' revenue is derived from exports. The UK is the most significant market, contributing 53% of exports by value. Foodservice and retail are the dominant channels for sales.

Turnover

- 33% of respondents have a turnover of between €10 million and €50 million.
- 49% of respondents have a turnover of less than €10 million.

Turnover	€0 - €1m	€1 - €2.9m	€3 - €4.9m	€5 - €9.9m	€10 - €19m	€20 - €49m
Numbers	10	12	19	24	22	22

Employees

- 35% have between 50 and 250 employees.
- 48% of respondents employ 50 or fewer people.

Employee Numbers	0 - 5	6 - 20	21 - 50	51 - 200	201 - 250	Over 250
Numbers	5	28	31	40	7	23

Figure: Composition of Turnover

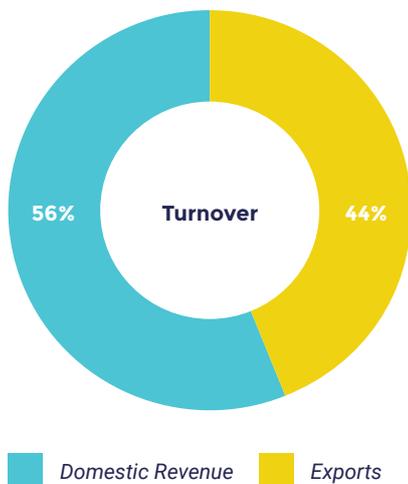
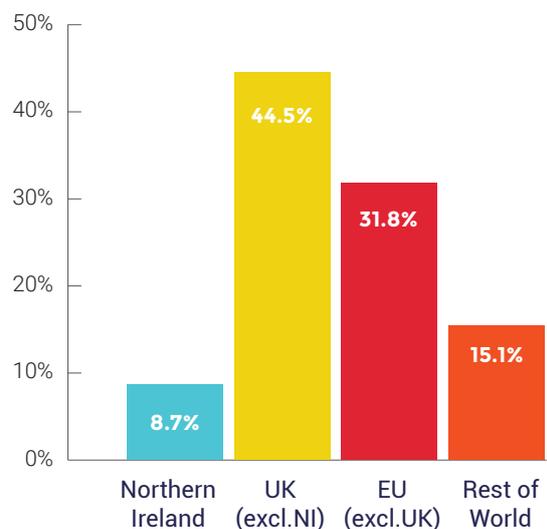


Figure: Distribution of Export Value



*The data quoted in this report is based on Bord Bia's Brexit Barometer respondents and not on CSO figures or normal Bord Bia quoted statistics.

Channels

- 70% of respondents who sell into retail also sell into foodservice.
- 33% of respondents sell into all three channels.

Figure: Channels



Figure: Percentage of Sector Exports

	Sector	Nos of Companies	% of UK Exports
1	Dairy	22	80%+
2	Beef	7	70%
3	Pigmeat	11	65%
4	Lamb	3	75%
5	Prepared Consumer Goods	51	50%-65%
6	Beverage	15	10%
7	Horticulture	15	90%
8	Seafood	15	80%
	Total	139	

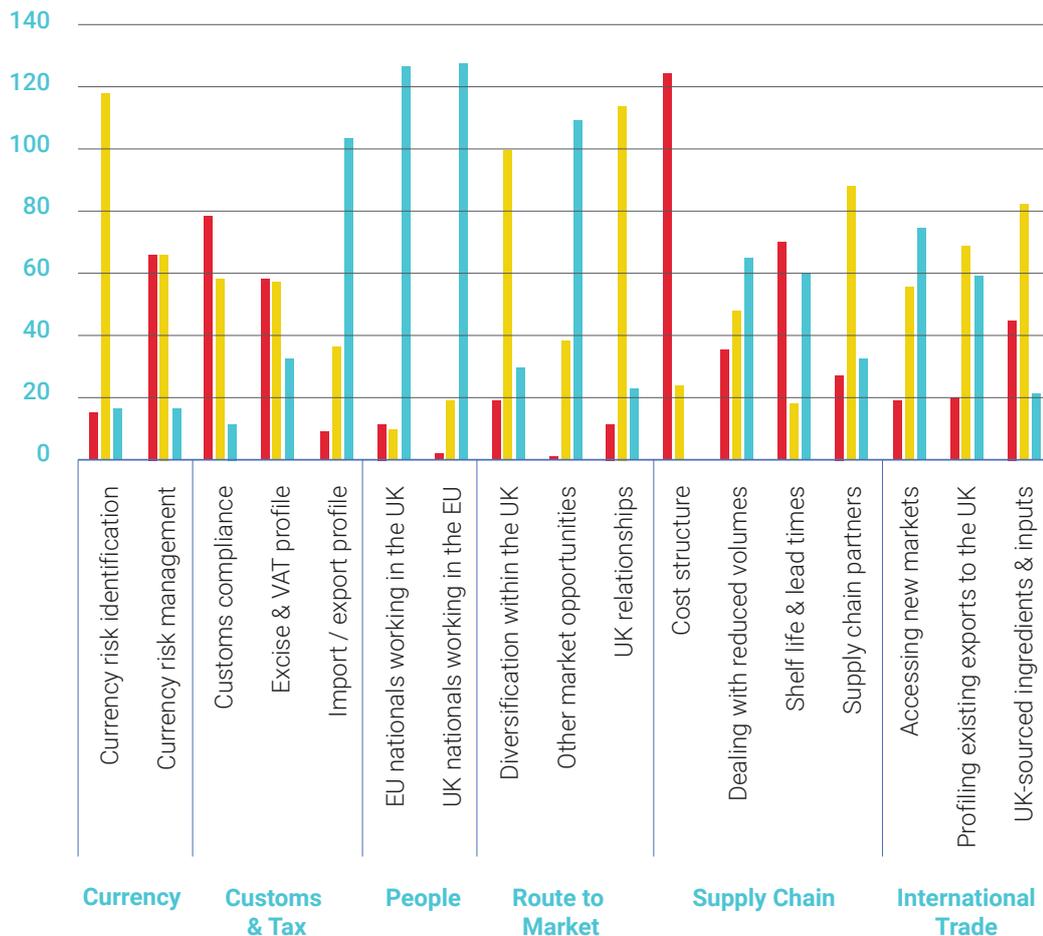
Summary of Results



Top risks facing the Irish food & drinks sector

The top risks identified are based on data provided through the barometer in addition to insights gained by Bord Bia personnel facilitating 90 Barometer meetings.

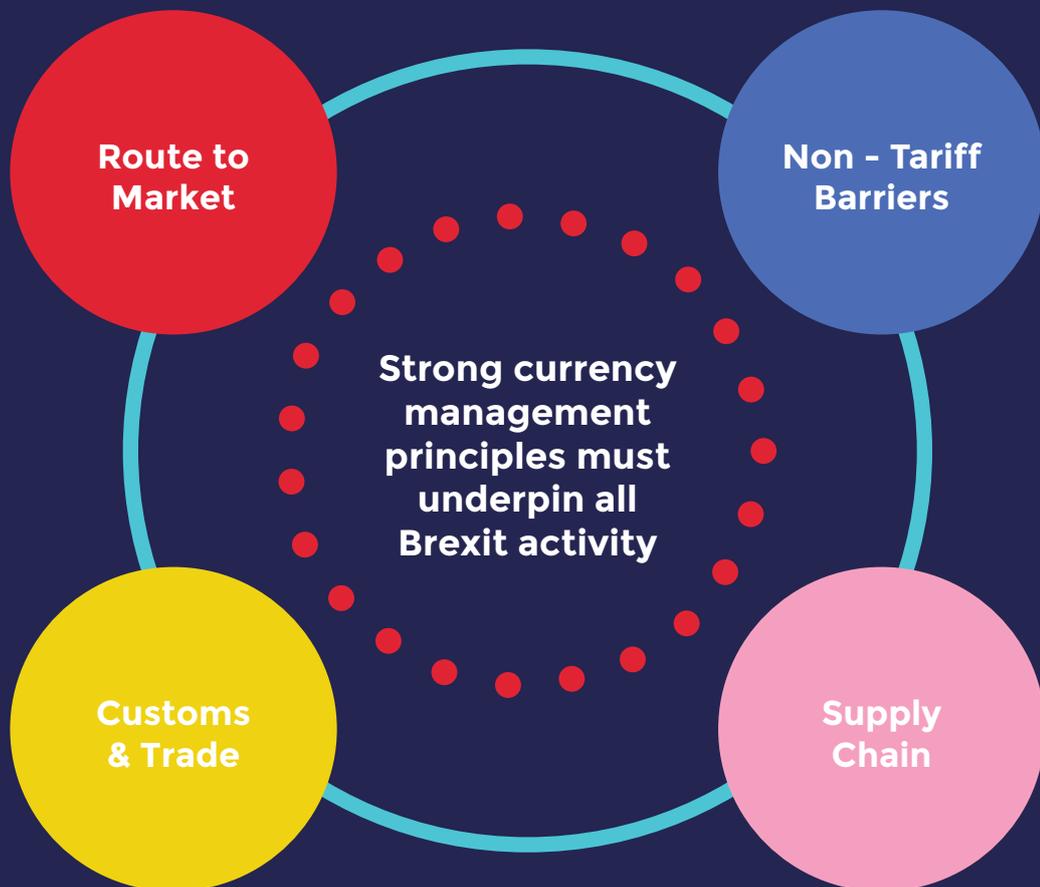
- Sum of High Risk
- Sum of Medium Risk
- Sum of Low Risk





Key Brexit Issues

facing the Irish food & beverage sector





1. Route to Market

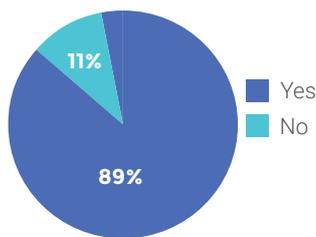
Whilst strong UK trading relationships exist, the need for competitive insights, focused marketing strategies and customer acquisition plans are critical to future growth.

Protecting & Growing – UK Sales

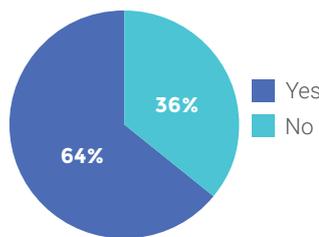
Strong trading relationships exist in the UK market and there is optimism for future growth. There's a general belief that there is potential to sell additional products into these customers. 79% of respondents believe that they can do so with products from their current range, while 90% believe there are opportunities for newly developed products. However, 36% of respondents don't have UK-focused sales and marketing resources, and 61% don't have a tailored marketing strategy for the UK market.

85%
of respondents who trade in the UK face competition from UK based suppliers.

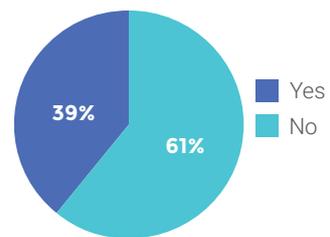
Are there new market opportunities for newly developed products?



Do you have a UK-focused sales and marketing resource?



Do you have a tailored marketing strategy for the UK market?



With 85% of respondents stating that they have a UK based competitor, understanding UK competition and their respective raw material supply chains is essential for Irish exporters. In order to defend their UK market positions, Irish exporters will need to channel further investment into developing:

- UK competitive insights;
- Focused marketing strategies; and
- Customer acquisition plans.

To help identify opportunities outside the UK, an analysis of UK based competitors will be required.

The introduction of tariffs, combined with an already weaker GBP, will force UK buyers to consider alternative sourcing options, as they seek to manage cost increases. There is also a realisation amongst Irish exporters that dependence is too great on the UK market and diversification will be important going forward.

Route to Market - European and International market opportunities

In non-UK markets, relationships may be considered as strong however they are often based on limited customer numbers. Up-weighting these relationships through localised marketing and customer activity is critical to winning further market share.

Diversifying to other Markets

Respondents believe there are viable alternative markets for their products however sectors such as beef and cheddar cheese will be challenged to find replacement markets. There is already strong penetration in non-UK markets with 79% of respondents trading in these markets, albeit with relatively low customer numbers. A key outlier here is the Mushroom sector, where most respondents only export into the UK, leaving them very exposed to changing market conditions in Britain.

Exporters' relationships with their non-UK customers are stronger than those with their UK equivalents however this is heavily influenced by sectors such as dairy and seafood where strong relationships exist, and a greater proportion of respondents (63%) have developed tailored marketing strategies for these markets than for the UK market. This indicates that companies invest relatively more resources into these other markets. The prepared consumer food sector scored lower here.

To realise new business outside the UK and similar to that of the UK market, localised marketing strategies, along with structured customer acquisition programmes and feet on the ground are critical to success.

Figure: Number of customers in non-UK markets

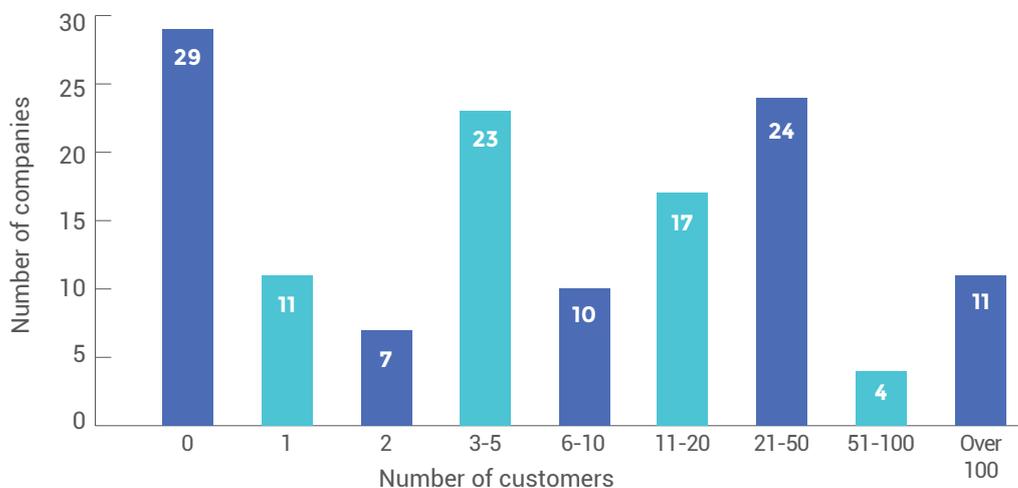


Figure: Are there viable alternative markets to the UK?

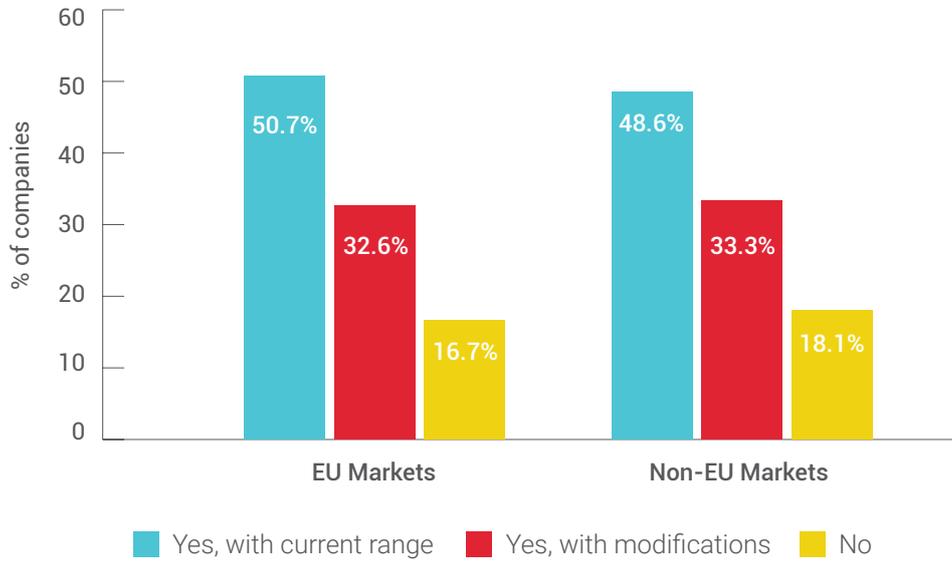
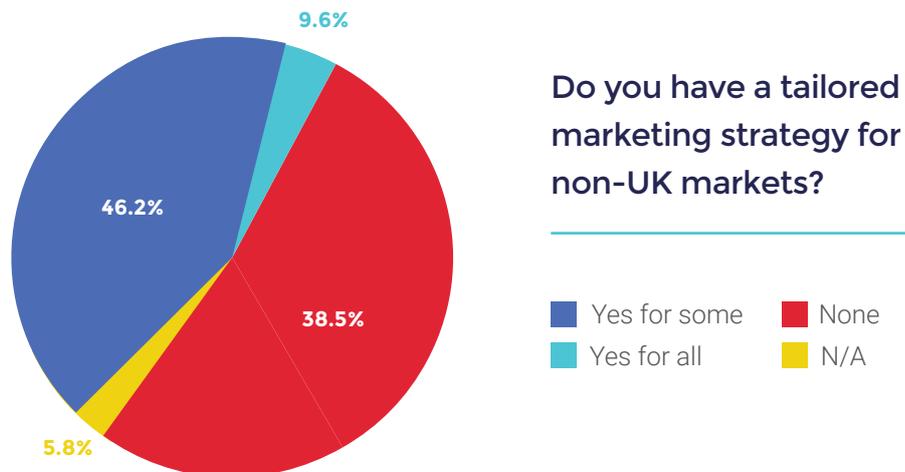


Figure: Marketing strategy for non-UK markets





2. Supply Chain Management

Increased lead times, especially when related to short shelf life products, and a complex and intense supply chain, is a key issue facing the industry.

Shelf Life and Lead Times

New customs compliance requirements are likely to increase product lead times, as supply chains become more complex and subject to delays. UK based customers enforce acceptable minimum life (AML) criteria on their suppliers which, if not met, will result in the rejection of deliveries at their distribution centres. Exporters with short shelf life products are most at risk, with the Mushroom industry facing the greatest challenge, as the sector's main product has a shelf life of less than 7 days. Likewise beef mince is challenged due to the complex and intensive supply chain.

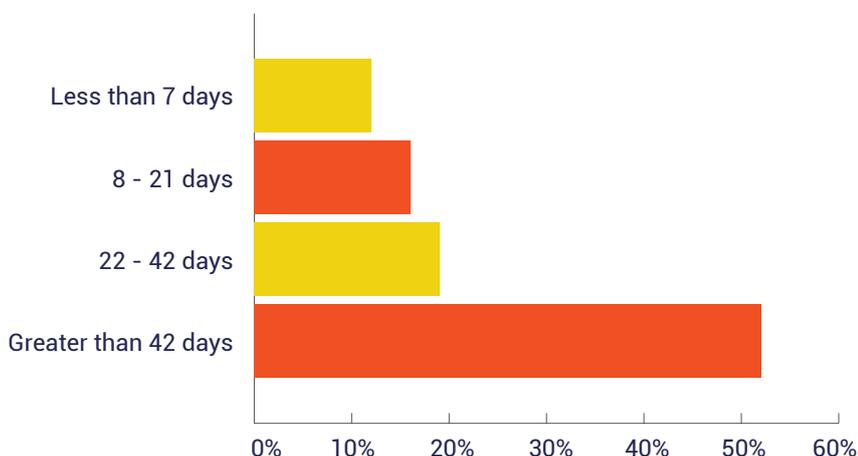
Failing to meet AML criteria has a direct financial impact on the Irish exporter, and in the case of short shelf-life products, is likely to result in spoilage. Respondents from the lamb and pigmeat sectors feel there is a particularly high risk of revenue loss in this regard. A large proportion of lamb is transhipped through

the UK into mainland EU therefore is at risk of longer lead times.

In addition to these financial issues, the customer relationship is at risk of being damaged, as product availability is a key metric for UK based buyers. Whilst sea freight is the normal route to the UK customer, more expensive options may now need to be considered if customer service levels are impacted. However air freight is considerably more expensive and 88% of respondents stated that their commercial model is either moderately or highly dependent on low supply chain costs.

Adherence with customs compliance regulations, as discussed overleaf, is a critical part of managing lead times therefore smooth implementation of these new complex processes is essential in the prevention of delays.

Figure: Product Shelf Life



Reduced Volumes

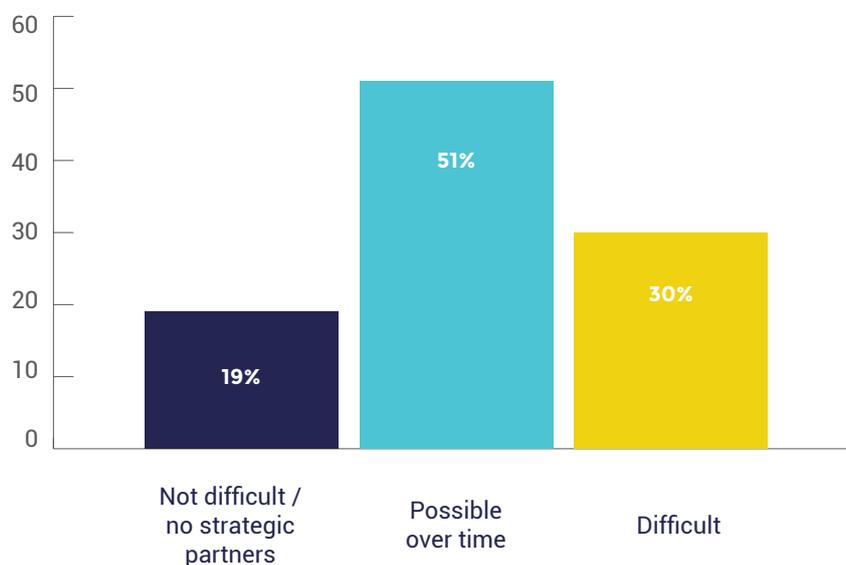
In the event of reduced order volumes to the UK, supply chain footprints will need to be assessed and exporters may need to reassess how they get their product onto the UK market. Exporters using the UK land bridge service may be better served by direct routes into mainland Europe; however, these routes are not as plentiful or as cost effective.

Supply Chain Partners

The sector is heavily dependent on 3rd party supply providers to deliver product into the UK market, with 76% of respondents stating that some supply chain relationships are strategic to their business. It is critical, therefore, that full risk assessments of their supply chain network take place. However, a low level of preparedness is common, with 68% of respondents unsure as to whether their supply chain partners are Brexit ready.



Figure: How difficult would it be to replace your strategic partner(s)?





3. Customs & Trade

Implementation of new customs controls and potential tariffs is clearly the greatest concern. Overall, there is a lack of understanding in terms of customs compliance and potential tariff costs. With limited customs expertise within the industry, this is clearly an issue for the industry.

Import and Export Profiles

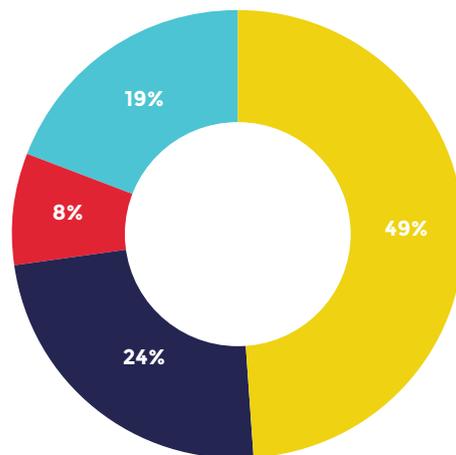
Due to the strong trading relationships with the UK, there are constant flows of stock between both countries – either the purchase of raw materials and ingredients, or the shipment of finished products to the UK. All of these product flows could now be subject to the imposition of tariffs, as well as increased compliance and administrative costs, along with potentially longer lead times.

Producers trading heavily outside of the EU, will have some first hand experience with these requirements; however, overall it is an issue facing the entire industry.

Critical areas, such as reviewing contracts to identify which responsible party is the designated exporter and/or importer of record, are essential steps that need to take place if the Irish exporter is to minimise this impact on their business. Failure to undertake this will impact on cash flow as customs duties will need to be paid up front if not properly managed. To mitigate risk, support & resources will be required across the industry.

Is your company the designated importer of record in your contracts with UK?

- Yes
- Don't know
- No
- Not addressed

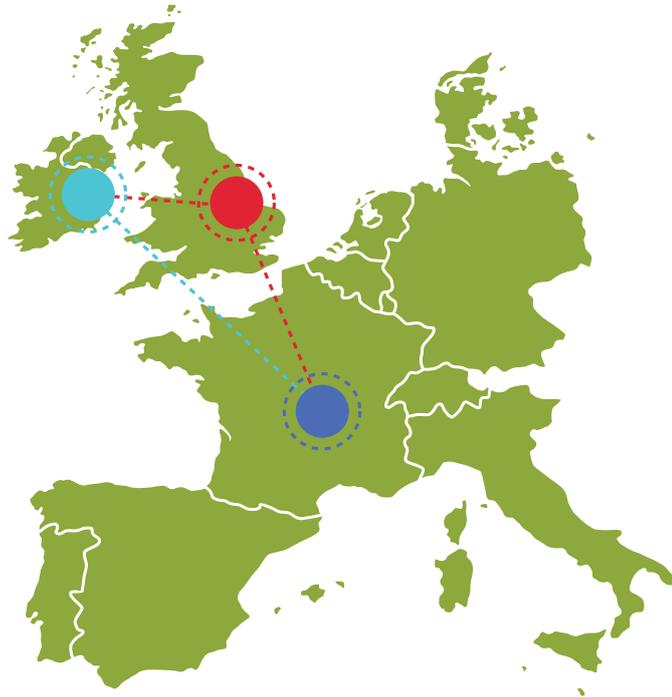


31%

Companies that ship EU purchases directly to Ireland

69%

Companies that ship EU purchases through the UK



Compliance with new customs procedures is a key challenge facing the industry and one which it must be prepared for.

No sector is immune from the challenges posed by the implementation of tariffs and new customs compliance requirements. Failure to comply with the new requirements will surface very quickly and make supply chain delays inevitable.

These delays will have an immediate impact on the exporters route to market strategy as product gets delayed due to non-compliance issues. Delays are a key issue for short shelf life products, such as meat and seafoods, therefore preparedness is critical in mitigating any potential negative effects.

It is clear that the challenge facing the industry is considerable and not one which they can address without support. The area of customs compliance and identification of tariffs is a complex issue and one which the industry will need to resolve.



Companies with limited or no experience in complying with official requirements relating to the importation or exportation of goods from/to non-EU locations

Excise & Vat

The lack of knowledge relating to customs compliance is the key issue facing the industry. The precise point at which ownership of goods transfers, can have a direct bearing on who has responsibility for customs clearance and the payment of customs duties.

Failure to understand and implement the necessary plans will result in financial impacts resulting from cash flow pressures and could potentially impact on supply chains if correct classifications are not applied to the products in transit.



Respondents who have not considered the VAT cashflow implications of Brexit

Post Brexit Trade Restrictions

Irish exporters are reasonably hopeful about the future. Overall, respondents are optimistic about the UK government's likely attitude to trading arrangements post-Brexit. 44% do not think that the UK will want to restrict imports, while 33% don't know what the UK's position will be.

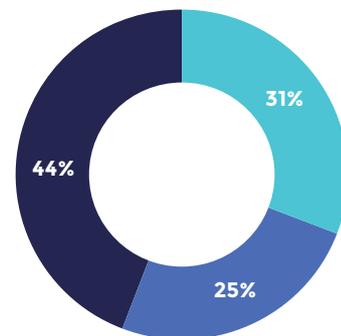
However, we know that the UK will need to restrict imports (e.g. by way of tariffs) to some degree, in order to protect domestic industry and to comply with its obligations under the law of the World Trade Organization. It will not be legal for the UK to give preferential treatment to imports from the EU outside of a trade agreement.

While there is uncertainty about the precise nature of post-Brexit relationships, certain aspects of the post-Brexit trading environment are possible to predict. Some matters are certain (for example, the need to enforce the EU trade border by way of customs formalities), while in other cases, educated assumptions must be made.

Fundamentally, uncertainty cannot prevail over the need to prepare given the business critical nature of what is at stake.

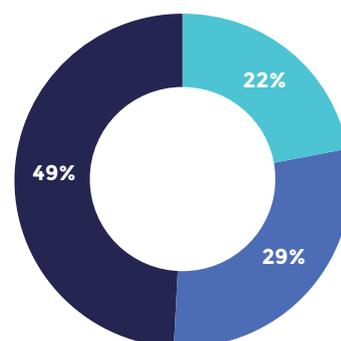
Will the UK want to restrict imports of your products into the UK following Brexit?

■ Yes ■ No ■ Unknown



Does the EU currently discourage the importation of competing products from outside the EU?

■ Yes ■ No ■ Unknown





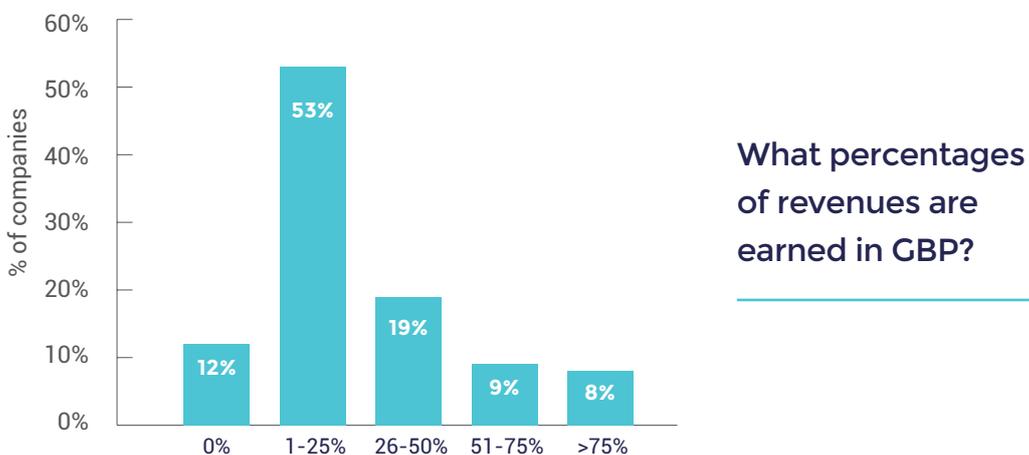
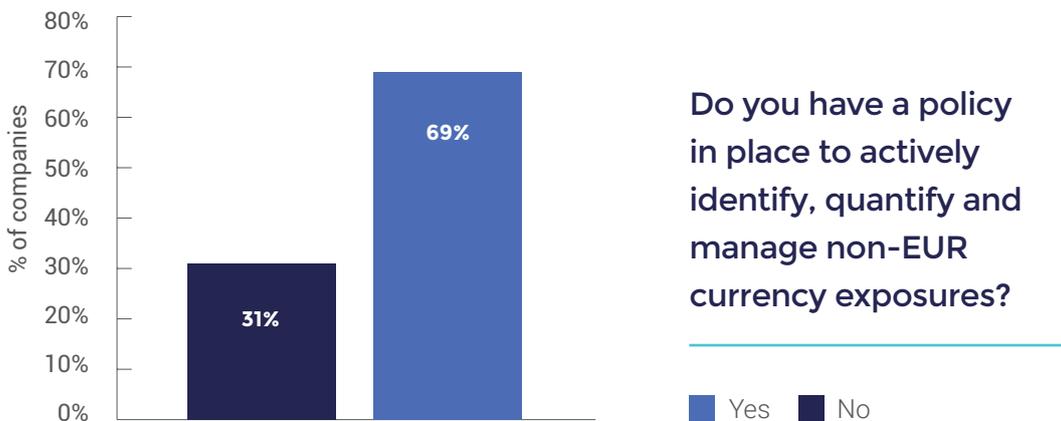
4. Currency

Respondents believe they have reasonably well-developed practices for managing currency risk; however, this belief will be tested in the event of any further devaluation of Sterling. Companies need to invest in currency risk management strategies for the longer term in order to manage and limit this exposure.

Currency Risk Management

The industry has plenty of experience dealing with currency fluctuations; however, the level of decline experienced since the Brexit referendum has been unprecedented. Although Sterling strengthened since June 2016, the uncertainty following the UK election caused further devaluation and any further shocks will ultimately cause an issue for the industry.

If the exchange rates were to move towards parity, severe trading difficulties would be created for the industry which layered on top of the implementation of tariffs would essentially create the perfect storm for the Irish food and beverage industry. No sector is immune from the challenge and ongoing preparation is necessary.



In the short to medium term, companies will have to develop/refine their detailed policies and procedures for hedging transaction and translation currency exposures, such as:

1. Use of natural offsets and currency derivatives to hedge net exposures;
2. Consider the type of currency derivatives that may be used for hedging (e.g. FX forwards, vanilla currency options*, option packages);
3. Whether to hedge both realised (foreign currency debtors) and/or forecast (expected future sales) foreign currency revenues, and how far forward to hedge future exposures.

In the longer term companies will need to consider hedging economic currency exposures (e.g. impact on sales volumes rather than sales values), for example, by transitioning components of their cost base to Sterling (e.g. purchases, salaries, funding).

Exchange Rate Thresholds

In terms of exchange rates, an exchange rate of 0.89 would cause severe difficulties for 39% of respondents and a rate of 0.94 would cause difficulty for another 41%. Ensuring appropriate risk management tools are in place will help manage future currency fluctuations.

Figure: At what level of Sterling would you begin to have severe difficulties?

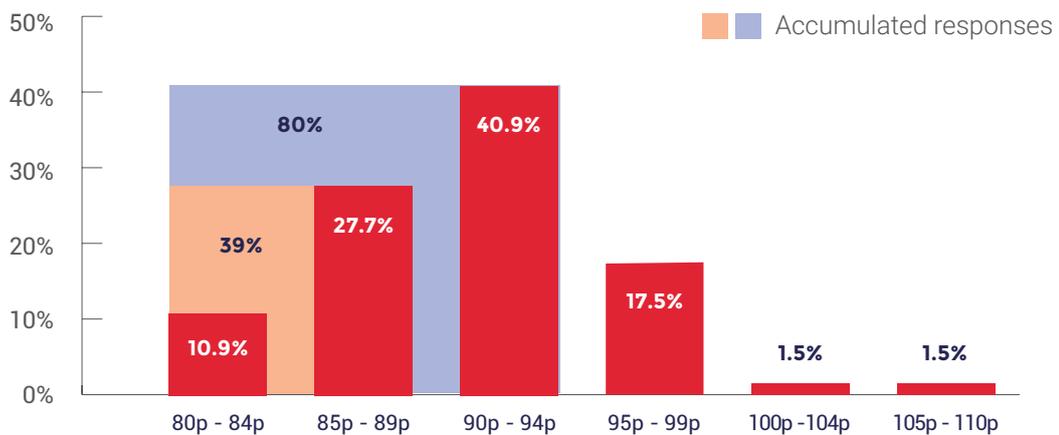
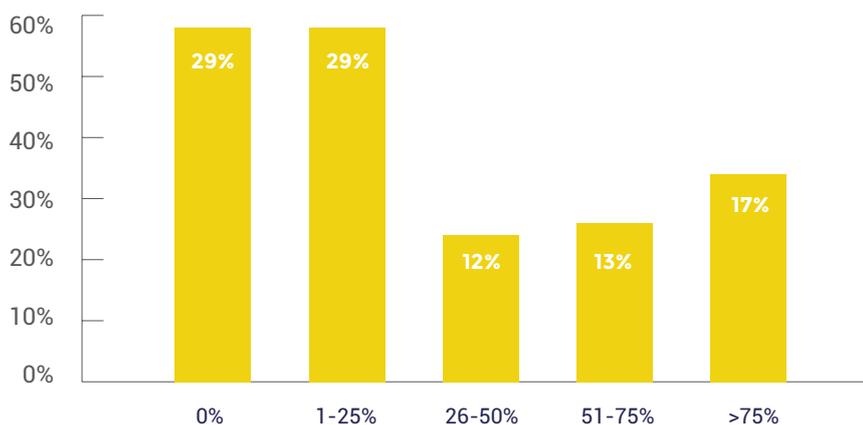
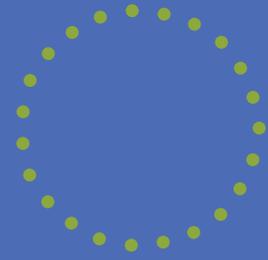


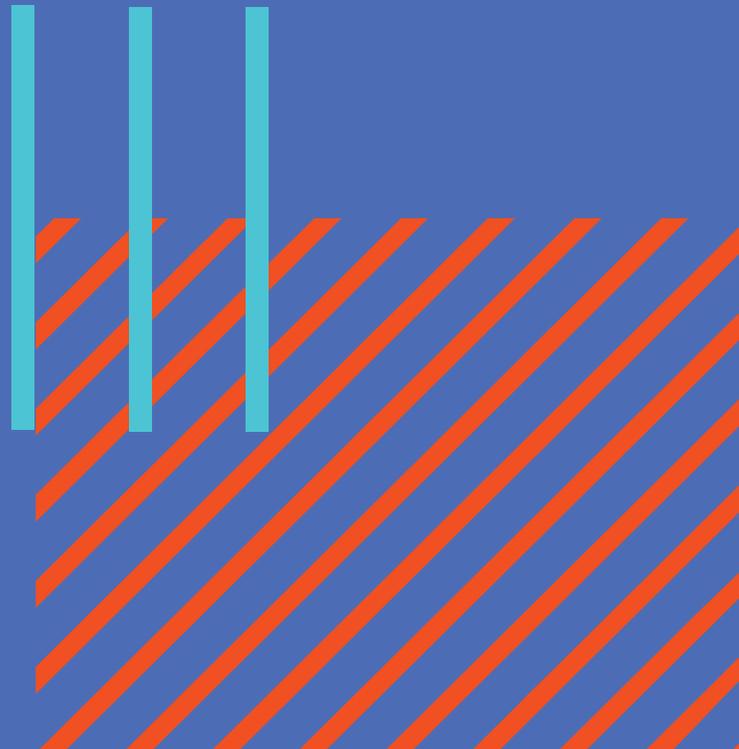
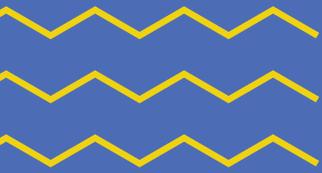
Figure: What percentage of non-EUR revenues are hedged by natural offsets or currency derivatives?



*A plain vanilla option is the standard type of option, one with a simple expiration date and strike price and no additional features.



Top Takeaways By Sector



Dairy



The sector is heavily export dependent with a well-diversified customer base across markets. Identifying alternative markets of scale for cheddar is a key concern. Notwithstanding the uncertainty of milk supply from Northern Ireland, respondents are reasonably well insulated from supply chain disruption, although there may be risks regarding their partners' Brexit preparations.

Overview

52% of respondents have turnover exceeding €20 million. The sector is very dependent on exports, which account for 71% of total

revenue. The UK is the most significant market, contributing 44% of exports by value. 45% of respondents sell across all three channels.

Turnover

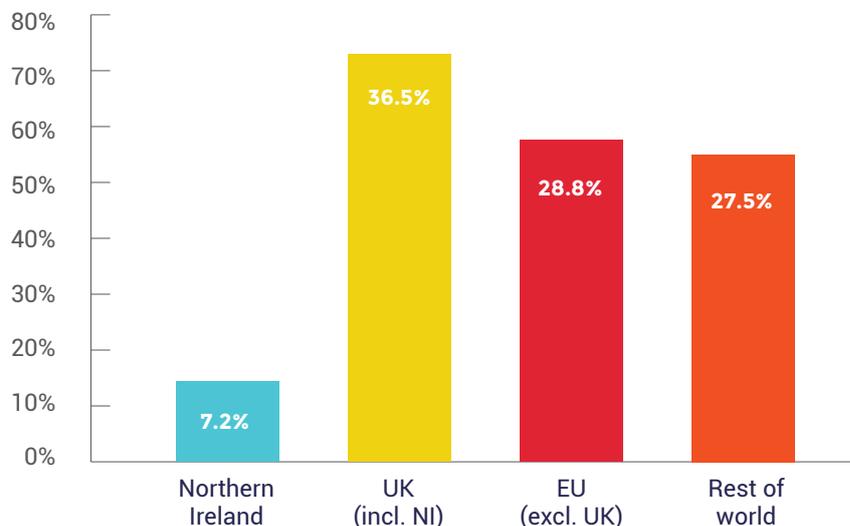
- 52% of respondents have a turnover of more than €20 million.

Turnover	€0 - €1m	€1 - €2.9m	€3 - €4.9m	€5 - €9.9m	€10 - €19m	€20 - €49m	Over €50m
Numbers	0	2	5	2	1	4	7

Dairy respondents have a relatively diversified customer base in the UK, servicing retail, foodservice and manufacturing customers. Whilst sub categories are relatively optimistic about growing their UK sales to these

customers through both current (67%) and newly developed (81%) products. However, achieving markets of scale for Cheddar is a clear issue.

Figure: Distribution of export value





Channels

- All respondents who sell into Retail also sell into foodservice.
- 45% of respondents sell into all three channels.

Figure: Channels



Top Strengths

Route to Market

The sector is well diversified with 90% of respondents selling into non-UK markets

Route to Market

Respondents have a relatively well-diversified UK customer base

International Trade

Respondents believe there are viable alternative markets both in the EU (77%) and beyond (82%)

Route to Market

73% of respondents derive 90% or more of their UK revenue from branded products

Supply Chain

The sector is insulated from impacts of increased lead times due to its products longer shelf life

Route to Market

Respondents have reasonably well-developed practices for managing currency risk

Key Risks

Export Structure

The respondents have a high dependency on the UK, as it accounts for 44% of export revenue

Route to Market

66% of respondents do not have a UK-focused marketing strategy

Route to Market

43% of respondents do not have a customer acquisition plan in place

Customs & Excise

64% of respondents have not yet modelled the impact of tariffs on sales to the UK

Customs & Excise

77% of respondents have not considered what may be required to facilitate payment of import duties

Supply Chain

81% of respondents are unsure as to whether their partners are adequately prepared for Brexit

Beef

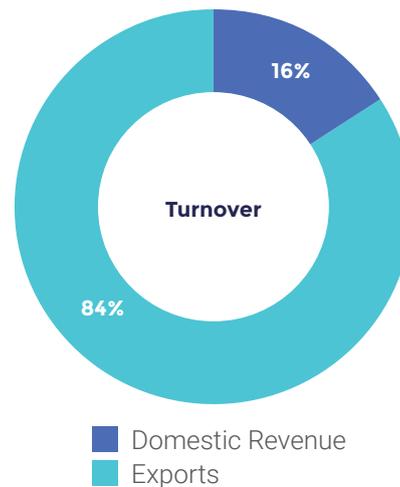


Respondents are extremely dependent on exports with the UK being the dominant market. Active customer acquisition plans are in place to avail of sales growth opportunities. Commercial models are sensitive to increases in both lead times and supply chain costs, and greater engagement with supply chain partners should be a priority.

Overview

Respondents from the Beef sector include some of the largest companies to have participated in the Brexit Barometer. 5 of the 7 respondents employ more than 250 people and two thirds have revenues in excess of €50 million annually.

All respondents sell into each of the 3 channels. They are extremely export dependent, with 32% of total revenues being derived from the UK, and another 44% from other EU countries.



Top Strengths

Route to Market

Diversified customer base in both UK and other markets

Route to Market

Opportunities to grow sales to these customers, and steps have been taken to avail of these opportunities

Customs & Excise

Respondents have good customs-related expertise

Key Risks

Export Profile

Exports are largely to EU countries, with 44% of revenue being derived from sales to the UK alone

Route to Market

Inability to readily substitute higher value sales to the UK compared to new markets available

Customs & Excise

Respondents have not yet modelled the impact of tariffs on either sales to, or purchases from, the UK



57%

of respondents would be highly impacted if they were unable to meet Service Level Agreement commitments

Due to the intensive and inflexible beef supply chain model, all respondents' commercial models are sensitive to increased lead times.

57% of respondents stated that they would be highly impacted if longer lead times meant that they would be unable to meet Service Level Agreement commitments.

86% of the companies are sensitive to low supply chain costs. There is little scope to reduce costs within the supply chain for Beef companies and further pressure from CAP reform post Brexit could have a significant effect on the sector.

86%

of respondents have reasonable or significant experience in complying with official tariff classifications

Lamb



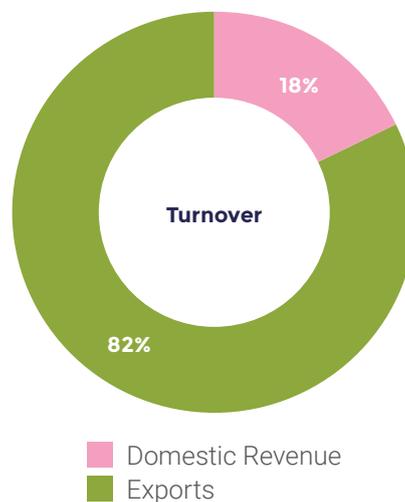
The UK market is competitive and susceptible to price-based switching. Opportunity exists to build stronger relationships with UK customers through the development of UK-specific marketing strategy.

Overview

All respondents generate over €30 million of annual revenue, and 66% generate more than €50 million. Respondents are heavily dependent on exports. 22% of exports go to the UK, and 72% go to a diverse range of other EU countries. All respondents sell into all three sales channels.

All respondents' commercial models are dependent on low supply chain costs. In addition all companies state their commercial models are sensitive to an increase in lead times and feel there is a high risk of experiencing a significant loss of revenue due to increased supply chain lead time. The UK provides a land bridge to Europe and any delay in shipments could affect our carcass trade business to France.

Circa 380,000 sheep are exported from Northern Ireland to ROI plants each year, accounting for circa 3–17% of ROI throughput. A hard border would impact live exports from Northern Ireland.



Top Strengths

Export Profile

While respondents do depend heavily on exports for generating revenue, those exports are well diversified

Route to Market

All respondents believe there are opportunities to grow their UK sales

Key Risks

Supply Chain

No companies have begun to reduce costs due to Brexit

Customs & Excise

No respondents have modelled the impact of cost increases due to tariffs on either sales or purchases



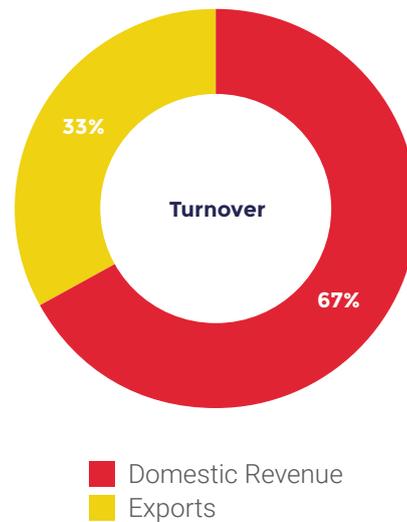
Pigmeat

The UK market is focused on price, with respondents reporting a low engagement process with key customers, and facing a high likelihood of price based switching. This may be a factor in the perceived opportunities to grow sales, although this could be strengthened by tailoring UK specific marketing strategies.

Overview

60% of respondents generate between €10 and €50 million of revenue annually, and 20% generate more than €50 million.

Respondents are somewhat dependent on exports, as they account for just 33% of revenue. Within that 25% of revenue is derived from UK sales, and another 6% from sales to other EU countries.



Top Strengths

Route to Market

High degree of optimism of growing UK sales through both current product range and NPD

Supply Chain

73% of respondents have taken action to reduce supply chain costs

Key Risks

Route to Market

Lower engagement with UK customers and high perceived likelihood of price-based switching

Route to Market

Lack of tailored marketing strategies for target markets

Beverages



The Beverage alcohol sector has well-developed non-UK export markets, and is comfortable with levels of in-house customs-related experience. The non-alcohol sector has a stronger dependency on the ROI domestic and UK markets. However, very few respondents in both areas have taken actions to prepare for Brexit, such as examining what impact the introduction of customs requirements would have on UK sales.

Top Strengths

Export Structure

87% of respondents have customers in non-UK markets

Route to Market

93% believe they can sell more products from their current range to UK customers

Supply Chain

73% of respondents' main products, have a shelf life of more than 42 days

Customs & Excise

80% of respondents have experience complying with customs requirements for non-EU trade

Trade

20% believe that the EU currently discourages the importation of competing non-EU products

Key Risks

Route to Market

20% of respondents believe their company is resourced to target new UK opportunities

Supply Chain

87% of respondents dependent on low supply chain costs

Supply Chain

60% have not begun to reduce Brexit-related supply chain costs

Customs & Excise

87% have not modelled impact of tariffs on UK revenues

Currency

40% of respondents do not hedge non-Euro revenues



Prepared Consumer Foods

While respondents have generally put resources in place to exploit opportunities to grow sales to current customers, little more than half believe they are adequately resourced to target new UK customers. Lack of expertise related to complying with customs requirements will pose a significant challenge for the sector.

Top Strengths

Route to Market

Many firms believe opportunities exist to sell more current (88%) and new (92%) products in the UK

International Trade

Over 80% of respondents believe viable non-UK markets exist both inside and outside the EU

Route to Market

77% of respondents have customers in non-UK markets - this will facilitate growth opportunities

Supply Chain

Respondents are not exposed to increases in lead times as products have longer shelf life or can be transported frozen

Currency

The sector generally has good currency risk management practices in place

Key Risks

Customs & Excise

79% of respondents have not modelled the impact that tariffs might have on their UK sales

Customs & Excise

A majority of respondents have limited or no experience with requirements for non-EU trade

Export Structure

72% of export revenue is derived from the UK market

Route to Market

Only 53% of respondents believe their companies are adequately resourced to target new customers

Supply Chain

73% of respondents are unsure as to whether their partners are adequately prepared for Brexit

Supply Chain

For those exporting to the UK, there is a high dependency on a small number of customers

While the sector is not as dependent on exports as some, it relies on UK sales for 31% of total revenue. The retail and foodservice channels account for the bulk of exports.

The sector has a broad customer base in the UK, with whom they have good relationships. However, there is scope for more investment in targeting new customers.



52%

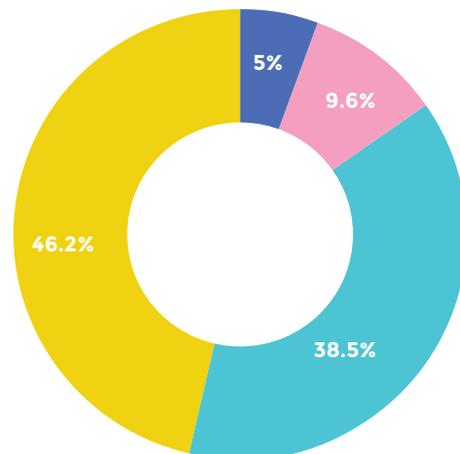
of respondents believe their company to be adequately resourced to target new business in the UK

A significant number of respondents derive more than half of their UK-sourced revenue from just 1 or 2 customers. Respondents are optimistic about growing sales in the UK,

and many also have good relationships with customers in other markets. However, 23% do not sell into non-UK markets, and a quarter of those have no plans to enter these markets.

Do you have a tailored marketing strategy for non-UK markets

- Yes for all
- Yes for some
- None
- N/A





Seafood*

The sector has significant non-UK export sales, and is confident of continued new opportunities in both the UK and alternative markets due to increased demand for seafood internationally. The UK is often used as a transport hub to access further markets. Concern that increased lead times or complexity due to supply chain could pose challenges to the sector due to the short shelf life of some products.

Top Strengths

Export Structure

86% of export revenue derived from outside UK

Route to Market

87% believe there are UK markets for newly developed products

Customs & Excise

Due to non-UK export footprint, reasonably good levels of customs knowledge exists

Trade

Non-UK markets exist and have growth potential

Currency

Currency risk management principles are relatively well developed

Key Risks

Supply Chain

High dependency on low cost supply chains therefore extra cost is an issue

Supply Chain

Due to the short shelflife, product is exposed to supply chain delays

Customs & Excise

Lack of price modelling to understand impact of tariffs on sales and purchases

Route to Market

Low numbers with customer acquisition plan in place

Currency

Low levels of hedging of non-Euro revenues

*The impact of Brexit on the seafood sector may be most felt in the catching sector which relies on access to UK fishing grounds for more than 30% of their catch. Any change to access rights, increased quotas for UK fishermen, or the possibility of extended UK territorial fishing limits will have huge implications for the sector.

Horticulture



In this analysis horticulture included primarily the mushroom, soft fruit and amenity* sectors. The sector is very reliant on UK exports and does not think that those revenues could be replaced by alternative markets. Companies need to take more actions to prepare for Brexit, such as modelling the impact of tariffs on UK sales.*

Top Strengths

Route to Market

88% of respondents believe they can sell more products from their current range into the UK

Route to Market

94% believe there are UK opportunities for newly developed products

Supply Chain

63% believe they could restructure their supply chain footprint if falling sales volumes require it

Trade

56% of respondents think the UK will not want to restrict imports of their products

Key Risks

Export Structure

Exports account for 58% of turnover, and 98.5% of exports are to the UK

Route to Market

63% of respondents do not sell into non-UK export markets

Supply Chain

Significant proportions of respondents do not think that viable alternative markets exist

Customs & Excise

0% of respondents have modelled the impact of tariffs on UK sales or purchases

Currency

Only 50% of respondents have a currency risk management plan in place

*Given the importance of the UK market to the mushroom industry, a separate sector follows.

*Amenity includes nursery stock, Christmas trees, cut foliage, bulbs/flowers.



Mushrooms

This sector has a strong UK export reliance. Respondents believe further opportunities exist to grow UK sales, and investments have been made to realise these opportunities.

Overview

The sector predominately refers to Mushrooms but also includes reference to soft fruit. If just looking at mushrooms, turnover from exports would account for over 69% of revenues.

Respondents from the Edible Horticulture sector include 3 companies with turnover greater than €50 million, and the balance turnover of between €10 and €20 million. 5 of 6 respondents each employ more than 200 people.

The sector is very export dependent, and most exports go to the UK. All respondents sell into the retail channel, with 83% also selling into foodservices and 50% selling into all three channels.

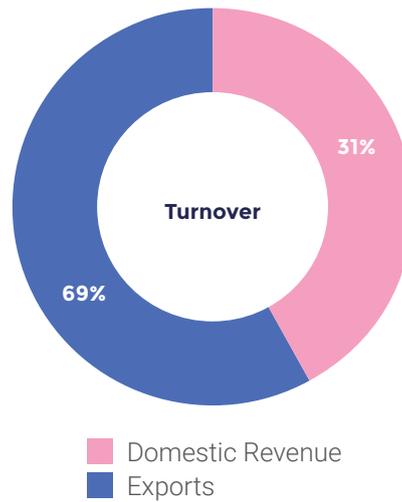


Figure: Based on mushrooms

Top Strengths

Route to Market

All respondents feel there is an opportunity to grow relationships with UK customers based on NPD

Supply Chain

Ireland's proximity to the UK market and existing UK deficit of product

Route to Market

83% of respondents had strong or very strong relationships with their UK customers

Key Risks

Export Structure

The UK accounts for most exports

Supply Chain

The main product of all respondents has a shelf life of less than 7 days

Currency

67% of respondents earn more than 75% of their revenues in GBP

All of the respondents have UK exports. 100% of respondents stated that the shelf life of their main products is <7 days and the majority

believe that their commercial models are sensitive to increases in both lead times and supply chain costs.



83%

of respondents' commercial models are sensitive to increases in lead times

67% of respondents have 11 or more customers in the UK, which represents a relatively broad customer base. However, the majority of these are retailers purchasing large volumes of products. This highlights a key risk, as it is not viable to sell similar volumes to customers in foodservice or wholesale.

100% of respondents believe there are new market opportunities in the UK, which may be exploited by new product development (NPD), however, only 50% have an NPD pipeline. Larger companies within the sector are leading the way, developing new products such as Vitamin D mushrooms. New Process Development is also very relevant in the Edible Horticulture sector.

100% of respondents are dependent on low supply chain costs and 67% have taken measures to reduce Brexit-related supply chain costs.

67% of respondents are still paying off significant investment related to expanding sales in the UK.

However, a competitive advantage for Irish producers in this sector is their proximity to the UK market and this should help to mitigate supply chain risks in the short term.

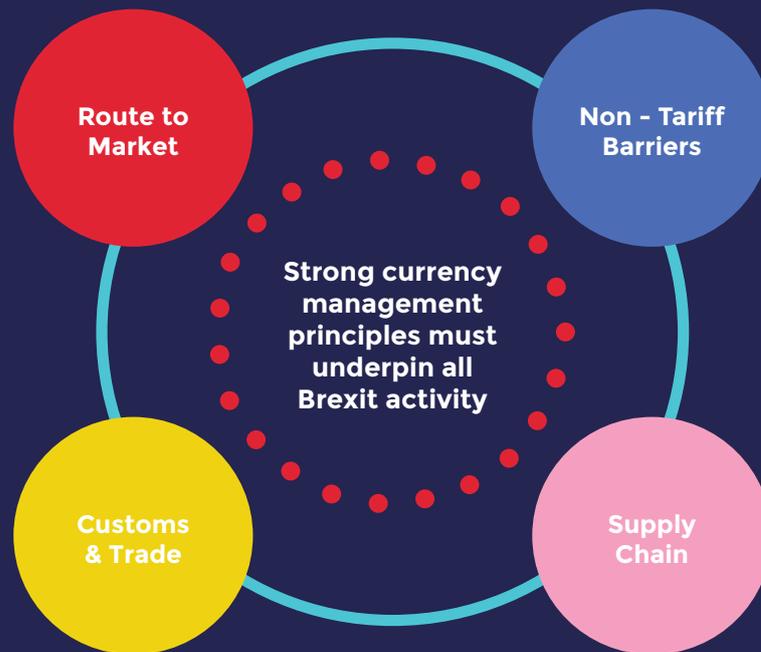
67%

of respondents are still paying off significant investment related to expanding sales in the UK



Key Brexit Issues

facing the Irish food & beverage sector



Route to Market

Increased resource levels focused on UK growth needed

Analysis of existing UK competitor base

Dedicated UK marketing strategy and customer acquisition plans required

Market prioritisation on non-UK opportunities will drive growth

Non-Tariff Barriers

Analysis of the impact and cost of non-tariff barriers on business

Assessment of these costs on product cost

Training and recruitment of new skills to comply with new regulations

Compliance with divergence of regulatory standards

Customs Tariffs

Perform tariff analysis to identify cost impacts

Price elasticity impact analysis of tariffs

Import duties and cash flow implications

Contractual reviews to ensure risk on the side of the exporter is reduced

Resource and associated cost of customs compliance

Supply Chain

Assess sourcing framework (UK vs EU)

Management of longer supply chain lead times especially for short shelf life products

Assessment of UK land bridge on supply chain

Assessment of Supply Chain partners' Brexit readiness

Impact analysis of reduced volumes on business model



BREXIT ANALYSIS & PLANNING DOCUMENT

Please note this document is part of ongoing Brexit analysis and scenario planning for input into larger Government deliberative processes. Unless explicitly referenced by Government decision, any proposal contained in this document does not represent Government policy and should not be represented as such.

