

Performance & Prospects Export Review and Outlook 2006/07

Food, Drink & Horticulture



Bord Bia

Irish Food Board

www.bordbia.ie

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Executive Summary



Sectoral Performance

- Irish food and drinks exports performed strongly in 2006, **exceeding the €8 billion mark** for the first time. This growth took place against a backdrop of ongoing competitive pressures on the sector, a strengthening euro against the US dollar and the increasing presence of new suppliers in key product categories.
- Overall, the value of exports in 2006 recorded an estimated **rise of 10 per cent** or €755 million to reach **€8.1 billion**. The strength of this performance is further highlighted by the fact that total Irish exports are estimated by the ESRI to grow by just six per cent in 2006.
- The combined value of **meat and livestock** exports is estimated to have reached almost €2.4 billion in 2006 accounting for 30 per cent of the total. This represents an increase of 10 per cent on 2005 levels. This growth reflects a strong rise in beef, live cattle and pigmeat exports, which more than offset lower sheepmeat and poultry shipments.
- The value of Irish **beef** exports in 2006 were boosted by a further improvement in the EU beef market. Export volumes increased by almost six per cent to 516,000 tonnes while better market returns boosted average cattle prices by eight per cent leaving exports valued at €1.525bn, 14 per cent ahead of 2005 levels. The strongest performance during the year was a **further rise** of 20 per cent in exports to Continental EU markets at almost 230,000 tonnes. This represents **an all time high** in exports to the Continent with shipments doubling since 2002.
- An improved EU market for **pigmeat** boosted the value of Irish pigmeat exports by five per cent in 2006 to €250m. Relatively stable meat plant supplies combined with lower imports reduced volumes slightly while improved market returns led to Irish pig prices rising by seven per cent to €1.40/kg.
- The Irish **poultry** industry faced a challenging market environment during 2006 as the outbreaks of Avian Influenza across the EU affected consumer demand for poultrymeat, particularly during the early part of the year. When this was combined with lower Irish production, the value of Irish poultrymeat exports fell by an estimated eight per cent to €237m.
- The volume of **sheepmeat** exports fell by seven per cent to just under 54,000 tonnes. Lamb prices showed some modest improvement during the year, rising by two per cent to €3.45/kg. These factors combined to leave Irish sheepmeat exports in 2006 almost five per cent lower at €180m.
- The **dairy sector** put in a strong export performance in 2006, helped mainly by strong growth in exports of infant formula and other value added products. Overall, exports for the year grew by six per cent to reach €2.08bn or 26 per cent of total exports. The value of primary dairy product exports was boosted by increased volumes, which offset somewhat lower unit values.
- The **prepared foods** category showed a growth of 10 per cent in exports in 2006 to reach €1.685 billion. Increased exports were evident in the pizza, luxury chocolate confectionery and frozen bakery sectors. The category remains very competitive leaving Irish exporters facing a number of significant challenges. Ongoing pressure from retailers to reduce costs combined with rising energy, labour and local authority charges have all impacted on profitability. In addition, the level of competition from European suppliers on the UK and Continental European markets is further increasing the pressure on Irish exporters.
- Growth in Irish exports of **beverages** accelerated in 2006 helped by a considerable rise in the cider and liqueur categories. Increased exports were also recorded in beer and spirits while in terms of non-alcoholic beverages both water and fruit juices performed well. Overall, total beverage exports increased by 26 per cent in 2006 to reach €1.375 billion.
- The value of **edible horticulture and cereal** exports fell by 10 per cent in 2006 to €204m reflecting a continuing competitive UK mushroom sector and a slow down in cereal exports following a strong trade in 2005. Mushroom market penetration in the UK declined during 2006, showing a drop of 1.6 per cent with purchase frequency falling by almost two per cent. Price deflation remains a considerable issue on the UK market, which continues to make trade competitive for Irish exporters.

- The value of **amenity exports** showed a rise of two per cent in 2006 to €17.2m. Despite intense competitive pressure in Britain, our main export market for amenity products, Irish growers largely maintained exports of hardy nursery stock in 2006 at €6.7m. Further gains were made in the Northern Ireland market, which compensated for the difficult trading environment in Britain. Increased sales of cut foliage did not materialise as anticipated in 2006. However, the Irish Christmas tree sector put in a strong export performance, rising by almost 10 per cent to €5.7m.

Consumer Trends

- Bord Bia was involved in world wide research aimed at identifying the main lifestyle trends shaping consumer thoughts, aspirations and buying patterns in the global marketplace. The research highlighted six key trends and examined the impact they are having on product introductions, brands, communications and activities. These trends are as follows:
 - **Life on-the-go:** "I need to be able to cope with the demands of my busy day" - There are many different ways, or sub-trends, in which 'Life on the Go' can manifest either through products, services or communications. Simple solutions where consumers are looking for ways to remove complexity or save time is one such sub trend. Consumers strive to get the same result quicker and with less effort. Products and services that remove complexity and save time become essential elements in consumers' lives.
 - **Living life to the full:** "I want experiences that help me get the most out of life" - Time to play is one unique dimension as to how consumers, brands and services are responding to 'living life to the full' – in other words it's good to have a little bit of fun in life. A product example of this sub-trend is "Spaz" juice from the US. "Spaz" juice is a fun take on energy drinks, undermining the serious and sporty look and feel that is the category norm. Another sub-trend is where consumers are experimenting with new combinations or finding new horizons. New flavours and fusions are gaining the attentions of consumers seeking these new horizons.
- **Making A Difference:** "I want to feel good about the choices I make and do my bit when I can" - Global warming and climate change are resonant themes that are shaping consumers' choices. Demand is rising for products that have reduced their impact on the environment or that offer a sustainable alternative. Global sales of Fairtrade certified products reached the \$1.1bn mark in 2005. This is a 37% increase over 2004. Fairtrade coffee grew 70.9% in the U.S. and 34% in the U.K. Fairtrade bananas grew by 46% in Austria and sugar showing a rise of 125% in France.
- **The Quest for Health & Wellness:** "I want to manage or improve my health and wellness" - Managing health is a growing challenge for consumers in a world where physical activity is not part of life's daily routine and where fast food tempts consumers at every corner. Consumers are adopting a broad range of strategies to boost their bodies against short-term health problems and long-term illness. Consumers are also increasingly recognising that health is not just about physical wellbeing. To achieve overall wellness, they have to care for their emotional and spiritual side as well.
- **Smart Shoppers:** "I like to make smart choices when I buy things and want to feel I'm getting a good deal" - Buying the basic product at a good price is one consumer response to this trend. Consumers are increasingly aware of the 'frills' that are included in the price of products and services that they buy and in many cases consider that they are paying for unnecessary additions in the continued pursuit of better value consumers are looking for alternatives that provide the basic product, without the extras, at a good price. Luxury items at more everyday prices is another type of consumer response as is buying based on the recommendations of other consumers. To tap in to consumers' desire for both luxury and value, many brands are changing their pricing and positioning.
- **The real thing:** "I am looking for the real thing; I care where it comes from and how it is made" - In our increasingly commercialised and mass-produced world, a growing number of people are looking for companies and products they feel they can trust. Comfort and reassurance can come from products that have integrity, history and portray an honest

approach to life. Consumer desire to get back to basics is one apparent result of this trend. As a response to the pressures of modern life many consumers feel nostalgia for the way things used to be. Consumers want to rediscover traditional and simple ways of doing things. Craftsmanship is another response. In response to mass-production and impersonal interaction consumers are increasingly interested in the story of how things are made and who by.

Global Economy

- The international economy continues to grow strongly across the major regions. The International Monetary Fund in its World Economic Outlook released in September 2006 expects global economic growth to reach 5.1% in 2006, up from 4.9% in 2005, before returning to 4.9% in 2007. Among the large advanced economies, the US continues to perform strongly, while among the emerging economies, China and India stand out. Recovery in the Eurozone and Japan continues, developing economies in Asia, Europe and Latin America are expanding, and many Middle Eastern and low-to-middle income countries are benefiting from strong commodity prices.
- The US dollar weakened throughout 2006 with an acceleration of the trend evident towards year end. At the same time the euro and Sterling have been tracking each other within a narrow band (£0.668 - £0.701/€). The weaker dollar will assist the US in addressing its trade deficit, as well as taking some pressure off international commodity prices, but it represents a challenge for those competing with US\$-denominated goods, whether on international markets or domestically. It also boosts the competitiveness of many non-EU supplies entering the EU market such as beef from Latin America.
- 2006 represented the fourth year of strong global growth, and there are continuing signs of an increase in inflationary pressure in many countries. The recent rises in energy prices are adding to these pressures, as has an accommodative monetary policy in major economies in recent years.

Industry Issues

- The current round of WTO negotiations has the potential to drive significant changes. However, the process has been suspended since July with no clear indications as of yet when negotiations may recommence. As a result, the EU is increasing its emphasis on reaching bilateral and regional agreements with key trading blocks.
- The general direction of trade negotiations over recent years has been clear with the Ministerial Conference in Hong Kong in December 2005 agreeing in principal to the elimination of export subsidies by 2013. A general framework was also agreed for negotiations on improving market access and reducing domestic supports and tariffs. Any new agreement has the potential to significantly impact on the competitiveness of Irish food and drinks products in export markets.
- Whatever the outcome, the timeframe for trade liberalisation is shortening which means the Irish industry has less time to prepare itself for the increased level of competition following any new agreement. Given this context, the need to achieve greater efficiencies, develop strong innovation capabilities and reach a critical scale is becoming increasingly urgent.
- There was a significant change in the Irish retail market in 2006, with the abolition of the Groceries Order. Recent data from the CSO indicates that there has been a slight fall in the price of goods previously covered by the Order relative to non-Order food items.
- Currently 45% of all Irish agri-food exports go to the UK, so this market is of vital importance. The UK food market tends to be quite cost competitive and there is ongoing pressure on suppliers from retailers.

- The food industry is faced with a number of issues given the trends taking place in the Irish economy. These principally include cost issues that encompass labour costs, utility costs and the general cost of living. All of these impact on the competitiveness of Irish food and drink exports relative to other suppliers, which often operate in a lower cost environment.
- Irish Consumer Food and Drink manufacturers identified a number of market related challenges for 2007 in doing business in Britain and Northern Ireland in a recent Bord Bia industry survey:
 - 54 per cent expect price deflation to have a very high/high impact on their business.
 - 66 per cent stated that increasing retailer power was having a very high or high impact on their sales.
 - 54 per cent anticipated that stronger competition among existing customers would have a very high/high impact on their sales.
- **Bloom** takes place in the Phoenix Park 1st to 4th June 2007 and is set to rank Ireland and Dublin among the top locations for major Garden Shows. This is the first garden show of this scale and variety to take place in Ireland based on the highest international standards of plant display and garden design. Located in the unique setting of Dublin's Phoenix Park in an atmospheric 70 acre site, Bloom will combine the skills of Ireland's top designers and horticulturalists with Ireland's specialty and artisan food producers to create a consumer showcase for the best in ornamental and edible produce. With 20 stunning gardens, a unique food market, thousands of plants and flowers and a number of interactive show features this event will inspire consumers, profile our top clients, increase public awareness and ultimately increase consumer spend on gardening and plants.
- **Centre of Excellence** – 2007 will see the establishment and operation of the Bord Bia Centre of Excellence for Small Business. The overriding aim of the Centre of Excellence is to promote excellence in the owner management of small food businesses, ultimately leading to competitive advantage for sustained sales growth, on the core markets of Ireland and the UK. Key to the Centre of Excellence will be an integrated range of services to small business producers, reflecting their stages of development, routes to market, product range and market aspirations. Core elements will include a Resource Guide, a Resource Centre, a High Impact Sales Centre and a Business Network.
- **The Brand Forum** will continue to develop the branded route to market for Irish companies. The forum meets four times a year in Dublin combined with two regional meetings and features addresses from world class speakers. Other services provided by the Brand Forum include workshops, customised services, trend newsletters and a showcase book for Irish Food and Drink brands. During 2007, the forum will continue to focus on how brands can differentiate their product portfolio and help overcome the competitive pressures facing food suppliers.

Bord Bia Initiatives

- Recognising the rapidly changing market environment in which Irish Food and Drink manufacturers operate, Bord Bia is continuing to adopt and develop its services and programmes. Over the last year, following a review of our strategy we have embarked on a process of reconfiguring our programmes and resources in response to the needs of industry. This process will continue throughout 2007 with key initiatives planned including:
 - **Marketplace**, which takes place on the 23rd and 24th May 2007. This event will provide a showcase for Irish Food and Drink companies to demonstrate to over 200 buyers from the UK, Europe and selected International markets the range and quality Irish food products available. The event consists of four key elements:
 - A showcase for 60 Irish food and drink companies together with a focused pre-arranged schedule of meetings between buyers and exhibitors
 - An Innovation Zone
 - A Forum of keynote presentations by international speakers
 - Gala Dinner

- **Market Knowledge.** Recognising the needs of Irish companies for in-depth market intelligence in developing sales both on the domestic and export markets, Bord Bia has a comprehensive market research programme planned for 2007. These include:
 - Measuring purchasing and eating behaviour of consumers in Ireland, Northern Ireland and Britain
 - Ireland 2020
 - US Foodservice market developments
 - Trends in Private Label
 - Segmentation study on EU beef and lamb sectors
- **Foresight4FOOD,** is an initiative to encourage Irish companies to market test new product concepts and improve their prospects of success once launched in the marketplace. Through expanding this programme in 2007 Bord Bia aims to act as a facilitator in the innovation process of Irish Food and Drink companies. This will be achieved by offering two core innovation services, namely:
 1. Feeding the insights from Bord Bia's Consumer Lifestyle Trends programme into client companies' new product development at idea generation stage, and
 2. Utilising the Foresight4FOOD research programme to assess and confirm that new ideas have commercial potential.
- The **Food Dudes** programme will enter its second year. The programme aims to increase consumption of fruit and vegetables among school children. It is now intended to extend the programme to all primary schools in the country that wish to participate.
- **Feile Bia,** an initiative designed to bring greater transparency of the origin and traceability of meat and eggs in foodservice was relaunched in 2006. The programme includes revised auditing procedures to ensure compliance with the schemes requirements. A new promotional programme is planned for 2007.
- The **European Beef Promotion** will enter its third year and will continue to help develop a consumer franchise for Irish beef in Europe. It will build further on the 2006 campaign that involved 40 retailers in 10 EU markets reaching a consumer base of 100 million in a focused promotion, featuring on-pack offers and point of sale material designed to grow sales and awareness of the Irish beef brand.
- **The Bord Bia Garden Centre Quality Awards** have been instrumental in raising standards within garden centres throughout Ireland. Over the years, the aim of the awards has been to set achievable standards for the industry while simultaneously rewarding those centres that consistently strive for excellence. Garden Centres are assessed and scored on a list of criteria by an independent auditor and can achieve two, three, four or five Star ratings. There are also a number of special awards presented for categories such as Best Plant Quality and Best Customer Service amongst others. The awards are presented annually at a Gala Ceremony.
- A **Food Trade Delegation to the Middle East** will be part of the Official Trade mission led by An Taoiseach, Mr Bertie Ahern, T.D. in January 2007. Bord Bia participation follows similar involvement in delegations to China and India in recent years. In terms of other International markets, implementation of Bord Bia's Asia strategy to double exports to the region by 2009 will continue during 2007. As part of this Bord Bia will establish a permanent presence in Shanghai. This initiative will help support companies interested in developing business in the region.

The Economic Environment



International Economic Prospects

The international economy has seen a continuation of the trends of the last three years in 2006, with accelerating growth across the major regions. Among the large advanced economies, the US continues to perform strongly, while among the emerging economies China and India stand out. Recovery in the Eurozone and Japan continues, developing economies in Asia, Europe and Latin America are expanding, and many Middle Eastern and low-to-middle income countries are benefiting from strong commodity prices.

The International Monetary Fund in its *World Economic Outlook September 2006*¹ expects global economic growth to reach 5.1% in 2006, up from 4.9% in 2005, before returning to 4.9% in 2007. The following table summarises the IMF's projections for the main economic regions. All are experiencing either an improvement in 2006 or a continuation of already strong growth.

GDP Growth in Major Economies and Ireland, 2004 - 2007

	2004	2005	2006e	2007f
	%	%	%	%
World	5.3	4.9	5.1	4.9
USA	3.9	3.2	3.4	2.9
China	10.1	10.2	10.0	10.0
India	8.0	8.5	8.3	7.3
Japan	2.3	2.6	2.7	2.1
Eurozone	2.1	1.3	2.4	2.0
Germany	1.2	0.9	2.0	1.3
UK	3.3	1.9	2.7	2.7
Ireland	4.3	5.5	5.8	5.6

F = forecast
Source: IMF World Economic Outlook September 2006

That said, there are a number of downside risks in the global economy, some of which have become more acute over the last year. Three inter-related issues of particular relevance are the imbalances in the US economy, rising interest rates and growing inflationary pressures.

¹ <http://www.imf.org/external/pubs/ft/weo/2006/02/pdf/weo0906.pdf>

I. The twin budget and trade imbalances in the US

The US continues to operate a significant trade deficit with the rest of the world, which is being fuelled by increasing energy prices. Low interest rates, which have made it easier for Americans to borrow, have exacerbated the deficit.

In the normal course of events, a persistent trade deficit of the scale evident in the US should lead to pressures on the currency. The US\$ has been resilient in the face of these pressures until very recently, partly due to its status as an international currency in which many basic commodities - notably oil - are denominated. There are signs now that the US\$ is coming under pressure, and it has been reaching lows against the € and Stg in late November 2006.

Euro Exchange Rate 2006

US Dollar



Sterling



Source: European Central Bank

The weakening trend over the year, as well as the acceleration in this towards year end are clear. At the same time the euro and Sterling have been tracking each other within a narrow band (£0.668 - £0.701/€). The weaker dollar will assist the US in addressing its trade deficit, as well as taking some pressure off international commodity prices, but it represents a challenge for those competing with US\$-denominated goods, whether on international markets or domestically. It also boosts the competitiveness of many non-EU supplies entering the EU market.

2. Higher Interest Rate Environment

After a number of years of accommodative monetary policy internationally, aimed at stabilising the major economies, this policy has been unwound over the last year or so, in response to robust growth and the emergence of inflationary pressures. In December 2006 a further Eurozone interest rate hike of 0.25% was introduced, while a similar increase is expected for next March with a possible further 0.25% increase later in 2007. This would still leave the Eurozone rate low compared with the US and the UK. A number of commentators also expect a 0.25% increase in the UK in spring 2007.

The driver for ECB action on interest rates is inflation. The bank expects inflationary pressures to increase in the coming months, as a lagged effect of increased energy costs and as a response to stronger economic activity. The danger in this is that interest rate hikes may “overshoot”, slowing down economic recovery. While the central banks would likely respond by easing rates, there is a lag between interest rate changes and reaction in the economy, and this could result in some short term disruption.

3. Rising Inflationary Pressures

2006 represents the fourth year of strong global growth, and there are continuing signs of an increase in inflationary pressures in many countries. The recent rises in energy prices are adding to these pressures, as has an accommodative monetary policy in recent years.

Developments in Key Markets

The UK, Continental EU and US markets represent the key markets for Irish food and drink exports. The following section outlines the performance of their respective economies.

United Kingdom

In the UK economic growth bounced back from a weak 2005, and is expected to reach 2.7% in both 2006 and 2007. As in the US, performance was somewhat more buoyant in the first half of the year, accompanied by stronger employment growth and a stabilisation of the housing market. The strength of Sterling vis à vis the US\$ will tend to reduce inflationary pressures but could also damage growth as UK goods and services become less competitive.

Continental European Market

The **Eurozone** economy has been underperforming significantly relative to the USA and UK in recent years, and this is forecast to continue in the short term. The overall performance masks quite a variation, however. Growth is stronger among the smaller economies while Germany continues to slow the overall performance. Having grown around 1% in 2004 and 2005, German growth is expected to reach 3% in 2006 before falling back to 1.3% in 2007. Italy is also experiencing subdued growth (1.5% or less per annum), while France is growing at around 2.4% and Spain at in excess of 3% per annum.

The big weakness in the Eurozone economy remains unemployment, which is significantly higher than in other major economic zones, and the resultant subdued consumer expenditure. Only modest improvement is expected in the short term.

Growth in the Eurozone is being driven by investment. The inflation rate is expected to remain above the ECB's target rate of 2%, adding to the risk of more interest rate rises, although the recent strengthening of the € against the US\$ may ease this somewhat. Euro strength also runs the risk of damaging economic recovery, however, as Eurozone goods and traded services become less competitive.

United States

The US economy had a particularly strong first quarter 2006, growing at an annualised rate of 5.6%, before slowing to 2.9% in the second quarter. Private consumption weakened and the housing market cooled, due to rising interest rates and energy prices. Business investment also weakened. As in Ireland, the housing market has been a major source of growth in recent years. It is expected in the short run that private consumption will continue to retract as a result of the weakening housing market.

Despite the moderation in growth, inflationary pressures are increasing in the US, not only because of the international factors discussed above, but because unutilised capacity in business capital and in the labour market is being used up. Unit labour costs are rising, but so are business profits, and this should drive growth in investment.

The weakening of the US\$ towards the end of 2006 will help the US compete internationally but will also tend to boost domestic inflation, thereby weakening consumption. That said, falling energy prices will give some relief to both businesses and consumers.

Ireland in the Global Economy

During 2006 the Irish economy has seen a continuation of the robust growth of recent years. GNP grew by 5.3% in 2005, and this is expected to accelerate to 6.2% in 2006, before easing to 5.3% in 2007 and 4.5% in 2008. Most sources expect some slowdown in 2008, mainly as a result of:

1. A cooling housing market;
2. The increasing likelihood of a correction in the US economy.

Notwithstanding, growth is well in excess of that in most developed economies, particularly in Ireland's major trading partners.

Underlying Ireland's economic performance is an extremely strong labour market, which is increasingly being serviced by immigrants. The labour force has been growing at over 90,000 or more than 4% per annum in the last two years. While there has been a slight slowdown since the peak of 5% in the year to Q3 2005, there is no sign of a significant change in the trend. Inward migrants contribute to economic activity, not only as workers, but as consumers and through increasing demand for housing.

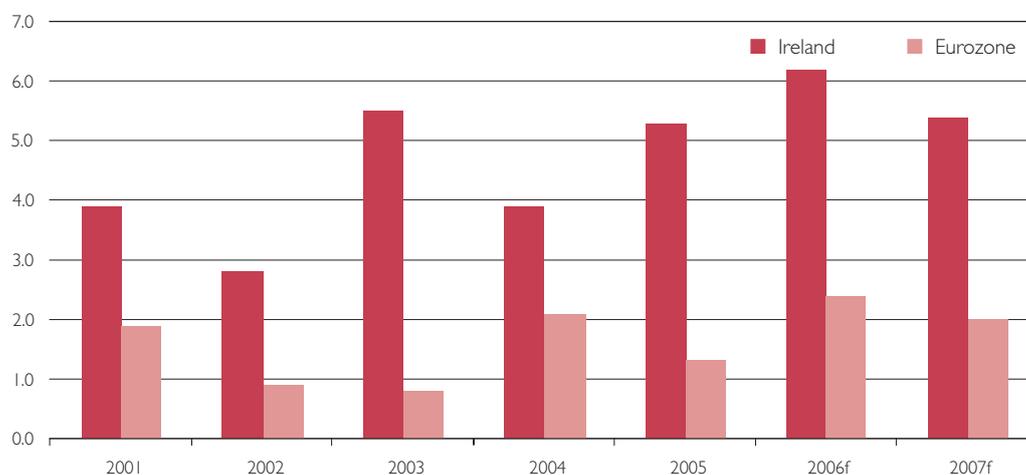
Key Competitiveness Issues for Ireland

While the Irish economy continues to perform strongly, there are a number of competitiveness challenges facing the economy. Three of these have already been discussed in an international context, i.e.: the weakening of the US\$, rising interest rates, and increasing inflationary pressures due in part to rising energy prices.

The weakening US\$ has direct implications for the traded sector, to the degree that Irish food and drink exports compete with dollar-denominated products from regions such as Latin America. Rising energy prices and interest rates impact on business costs and also reduce consumers' disposable incomes.

A number of other issues arise in a specifically Irish context, and are open to influence at a domestic level. The National Competitiveness Council (NCC) publishes the *Annual Competitiveness Report*, which benchmarks the performance of Ireland against a group of countries

GNP Growth, Ireland Vs GDP Eurozone 2001-2007f



Source: IMF World Economic Outlook September 2006, CSO, ESRI Quarterly Economic Commentary Winter 2006

and regions, on a large number of criteria. This report highlights issues under two broad headings that impact on the performance of the Irish export industry.

(i) Cost Issues

Labour Costs

The Irish economy has been effectively operating at full employment for a number of years, despite increasing native population and the increasing number of non-nationals entering the labour force. As a result wage levels and ongoing wage inflation has been stronger than in competitor countries. The CSO indicates that there was a 40% increase in average industrial hourly wages in the six years to 2006; equivalent to 5.8% per annum.

The NCC report confirms that Irish labour costs are rising more rapidly than in competitor economies. **In the period 2000-2005, total labour costs rose by 29.6% in Ireland, compared with 23.4% in the Eurozone and 22.5% in the UK.**

Utility Costs

The costs of utilities such as electricity, telecoms, water and waste management are an essential element of competitiveness for industry. Over the last two decades there has been a trend internationally to open these services to competition, in order to encourage efficiencies, innovation and lower costs. Ireland has been a relative latecomer to this process, and faces obstacles to introducing meaningful competition due to lack of scale. The NCC report indicates that the ESB's share of the powergen market in 2004 was 83%, compared with 47.2% for the incumbent in the EU 15 and as little as 20% in the UK.

Eurostat indicates that industrial electricity tariffs in Ireland in the second half of 2006 are more than 20% higher than in the Eurozone, and 14 – 46 per cent higher than in the UK². Irish gas tariffs are more competitive, being broadly comparable with the Eurozone and cheaper than the UK. However, substantial price increases in both electricity and gas have been sanctioned for early 2007.

On the waste management side, market structures are evolving, and landfill costs have risen by an order of magnitude over the last decade, albeit they have eased somewhat more recently as landfill capacity has come on stream. Least progress has been made on water services, where despite significant investment over the last decade the sector remains largely uncommercialised.

(ii) Productivity Issues

Labour Productivity

International statistics indicate that the Irish workforce is one of the most productive in the world, but this is distorted by the pricing activities of the multi-national sector, in order to take advantage of Ireland's low Corporation Tax rate. The NCC report indicates that when this is stripped out Ireland's output per hour in 2005 was comparable with the US but lower than the EU15 average.

Infrastructure

Despite the large-scale investment in infrastructure in Ireland over the last decade-and-a-half, there remain significant deficits, partly due to the buoyancy of the economy and growth in population. The NCC report indicates that while the level of public fixed capital formation as a percentage of GNP is among the highest in the world, Ireland ranks poorly in terms of the stock of public capital per capita, ranking 17th out of 22 OECD countries listed. Various reports commissioned by the Government have highlighted existing or impending infrastructure capacity constraints. These constraints manifest themselves not only in higher prices, but also in congestion and waiting times.

R&D

A vital part of the Government's policy of "moving up the value chain" is enhancing the level of R&D investment in Ireland. The NCC report indicates that Ireland ranks poorly in this regard, spending only 1.2% of GNP on R&D in 2004, compared with an OECD average of 2.3%. The Lisbon Strategy has set a target of 3% to be achieved by 2010. Ireland's *Strategy for Science, Technology and Innovation 2006-2013*, has a much enhanced budget for R&D, but only envisages the national spend reaching 2.5% of GNP by 2013.

² <http://epp.eurostat.ec.europa.eu> The UK 46% example is for customers with annual consumption: 30 MWh; maximum demand: 30 kW; annual load: 1 000 hours. For other load ranges Irish prices are between 14% and 36% dearer than in the UK.

Within food and drink, much successful “innovation” is actually based on consumer insights rather than technical breakthroughs. In this respect, Bord Bia’s Consumer Lifestyle Trends project which is outlined in the Marketing Environment section of this document constitutes an important framework for companies in which they can develop innovative new products with good prospects of success in the market place.

Environmental Issues

Despite the investment in environmental infrastructure (mainly water and waste management) over the last decade or so, Ireland faces a number of environmental commitments in the coming years which will have an impact on costs.

Most notable of these are the obligations under the Kyoto Protocol. It has been well-flagged over the last number of years that Ireland’s carbon emissions are significantly in excess of the Kyoto targets, largely as a result of the economic boom. Another example is the EU landfill Framework Directive, which requires a large-scale diversion of biodegradable waste from landfill over the coming years. Ireland is significantly short of the targets set, and has obtained a derogation, but will have to invest significantly in biological treatment facilities in order to achieve the targets.

The Irish Agri-Food Sector and Key Issues for the Medium-Term

The Irish Agri-food sector remains a vital element of the Irish economy. The following table summarises some key statistics for the sector in 2005, distinguishing between primary agriculture and food processing.

Key Economic Statistics for Agri-food Sector, 2005

	Primary Agriculture	Food Processing	Agri-food Total
%age of Total Gross Value Added (GVA)*	2.7%	5.7%	8.4%
%age of Total Employment	5.7%	2.8%	8.5%
%age of Total Exports*	5.2%	3.3%	8.4%
* Estimated.			
Note: Rows do not sum due to rounding.			
Source: Department of Agriculture & Food, Fact Sheet of Irish Agriculture 2006			

Primary agriculture is more labour-intensive than the Food and Drink sector. The number of people for whom agriculture represents their principal source of income stood at 109,100 in 2006, while the food processing sector employed 45,000, representing a total of 154,100. The Agri-food sector represents roughly 20% of the total output of Industrial manufacturing sector.

Breakdown of GVA in Agri-Food Sector 2005

	€ million	%age of Total Economy
Primary Agriculture (at factor cost)	3,860	2.7%
Food	5,797	4.1%
Beverages	2,238	1.6%
Total Agri-food	11,895	8.4%
Source: Department of Agriculture & Food, Annual Review & Outlook for Agriculture & Food 2005/2006		

Exports are vital to the sector, as Ireland generates substantial food surpluses. Food exports as a whole represented 8.4% of merchandise exports in 2005³. The main markets for Irish agri-food exports are the UK (45% of the total in 2006) and the rest of the EU (31%).

³ Merchandise exports refer to the exports of goods. Total exports, include traded services.

Role of Agri-food sector in Indigenous Industry

The Agri-food sector is unique in Irish manufacturing given its high indigenous content⁴. It is true that many of the modern sectors of the economy, which are responsible for a high proportion of exports and Gross Value Added, are dependent on imported inputs and are relatively capital intensive as opposed to labour intensive. Research carried out by Forfás in 2004 indicates that the FDT sector sources some 75% of its inputs (including labour) in Ireland, as opposed to 39% in the rest of manufacturing industry.

Another important factor is the regional spread of the sector. The Department of Agriculture & Food's *Annual Review and Outlook* indicates that while only roughly 10% of manufacturing units in Dublin and the Mid-East region are in the FDT sector, the figure is as high as 21% in the South-West, and over 18% in the Border and South-East (2003 data).

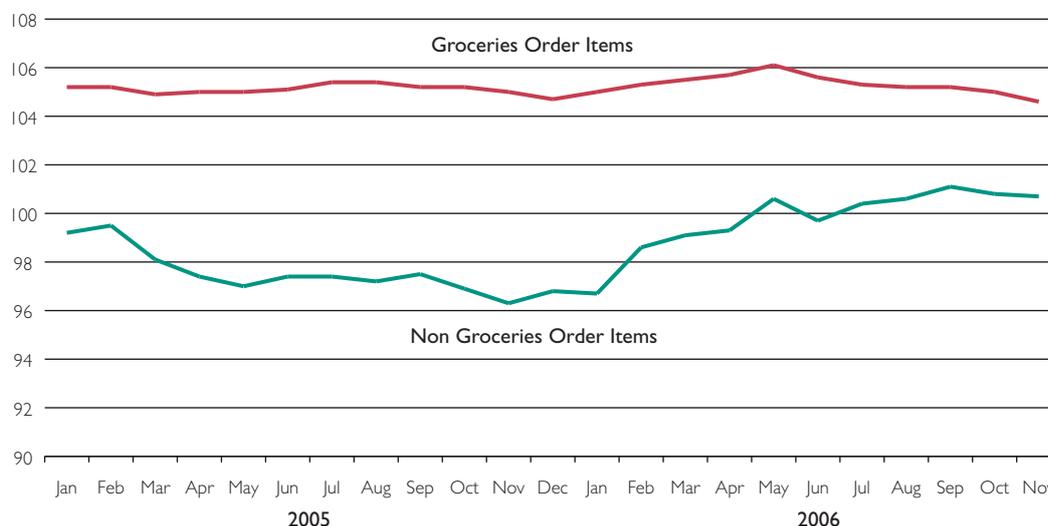
Key challenges facing the Sector

There are a number of challenges specific to the agri-food sector over the medium term. They can be classified under two broad headings, namely (i) pricing and market structure trends in key markets, and (ii) developments at an EU and International level.

(i) Pricing & Market Structures

There has been a significant change in the Irish retail market this year, with the abolition of the Groceries Order. Recent data from the CSO indicate that there has been a slight fall in the price of goods previously covered by the Order, relative to non-Order food items⁵. However, this does not (directly at least) affect export markets.

Consumer Price Index for Groceries Order & Non Groceries Order Items (Base: December 2001 = 100)



Source: CSO

⁴ See for instance Food & Drinks Industry of Ireland (FDII) report An End-to-End Strategy for the Food & Drinks – Economic Impact and Policy Challenges (2006).

⁵ <http://www.cso.ie/releasespublications/documents/prices/current/pic.pdf>

Currently 45% of all Irish food exports go to the UK, so this market is of vital importance. The UK food market is quite competitive and there is continuous cost pressure on suppliers from retailers.

It is possible to examine retail price patterns in the UK. The latest figures indicate that for fresh food (meat, fish, fruit and vegetables) consumer price inflation from December 2005 to October 2006 has been 5.4%, while for processed food (including alcohol), it has been 3.3%. These are higher than the consumer inflation rates experienced in Ireland over the same period.

(ii) EU and International Developments

EU agricultural policies are changing with the two most recent results being the introduction of the Single Farm Payment and the reform of the EU sugar regime, which led to the closure of the Irish sugar industry. Recent and upcoming accession of new countries to the EU will inevitably put pressure on the EU's agriculture budget.

The current round of WTO negotiations also has the potential to drive significant changes. However, the process has been suspended since July with no clear indications as of yet when negotiations may recommence. As a result, the EU is increasing its emphasis on reaching bilateral and regional agreements with key trading blocks. The general direction of trade negotiations over recent years has been clear with the Ministerial Conference in Hong Kong in December 2005 agreeing to eliminate export subsidies by 2013, although this is conditional on progress in eliminating exports subsidies in other sectors. A general framework was also agreed for negotiations on improving market access and reducing domestic supports and tariffs. Any new agreement has the potential to significantly impact on the competitiveness of Irish food and drink products on export markets.

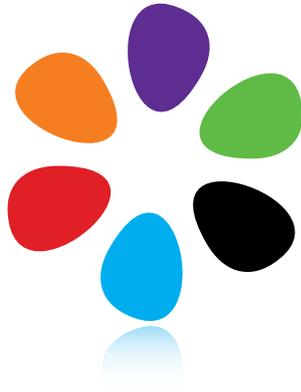
Another policy issue is the planned review of the CAP in 2008. If this review develops into another reform of the CAP it could have potential knock on effects for the Irish food and drink sector.

Finally the EU has imposed a number of mainly environmental obligations on agriculture (for example the Nitrates Directive) which have the effect of increasing costs in the sector.

The Marketing Environment



Global Consumer Trends Shaping the Marketplace Today



Bord Bia recently partnered with Henley Centre Headlight Vision to identify through comprehensive world wide research the main lifestyle trends shaping consumer thoughts, aspirations and buying patterns in the global marketplace. Here we look at the six trends identified and the ways in which they are impacting on product introductions, brands, communications and activities.



Life on-the-go:
“I need to be able to cope with the demands of my busy day”

The pace of life is accelerating and boundaries between our working and leisure time are blurring. Many people feel overwhelmed by juggling their many roles and activities in their increasingly fast, flexible and pressurised lives. Time and energy have become more valuable resources as a result. People are looking for ways to cope with their busy lives and get the best out of themselves.

Drivers of trend

Driving these busy, convenience focused lifestyles are changing working patterns around the world, rising urbanisation, increasing consumer mobility and the rise of new media and communication technologies such as broadband, VoIP (telephoning over the internet) so that exchange of information is becoming easier, cheaper and quicker all the time.

Evidence of trend in marketplace

There are many different ways, or sub-trends, in which 'Life on the Go' can manifest itself either through products, services or communications. Simple solutions where consumers are looking for ways to remove complexity or save time is one such sub trend. Consumers strive to get the same result quicker and with less effort. Products and services that remove complexity and save time become essential partners in consumers' lives. One example of this from the UK is Asda's Go Cook! range launched in July. The kits contain pre-measured ingredients for meals that consumers prepare in the home to a recipe included in the pack, targeted at consumers who want to avoid ready meals but who do not have the time to seek out the ingredients for individual recipes.

A second sub-trend is that as consumers spend more time on-the-go, having what you need to survive the day means that more products need to be in an "arm's reach of desire" or, offer on-the-go portability, fitting into bags and pockets.

Personal energy is becoming consumers' most valued resource as they look for ways to cope with increasingly busy and tiring lifestyles. Consumers are seeking products which help them get the best out of themselves, giving them the right mental or physical energy for the moment.

Consumers are looking for ways to step outside the daily grind or to reward themselves for getting through it. They want to grab time to treat themselves and slow down, often seeking their own mental or physical space.

In response to time pressure and as a way of dealing with an overwhelming amount of information, consumers are increasingly communicating in more immediate, streamlined and visual language. Consumers appreciate communications that are quick and easy to understand, and are rarely prepared to expend energy understanding complex or long-winded messages.



Living life to the full:
“I want experiences that help me get the most out of life”

As affluence rises, people's material needs are being fulfilled. The demands and opportunities of modern life have made people's lives busier than ever before; free time has become

an increasingly precious commodity to be savoured. Fuelled by greater knowledge, people are now seeking to enrich their lives with experiences – to replace the mundane with excitement, explore the world, to push boundaries, to stimulate their senses and pursue their passions.

Drivers of trend

The forces behind this trend include rising consumer affluence, a growing knowledge of the world's opportunities through increased international travel and migration, changing working patterns and demographic shifts around the world. These shifts mean that the stereotypes of life's roles are eroding, with the old refusing to act their age, the young showing maturity beyond their years and women delaying marriage and motherhood. More people are free to pursue a life path of their own design and are living longer than ever before. Rising disposable incomes have meant more and more people have attained all the material things they feel they need for a happy life. With the fulfilment of material needs, the nature of purchasing decisions is shifting toward wants and desires. Greater attention and focus is being given to the value of the experience contained within the surrounding purchase and consumption process.

Evidence of trend in marketplace

Time to play is one unique dimension of how consumers, brands and services are responding to 'living life to the full' - it's good to have a little bit of fun in life. Unshackled from the stereotypes of age, more consumers are seeking play as an antidote to the pressures of modern life or as a fun way to learn and develop. A product example of this sub-trend is Spaz juice from the US. Spaz juice is a fun take on energy drinks, undermining the serious and sporty look and feel that is the category norm. It plays on the idea that too much of an energy drink can make the drinker 'spaz' out, and claims the juice is 'an energetic freak out that will bother everyone'.

Another sub-trend is where consumers are experimenting with new combinations or finding new horizons. They are seeking a breadth and depth of experience, actively experimenting and pushing the boundaries in all aspects of their lives. New flavours and fusions are gaining the attentions of consumers seeking these new horizons. A chef in Chicago is using his Canon printer to make 'printed food' by printing flavoured images onto edible paper.

Consumers are seeking routes to express their individuality, find outlets for their creativity or create a something which suits their specific needs. More products and services allow consumers to shape the final experience; a co-creation process that provides a value in its own right. M&M's now allow customers to go online and customise their M&M's with special messages, choosing from 13 different colours. They are then printed and can be sent as gifts to friends. Customer-made pioneer Jones Soda in the US has been letting its customers create 'custom soda labels' by submitting their own photos for a long time now; some of them are chosen as permanent, wide-distribution labels for Jones soda.

Aspiring experts are seeking the skills of the professionals in domestic life. Rising affluence has led to the outsourcing of many of the more mundane household tasks. To enrich their lives and on occasion gain social status, consumers are developing expertise around key areas of domestic life or seeking advice from trusted sources.

Stimulating the senses is the final sub-trend whereby more excitement and sensorial experiences from the small things in life are sought. Products are being enhanced to provide and stimulate all five senses - touch, taste, smell, sight and sound. These often small pleasures enhance the mundane and everyday.



Making A Difference:

"I want to feel good about the choices I make and do my bit when I can"

News coverage of global issues and greater activism by those who are committed to bringing about good means that people are becoming more aware of the impact of their lifestyles on the wider world. Frustrated at the profiteering of big business and the speed at which governments are bringing about change, people are seeking new ways to make a difference. Companies and brands supporting good causes or with more environmentally friendly approaches are gaining support. With the freedom that having a bit of extra money in their pocket provides, people are finding ways to do their bit without breaking stride from the consumerism that defines their approach to life.

Drivers of trend

Rising globalisation, growing awareness of environmental and social issues and declining trust in governments and big business are all important drivers behind this trend. Increasing consumer affluence means that with the fulfilment of material needs, the nature of purchasing decisions are also changing. As a result, more altruistic peoples now have the economic freedom to demonstrate their concerns for the environment and people less fortunate than themselves through their purchasing choices.

Evidence of trend in marketplace

Global warming and climate change are resonant themes that are shaping consumers' choices. Demand is rising for products that have reduced their impact on the environment or that offer a sustainable alternative. Wal-Mart's involvement in organic cotton started with one woman who worked for Sam's Club, who put in an order for organic cotton Yoga pants back in 2004. They sold so well that it got the attention of the CEO, Lee Scott. By the end of 2006, Wal-Mart will have used 6,800 metric tons of organic cotton. Wal-Mart is further leveraging their buying power to make organic products affordable for its customers. The local Spanish beer brand Estrella Damm has set up recycling containers all over Barcelona, providing consumers with an easy way to act more responsibly towards the environment.

Giving a fair deal to everyone in the production process is another form of making a difference. Aware of the power of multinationals corporations to squeeze the 'little guy' in the supply chain, many consumers are seeking alternatives that give a fairer deal to everyone involved in bringing their products to the store shelf or the restaurant table such as fair trade products. Global sales of Fairtrade certified products reached the \$1.1bn mark in 2005. This is a 37% increase over 2004. Fairtrade coffee grew 70.9% in the U.S. and 34% in the U.K. Fairtrade bananas grew 46% in Austria and sugar 125% in France.

The failure of governments to create effective change has seen the rise of single issue politics; consumers are focusing their attentions on the specific issues in the world that matter to them by supporting both local and global initiatives. One example is the Product Red

initiative, led by Bono, which aims to create a 21st Century business model that will be good for the people of Africa, good for consumers and good for business. Brands including AMEX, Gap and Motorola have signed up to offer Red products, donating money to fight aids in Africa for each sale. A food example from Spain is Som. Os 51%, a new cola product (natural cola with guarana) produced by Som.Os, a Barcelona-based NGO whose company policy is based on ethical and social principles. Som.Os donates 51% of its proceeds to social projects. At the end of each fiscal year, the members of Som.Os vote on which projects the money should be spent. And from in October 2005 M&Ms created special edition packs to support the Susan G. Komen Breast Cancer Foundation. The sweets were in the limited edition pink and white colours of the breast cancer charity. M&Ms donated \$0.35 on 14-ounce packages and \$0.50 on 21.3 ounce packages.

Ensuring that the animals are well treated also comes into consumers' minds. Modern mass farming techniques are increasingly under scrutiny as the welfare of animals is a growing concern for consumers who are eager to make sure the animals are well kept and humanely killed.



The Quest for Health & Wellness:

"I want to manage or improve my health and wellness"

Conflicting messages from once-trusted institutions and the media along with the growth of alternative information sources have led people to take the lead in managing their own health and overall wellbeing. With confusion and scepticism about which solutions might work, science and technology hold the key for some people. Others look to nature as their ally and are sceptical about the interventions of man. In this ongoing quest, people are seeking solutions which fit their specific needs and lifestyles.

Drivers of trend

Fuelling this trend is consumer attitudes such as their declining trust in traditional institutions, the growing public and media focus on health and image, scientific advances, changing lifestyles and demographics and the increasing availability of information.

Evidence of trend in marketplace

Managing health is a growing challenge for consumers in a world where physical activity is not part of life's daily routine and where fast food tempts consumers at every corner. Consumers are adopting a broad range of strategies to boost their bodies against short-term health problems and long-term illness. A supermarket chain Ito Yokado recently held a "Black Food Fair" in Japan. Black food includes black sesame, black beans, black vinegar, etc. which have recently become popular as super health foods. From Spain we find Nescafé Active, an attempt to change perceptions of coffee from a bad habit to something with health benefits. The drink contains 10 vitamins and calcium and is presented as a healthy start to the day.

Consumers are also increasingly recognising that health is not just about physical wellbeing. To achieve overall wellness, they have to care for their emotional and spiritual side as well. This more holistic aspect of wellness encourages consumers to adopt a range of measures which will make them happy, healthy and strong. Firefly's 'chill out' drink is supposed to be the antidote to frenzied lives. The back of the bottle circles the ingredients such as lemon balm which should help you to 'sail away' and rebalance. The fact that the drink contains 'absolutely nothing artificial' is designed to soothe the anxious souls and stop them worrying.

Furthermore the media focus on image and the vilification of people in the public eye who do not conform to an ever changing view of beauty has created a world which increasingly judges us by how we look. Consumers are seeking strategies and easy solutions that help them manage their nutritional intake and weight, or enhance their physical appearance. In Japan Eiwa is a sweet maker which specialises in marshmallows. They have now moved into the health industry with a collagen marshmallow. Each marsh-mallow in this 50g pack contains 3,000mg collagen which is supposed to plump up the skin.

Consumers are seeking unadulterated products and experiences that offer an escape from modern day health confusion or that provide the reassurances of Mother Nature. Scientific advances in food and drink have caused many consumers to fear that 'meddling' or 'tampering' with what is natural could have unforeseen impacts and consequences. Fiji claims its water is: "From a place where it's still safe to taste raindrops." It continues to convey the pure image that the Fiji Water brand has done such

a great job of building. Their ads boast that the water takes a "journey through one of the world's last virgin ecosystems." In retailing, Fresh & Wild first opened in 1998 and has grown to become the UK's largest organic and natural foods retailer. There are now six stores in London and one in Bristol. Fresh & Wild is committed to stocking food without artificial colourings, hydrogenated fat, flavourings, sweeteners or preservatives. They also have areas in their stores devoted to natural skincare and supplements. Fresh & Wild has recently been bought by the American retailer Whole Foods, and its first re-vamped store will open in London in 2007.

Finally, for many consumers coping in the modern world means dealing with increasing urbanisation, pollution and poor diet. Allergies, intolerances and obesity are on the increase. Consumers attempt to combat such every-day challenges by adopting a range of different strategies. These include taking prescribed medication, alternative remedies or therapies, excluding particular products or ingredients from their diet, or supplementing their regular diet with specialised products. Riovida from the US is a drink containing the new 'super ingredient' acai – a berry from the Amazon that is supposed to have very high antioxidant properties which are meant to protect you against elements such as pollution. The number of people with food allergies such as nut allergies and wheat or lactose intolerance has increased in recent years. Allergy UK, the national medical charity established to represent the views and needs of people with allergies, estimates that 1 in 3 people will suffer from an allergy at some point in their lives. Supermarkets are responding to this pattern by offering designated 'free from' ranges, designed for those with gluten or dairy allergies. One such example is Sainsbury's 'free from' range.



Smart Shoppers:

"I like to make smart choices when I buy things and want to feel I'm getting a good deal"

Growing market competition and greater access to information have given people increased power to compare prices, shop around and demand more for their money. The basics in life are getting cheaper while luxury items are becoming more accessible. Low cost and no-frills shops and products fuel the value-hunting and consumers

take pride in finding good deals. Smart shoppers are combining no-frills with indulgence when it suits them, and increasingly assessing value not just in terms of money, but also in terms of the cost in time and energy.

Drivers of trend

Drivers of this trend include growing market competition and product choice, increasing accessibility of information such as the internet, growing aspirations driven by the media and the rising value of time and energy as daily resources.

Society is more obsessed than ever with every aspect of celebrities' have-it-all lifestyles. There has been a rise in the number of celebrity docudramas that serve as windows into celebrity lives and in reality TV programmes that allow ordinary people to become famous. Magazines and advertising featuring holidays, gourmet meals and catwalk fashion drive expectations further.

Peoples are looking for affordable ways to realise their aspirations and enjoy a little luxury.

With affluence rising, time and energy are seen as scarce and therefore more valuable than money. As a result, consumers are increasingly likely to trade money in return for extra time or energy.

Evidence of trend in marketplace

Buying the basic product at a good price is one consumer response. Consumers are increasingly aware of the 'frills' that are included in the price of products and services that they buy and in many cases consider that they are paying for unnecessary additions. In the continued pursuit of better value consumers are looking for alternatives that provide the basic product, without the extras, at a good price.

Luxury items at more everyday prices is another type of consumer response as is buying based on the recommendations of other consumers. To tap in to consumers' desire for both luxury and value, many brands are changing their pricing and positioning. Prestige brands are creating more accessible ranges and versions that cater to the mass market. At the same time, brands that have traditionally been seen as 'value' are creating more exclusive range extensions. US wholesaler giant Costco teamed up with high-end supplier Borghese, to produce

a co-branded, private-label line called Kirkland Signature by Borghese. Costco offers a variety of products under the Kirkland Signature name at a discount, from clothing and electronics to dairy products and more. If you can't afford to buy designer clothing, you can now treat yourself to designer sweeteners! Canderel in the UK has launched a limited edition range of sweeteners with boxes created by famous fashion designers such as Matthew Williamson, Giles Deacon, Julien MacDonald and Patrick Cox. You can buy the whole collection – at only 99p per box.

In the pursuit of making the right choice and getting a good deal, consumers are increasingly looking to their fellow consumers for advice. Products and services can benefit through being highly rated on comparison websites or, by gaining a more informal personal recommendation. Eat Natural, makers of healthy cereal bars, actively invite customers to speak to them not only about their products but also about 'what makes you feel good?' On each packet they print some of the more interesting suggestions, adopting a personal tone by including the name of the person who submitted the idea. For example "Ellie from Suffolk enjoys pulling out a whole weed in one go".

A different type of response but still valid is finding value in resources other than money. Consumers now recognise that money is not the only cost to them in a transaction process. A perception of good value increasingly considers the cost in time and energy – for example how long it takes to shop, how much energy it takes to carry purchases home, or how long it takes to make or prepare



The real thing:

"I am looking for the real thing; I care where it comes from and how it is made"

In our increasingly commercialised and mass-produced world, a growing number of people are looking for companies and products they feel they can trust. Comfort and reassurance can come from products that have integrity, history and an honest approach to life. Stories about the manufacturing traditions of the company, the people who have made the product or where the product comes from are resonating with people who are looking for something "real" amongst a mass of faceless global brands.

Drivers of trend

Drivers behind the real thing are declining trust in multinationals, the backlash against accelerated culture, a resistance to globalisation and rising consumer curiosity.

Evidence of trend in marketplace

Consumer desire to get back to basics and how things used to be is one apparent result of this trend. As a response to the pressures of modern life many consumers feel nostalgia for the way things used to be. Consumers want to rediscover traditional and simple ways of doing things. Craftsmanship is another response. In response to mass-production and impersonal interaction consumers are increasingly interested in the story of how things are made and who by. Consumers are interested in finding out more about the personalities, human connections and traditional skills that lie behind the things they buy. The Yorkshire Soup Company places great importance on letting customers know where their food is coming from. Their soups have 'local hero' labels, naming and featuring a photo of the person who created the soup recipe on the soup pack.

Also people are increasingly calling for and expecting transparency from the organisations with which they interact. There is a fascination with what goes on 'behind the scenes' and a desire for information and proof of the claims that are made. Retailer Trader Joe's in the US puts real emphasis on transparency and keeping people informed. Their website is full of information such as 'food facts' and 'label lingo' which give consumers easy to digest material on all their products and where they come from. Trader Joe's keep costs down by cutting out middlemen - "We buy direct from the producer whenever possible. We strip away all the fancy stuff and focus on the important things like natural ingredients and inspiring flavours."

And equally consumers are increasingly interested in where the things they are buying have come from. The geography and history of a product can communicate quality and expertise, and can provide reassurance that it has been made according to best practice. The 'Look What We Found' range of gourmet ready meals is very open about where their ingredients come from. They even name the producer and explain on their packaging that their passion is to "create fantastic food using the finest ingredients sources from small producers."

A somewhat different slant on the real thing is products that provide a modern take on tradition. These are increasingly attractive to consumers looking for the reassurance that a brand with a good history provides, but also wanting modern day performance. Successful 'updates' have maintained their original personality and heritage, whilst adapting to current expectations. Persil caught onto the trend for all things retro recently when it decided to reproduce and re-launch the traditional metal tin packaging. This went alongside an advertising campaign stating "Persil bleibt Persil" ("Persil remains Persil") emphasising its heritage and reliability.

Sectoral Review and Outlook



Overview

Irish food and drink exports performed strongly in 2006, exceeding the €8 billion mark for the first time. This growth took place against a backdrop of ongoing competitive pressures on the sector, a strengthening euro against the US dollar and the increasing presence of new suppliers in key product categories.

Overall, **the value of exports in 2006 recorded an estimated rise of 10 per cent or €755 million to reach €8.1 billion.** The strength of this performance is further highlighted by the fact that total Irish exports are estimated by the ESRI to grow by just six per cent in 2006.

All major product categories recorded growth during the year with the exception of edible horticulture where the mushroom sector continued to face a difficult market environment in the UK.

Irish Food & Drinks Exports

Category	2005 €m	2006(e) €m	2006/2005 % +/-
Dairy Products & Ingredients	1,963	2,080	+6
Prepared Foods	1,535	1,685	+10
Beef	1,340	1,525	+14
Beverages	1,091	1,375	+26
Seafood	354	364	+3
Poultry	257	237	-8
Pigmeat	238	250	+5
Sheepmeat	189	180	-5
Edible Horticulture & Cereals	226	204	-10
Live Animals	150	200	+33
TOTAL FOOD & DRINKS	7,343	8,100	+10
Amenity Horticulture	16.8	17.2	+2

Meat and Livestock

The **combined value of meat and livestock exports is estimated to have reached almost €2.4 billion in 2006. This represents an increase of 10 per cent on 2005 levels.** Beef exports led the way recording an export value growth of some 14 per

cent to €1,525m while pigmeat exports were five per cent higher at €250m. The value of sheepmeat exports were five per cent lower at €180m with poultry exports easing by eight per cent to €237m.

Exports of live animals put in a strong performance during the year with shipments growing by 33 per cent to €200m, due largely to a strong demand for cattle on the Continent.

Irish Meat & Livestock Exports

Species	2005 €m	2006(e) €m	2006/2005 % +/-
Beef	1,340	1,525	+14
Pigmeat	238	250	+5
Poultry	257	237	-8
Sheepmeat	189	180	-5
Live Animals	150	200	+33
TOTAL	2,174	2,392	+10

Beef

The value of Irish beef exports in 2006 were boosted by a further improvement in the EU beef market, which led to a rise in EU male cattle prices of eight per cent. This was despite the return of UK over thirty month beef to the food chain, which boosted EU production by around 120,000 tonnes. The somewhat restricted access of Brazilian beef due to foot and mouth and a self imposed reduction in Argentinian exports helped create a more positive market environment for Irish beef. However, during the first 10 months of 2006, EU imports of beef from South America were just five per cent lower than a year earlier.

Beef Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
1,340	1,525	+14

Irish beef exports were boosted by a rise in export meat plant supplies of over five per cent during 2006. With only a modest rise reported in average carcass weights, beef exports are estimated to have increased by a similar percentage to reach 516,000 tonnes. Better market returns boosted average cattle prices by eight per cent leading to **the value of beef exports rising by 14 per cent to €1,525m.**

The strongest performance during the year was a further rise of 20 per cent in exports to Continental EU markets at almost 230,000 tonnes. This represents an all time high level of exports with shipments doubling since 2002. This trade was valued at €695m in 2006. Irish beef is now listed with more multiple retail chains in more EU markets than beef of any other national origin.

Italy, France and the Netherlands remained the key destinations with all showing impressive growth levels. These markets account for two thirds of exports to Continental EU markets.

Exports to Italy grew by over 20 per cent during 2006 to reach 51,000 tonnes and represents the fifth consecutive year of growth in Irish beef exports to the market. Trade to France continued from its impressive performance in 2005 to rise by a further 18 per cent to 52,000 tonnes while shipments to the Netherlands were 13 per cent higher at 45,000 tonnes.

Exports to Scandinavia, Spain and Portugal all showed growth while shipments to CEEC markets increased strongly, albeit from a modest base.

Despite the return of UK over thirty month beef which led to a fall of almost 20 per cent in UK beef imports, Irish **exports to the UK recorded only a four per cent decline in 2006 to 250,000 tonnes, which maintains the UK as Ireland's largest export market accounting for 48 per cent of total exports.** Trade during the year was helped by the slower than anticipated build up of cow supplies and restricted South American trade. The position of Irish beef within the UK retail sector was further consolidated throughout 2006.

Exports of Irish beef to International markets performed well throughout much of 2006 and finished the year marginally ahead of 2005 levels at just under 40,000 tonnes. Despite the further reduction in export refund levels, the strong import demand in Russia helped export volumes. Russia remains the principal International market for Irish beef followed by Algeria.

Prospects for 2007

The prospects for Irish beef exports in 2007 remain broadly positive. Tightening Irish cattle supplies combined

with an increasing shortfall between EU beef production and consumption should provide a solid market environment for Irish beef. EU forecasts suggest a shortfall of over 350,000 tonnes in 2007.

Irish export volumes in 2007 are anticipated to fall by around 25,000 tonnes. This follows strong live exports of young cattle over the last two years.

Little change is anticipated in UK import requirements as cow supplies increase. However, much of this is likely to be offset by a drop of four per cent in UK prime cattle availability. Ireland is well positioned to increase its share of UK prime beef requirements. In terms of Continental EU markets, lower Irish supplies are expected to reduce trade levels somewhat. However, given the prospects of tighter supplies across Europe, market demand for Irish beef looks set to remain strong. Trade to International markets will be largely dictated by the level of demand for EU beef from Russia and the strength of competition from South American suppliers in particular.

The principal uncertainty facing the EU market in 2007 is the level of restrictions on exports of Brazilian beef to the EU. Restrictions will remain unchanged until after an EU veterinary visit to Brazil in March 2007. If restrictions were lifted following this visit it could impact on the beef market from late spring. However, shipments from Brazil in 2006 were only three per cent lower than 2005 levels. Another factor that could rise import levels in 2007 is the strengthening of the euro against the US dollar, which helps the competitiveness of non-EU beef on the EU market. However, with EU consumption set to remain stable, solid trading conditions for Irish beef look set to be maintained.

Pigmeat

An improved EU market for pigmeat **boosted the value of Irish pigmeat exports by five per cent in 2006 to an estimated €250m.**

Relatively stable meat plant supplies combined with a slow down in import levels resulted in the volume of Irish pigmeat exports easing slightly to 103,000 tonnes. A rise of over seven per cent was recorded in Irish pig prices to €1.40/kg.

Pigmeat consumption benefited to some extent from the switch by some consumers away from poultry as a result of Avian Influenza. Stable EU supplies helped Irish exports

with shipments to all major EU markets showing little change. Some further growth was recorded in exports to International markets.

Pigmeat Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
238	250	+5

The **UK remains the principal destination for Irish pigmeat with exports in 2006 maintained at 50,000 tonnes**. Having started the year slowly, strengthening demand on the Continent as the year progressed tightened supplies on the UK market, which boosted trade levels from late spring into the autumn period.

In terms of Continental EU markets, Germany continues to be the main market with shipments of 12,000 tonnes in 2006. German production increased strongly during 2006. However, the hot summer combined with the World Cup boosted pigmeat sales, which helped maintain Irish exports.

Other important Continental markets for Irish pigmeat in 2006 included France at 6,000 tonnes, helped by increased sales of manufacturing product, and Italy at 3,000 tonnes.

Exports to International markets showed a modest rise in 2006. Japan continued to be the key market with exports for the year holding reasonably well at 10,000 tonnes. Trade to Russia improved strongly reflecting reduced competition from Brazil with exports anticipated to reach 7,000 tonnes for the year. Exports to Hong Kong were maintained while shipments to the United States slowed.

Prospects for 2007

Little change is expected in Irish pig supplies in 2007, reflecting a stable breeding herd. Meat plant supplies look set to be maintained at around 2.6 million head.

Only minor changes are expected in EU pigmeat production with increased trade expected with Bulgaria and Romania following their accession to the EU in 2007. However, pigmeat is likely to face renewed pressure from poultry as it regains market share. Any further strengthening of the euro against the US dollar would reduce the competitiveness of EU pigmeat on world markets as would a return to full market access for

Brazilian pigmeat in Russia. However, consumer demand within the EU looks set to remain stable.

Given this background, the prospects for Irish pigmeat exports are less positive with profitability at producer level likely to come under pressure from rising feed prices as the year progresses. Also, the nitrates directive is likely to impact on costs from the second half of 2007. The UK market looks set to remain competitive given the rise in shipments anticipated from suppliers such as France and Spain. Trade to International markets are also expected to slow reflecting increased competition from the United States, Canada and Brazil.

Sheepmeat

Lower sheep availability affected the volume of Irish sheepmeat exports during 2006. Export meat plant supplies fell by five per cent during the year with most of the fall evident in cull ewe supplies, which increased the effect on the tonnage produced. This represents a smaller than anticipated decline with supplies boosted by increased ewe lamb disposals. However, this will impact on availability from 2007 onwards.

The volume of sheepmeat exports fell by almost seven per cent to just under 54,000 tonnes. Lamb prices showed some modest improvement during the year, rising by two per cent to €3.45/kg. These factors combined to leave **Irish sheepmeat exports in 2006 almost five per cent lower at an estimated €180m.**

Sheepmeat Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
189	180	-5

The Irish market continues to account for almost 30 per cent of total sheepmeat output leaving it as the second most important market after France.

France continues to account for almost 55 per cent of Irish sheepmeat exports at over 31,000 tonnes. Demand for sheepmeat in France remained slow during the year with French consumption levels continuing the gradual decline of recent years.

Exports to the UK fell in line with cull ewe supplies to reach 12,000 tonnes. Diversification of exports to other

markets continued during 2006 with higher shipments recorded to markets such as Sweden, the Netherlands and Italy. Shipments of light lamb to Mediterranean markets slowed in 2006 reflecting strong domestic supplies in key markets and better quality lambs coming off hills that were suitable for other markets. Overall, exports of light lamb stood at just over 2,000 tonnes in 2006.

The proportion of exports in cut form continues to grow reaching almost 30 per cent during 2006. This compares to just 13 per cent as recently as 2000. This growth has been helped by increased level of lamb cuts being supplied to domestic retailers by export approved plants.

Prospects for 2007

Irish sheep availability is expected to decline by up to eight per cent in 2007 reflecting strong ewe lamb disposals since the introduction of decoupled payments, which will impact on lamb supplies over the coming years. Cull ewe supplies are also expected to moderate after relatively strong levels over the last two years.

Exports are expected to decline in line with supplies. The European sheepmeat market looks set to remain steady with production levels likely to fall at a slightly faster rate than consumption in key markets. France will continue to remain the key market with their import requirements likely to be maintained in 2007. Sales to Northern European markets look set to continue strongly helped by a further rise in the proportion of exports in cut form.

Following New Zealand filling their import quota into the EU for the first time in three years in 2006, competition from this source looks set to remain strong throughout 2007. After slowing in recent years, the volume of chilled New Zealand sheepmeat exports to the EU increased by over 20 per cent in 2006. Volumes are expected to remain strong in 2007. The accession of Bulgaria and Romania to the EU will boost sheepmeat availability although both these markets were already actively trading with the EU, particularly in live lambs.

Poultry

The Irish poultry industry faced a challenging market environment during 2006 as the outbreaks of Avian Influenza across the EU affected consumer demand for poultrymeat, particularly during the early part of the year.

As a result, the **value of Irish poultrymeat exports fell by an estimated eight per cent to €237m.**

The volume of Irish exports was affected by lower Irish poultry production and a levelling off in imports in 2006. After a difficult start, poultry prices recovered as the year progressed to end the year broadly similar to 2005 levels. However, a strong rise in feed, energy, packaging and labour costs resulted in a difficult year in terms of profitability for the Irish industry.

Poultrymeat Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
257	237	-8

Exports continue to focus on value added products with exports of processed poultry accounting for two thirds of trade in value terms. The UK continues to be the key market for Irish poultry, accounting for around 85 per cent of total export value in 2006.

The market environment for poultry was adversely affected by the outbreaks of Avian Influenza from the autumn 2005. However, the situation stabilised as the year progressed with poultry consumption reported to have recovered across the EU during the second half of the year with increased promotional activity evident in key markets. EU imports slowed by almost 10 per cent in 2006 reflecting reduced shipments from Asian suppliers due to Avian Influenza restrictions. This helped reduced price pressure on the EU market.

Prospects for 2007

The prospects for the EU market in 2007 are very much dependent on the AI status of the EU market. As of late December 2006, the situation remained stable with no new outbreaks reported in Europe since August 2006. If this situation is maintained then poultry is expected to regain market share lost in late 2005 and early 2006. The impact of any new outbreaks will be very much dependent on consumer reaction, which may be less pronounced than in 2006 and the impact on market access for EU poultry on key world markets.

EU forecasts for 2007 suggest that EU production will show a modest rise with consumption recovering further helped by ongoing promotional activity. However, strong competition from pigmeat combined with rising feed prices is expected to put some pressure on poultry prices.

All things being equal, 2007 should provide a more stable, albeit competitive market environment for Irish exports. Reduced capacity in the sector is expected to continue to impact on Irish production levels.

Live Animals

The **value of Irish livestock exports increased by 33 per cent in 2006 to an estimated €200m**, helped principally by a similar rise in live cattle exports. Some modest reduction was recorded in live pig exports while live shipments of sheep were largely maintained.

Livestock Exports (€m)

Species	2005 €m	2006(e) €m	2006/2005 % +/-
TOTAL	150	200	+33
Cattle	95	145	+53
Pigs	50	50	n/c
Sheep	5	5	n/c

Live cattle exports

Live cattle exports reached 250,000 head in 2006, up by 65,000 head on year earlier levels. The value of this trade was €145m.

The principal drivers of this increase were a strong rise in calf and weanling shipments. A very strong veal market combined with tight supplies from other exporters boosted Irish calf exports, particularly in the first half of the year. For the year as a whole, calf exports exceeded 100,000 head, some 66 per cent ahead of 2005 levels. The key markets were Holland at 56,000 head and Spain at 24,000 head.

Exports of weanlings and store cattle also increased strongly reflecting improving feedlot demand from Spain and Italy with 130,000 head shipped for the year as a whole. This compares with 108,000 in 2005. The key destinations were Italy at 62,000 head and Spain at 43,000 head, with both taking an equal mix of male and female cattle. Over recent years Italy has increasingly been the target for better bred weanlings and stores. This is particularly true

of the autumn born stock, which become available at a time when prices are highest and demand is strong.

Trade to Northern Ireland was maintained during the year at 28,000 head. Most of this trade was in stores/weanlings but also some finished cattle were exported for direct processing as the year progressed reflecting an improved beef trade in Northern Ireland.

Prospects for 2007

The outlook for Irish live cattle exports look reasonably good for 2007. However, exports of calves are likely to come under increased pressure from more competitively priced UK calf exports with recent forecasts from the UK suggesting live exports could reach as high as 200,000 head in 2007. Overall import demand for calves is likely to moderate on the Continent as veal demand returns to more traditional levels.

Any decline in calf exports could be offset by an ongoing demand for weanlings and store cattle in Spain and Italy. However, this could also depend to some extent on the level of UK exports. Current shipping capacity in Ireland has resulted in a regular service with weather the only restricting factor and this situation looks set to continue into 2007.

New regulations on welfare of livestock in transit are due to come into force in early 2007. However, the high standards of transport in place in Ireland should mean minimum modification is necessary. Overall, live cattle exports are expected to be largely maintained.

Dairy Products & Ingredients

This category encompasses dairy products such as butter, cheese and milk powders as well as infant formula, casein and chocolate crumb.

The dairy sector put in a strong export performance in 2006, helped mainly by strong growth in the export value of infant formula and other value added products. Overall, it is estimated that, **exports for the year grew by six per cent to reach €2.08bn**. The value of primary dairy products was boosted by increased volumes, which offset somewhat lower unit values.

Dairy Exports (€m)

2005 €m	2006 €m	2006/2005 % +/-
1,963	2,080	+6

Global milk production continues to grow with a rise of almost two per cent forecast for 2006, with increases in China, India, United States and New Zealand. Australian milk production fell slightly in 2006 reflecting severe drought conditions, with projections for 2007 suggesting a decline of at least seven per cent. EU production is anticipated to fall by 1.5 per cent in 2006 with Irish production increasing by 2.5 per cent for the calendar year and should fill the national quota at the end of the quota year in March 2007. In 2006, milk availability in Ireland was again boosted by imports of manufacturing milk from Northern Ireland.

An increasing proportion of Irish milk production is going towards cheese production in response to strong EU market conditions and this has led to reduced butter production. Casein production fell in response to slower market demand, reduced prices and the absence of casein aid. Consequently, increased quantities of skim milk were utilised in the production of skim and butter milk powders. In addition, the increased capacity of infant formula manufacturers has led to increased demand for skim milk products from this industry. Production of infant formula grew strongly following an expansion of capacity in response to increasing market demand.

In 2006, the third stage of the medium term review of the Common Agricultural Policy was implemented, further reducing support prices for butter and skim milk powder with export refunds cut accordingly for most products. In 2006, all remaining supports for the use of skim milk powder were set at zero. In addition, the final remaining intervention stocks of skim milk powder were sold onto the market. Intervention butter stocks have also been reduced over 2006.

World prices fell from their peak in 2005, although powder prices recovered in the latter half of 2006 and by year end had even surpassed 2005 highs. Similarly, internal EU powder prices also improved strongly in the second half of 2006 and are currently well above EU support levels.

2006 was a difficult year for European exporters to international markets. EU exporters faced reduced competitiveness due to reductions in export refunds, a strong euro vis-à-vis the dollar and, in the latter half of the year in particular, firming of internal EU prices. As a result, EU exports of all the main dairy products in 2006 were below 2005 levels. In Ireland, increased shipments to EU markets helped offset lower exports to International markets.

In the case of Irish exports of primary dairy products, increased volumes helped offset lower unit values. Powder proved an exception, bolstered by the rising price of milk powder in the latter half of the year.

Value added products, with the exception of casein, performed well in 2006 with volumes and values both rising. Irish exports of infant formula grew strongly during 2006 reflecting increased production capacity and rising global demand particularly in the Middle East and Asia. In contrast to other dairy products, the infant formula sector also grew exports to non-EU markets in 2006. However, both the setting to zero of export refunds on skim milk powder and rising costs of skim milk powder inputs over the year will have been felt by the industry.

Casein faced poor market conditions in 2006, caused by the build up of global supplies following two successive years of record output in response to high prices in 2004 and 2005 as well as resistance of buyers to high prices leading to substitution and recipe reformulation. Casein aid has been set at zero since September 2006. This will have serious implications for the long term viability of casein production in the EU.

Prospects for 2007

Global demand for dairy products looks set to remain stable during 2007 helped by growing demand in emerging economies and lower supplies from key suppliers, especially Australia. However, the relative strength of the Euro against the US and New Zealand dollars will play a key role in determining the market environment for Irish exports on world markets. Also, the final phase of MTR will be implemented on 1st July 2007.

Irish milk supplies in 2007 are anticipated to be around quota levels with a further increase in cheese production anticipated. There will be a further decline in casein production given the absence of casein aid. Future developments regarding the regulation of the use of casein in cheese production may offer opportunities for casein in Europe.

Changes to export refunds for value added dairy products will affect trade in these products to International markets going forward, in particular for product going to the United States.

Further opportunities are likely for the Irish dairy industry as consumer demand for natural, health, nutritional and functional foods continues to grow. This should provide the basis for further growth in value added exports in 2007.

Prepared Foods

This category includes a wide range of primary products, which have been further processed and includes ready to eat foods, confectionery and bakery products.

The **overall export performance of this category in 2006 was quite strong showing estimated growth of 10 per cent to leave exports valued at €1.685 billion.** Increased trade was evident in the pizza, luxury chocolate confectionery and frozen bakery sectors.

Prepared Food Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
1,535	1,685	+10

The prepared food category remains very competitive leaving Irish exporters facing a number of significant challenges. Ongoing pressure from retailers to reduce costs combined with rising energy, labour and local authority charges have all impacted on profitability. In addition, the level of competition from European suppliers on the UK and Continental European markets is further increasing the pressure on Irish exporters.

The UK remains the key market for prepared food exports. The market remained competitive throughout 2006 with a relatively high proportion of product sold under promotion. Exports to the Continent are building gradually, with best success reported in Northern Europe.

One of the major exports to the UK is ready meals. Exports in 2006 were sluggish for much of the year reflecting a declining level of space dedicated to frozen ready meals and strong competition from other European suppliers. Chilled ready meals continue to grow market share, which makes it more difficult for Irish companies to compete

with local suppliers. However, efforts by suppliers to offer healthy options and premiumise their product range have helped grow sales of these product lines.

Exports of luxury chocolate confectionery performed strongly in 2006 reflecting the growing premiumisation of the market as consumer's trade up and increasingly seek products that fulfil their demands in terms of indulgence. Further growth was also recorded on organic ranges during the year. The UK remains the key market although exports to markets such as the United States, Canada and to a lesser extent Australia continue to grow.

Exports of sugar confectionery were more challenging reflecting consumers moving away from products perceived to be high in sugar. The most successful products during the year were those offering low sugar, sugar free and no 'added ingredients' options. The UK, France and Northern Europe continue to be the most important markets for companies within this sector. Exports of frozen bakery products also increased, albeit from a low base.

Prospects for 2007

The prepared foods category looks set to remain competitive during 2007. However, considerable efforts being made by the industry to innovate and offer products that satisfy emerging consumer demands in terms of premium products, health and variety should help export levels. In addition, Irish companies are increasingly exploring opportunities in Continental EU markets in order to diversify their market portfolio.

However, competitive pressure in terms of retail pricing and energy costs look set to remain significant issues for the industry. Also, any strengthening of the euro against sterling would significantly impact on the competitiveness of our exporters.

Beverages

Irish exports of beverages performed strongly again during 2006 helped by considerable export growth in the cider and liqueur categories. Increased exports were also recorded in beer and spirits while in terms of non-alcoholic beverages both water and fruit juices performed well. Overall, total **beverage exports increased by an estimated 26 per cent in 2006 to reach €1.375 billion.**

Beverage Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
1,091	1,375	+26

The principal growth in exports during the year was evident in cider reflecting a strong increase in sales to the UK during the year. In terms of liqueurs, a strong US market in particular helped boost trade. The abolition of export subsidies for processed dairy products in September impacted to some extent on export values towards the end of the year.

The US market also performed strongly for spirits with overall consumption continuing to grow. Exports of spirits to markets such as Russia also showed strong growth in 2006, which helped to offset a slower UK market where retail pressure continues to make trade more competitive. Exports to Asia continue to develop, albeit from a modest base.

The drive by the industry over recent years to develop premium product offerings continues to position Irish beverages well on key export markets.

Towards the end of the year new security regulations affected the travel retail segment of the business, at least following their initial introduction. Other issues facing the sector include the ongoing pressure in terms of energy and labour costs.

In terms of non-alcoholic beverages, increased exports of mineral water took place against the backdrop of ongoing price deflation, which is putting significant pressure on margins. The bulk of mineral water exports continue to go to the UK.

A strong growth sector for the industry over the last year has been the chilled fruit juice/smoothie market, albeit from a small base. The rise in exports of these products reflects the increasing consumer desire for healthy alternatives. However, the cost of ingredients for these products has undergone substantial increases over the last 12 months, which is affecting margins.

Prospects for 2007

The prospects for Irish beverage exports remain reasonably strong for 2007 given the growing penetration of cider in the UK, the strength of the US market and the emergence of markets such as Russia and to a lesser extent Asia for Irish exporters. However, any further strengthening of the euro against the US dollar could impact negatively on trade.

In terms of non-alcoholic beverages, further opportunities are likely in the functional drinks area, particularly for products that offer low-cal and sugar free options. However, given the changes taking place in this marketplace strong innovation will continue to be necessary in order to build sales.

Edible Horticulture & Cereals

The value of edible horticulture and cereal exports fell by an estimated 10 per cent in 2006 to €204m reflecting a continuing competitive UK mushroom sector and a slow down in cereal exports following a strong trade in 2005.

Edible Horticulture & Cereals Exports (€m)

2005 €m	2006(e) €m	2006/2005 % +/-
226	204	-10

Mushrooms continue to represent the largest source of exports in this category. The market environment for Irish mushroom exports remained competitive during 2006 with volumes falling and prices under pressure. As a result, the value of Irish mushroom exports declined by 10 per cent for the year.

The UK market remains the key outlet for Irish mushrooms. Mushroom market penetration in the UK declined during 2006, showing a drop of 1.6 per cent with purchase frequency falling by almost two per cent. Price deflation remains a considerable issue in the market, which is making trade competitive for Irish exporters. Prices have shown a steady decrease for the last three years.

Improved demand during the summer months due to reduced supplies helped price levels although the fact that Irish exporters have long term contracts with multiple retailers meant that any price increases were slow to materialise. Shortages in supply in the UK market were largely due to a large Dutch mushroom group going into administration. Production problems in Poland caused by the warm summer also affected supplies.

The strongest factor affecting companies is the continued low level of prices, which has led to consolidation within the industry, although overall production volumes have also declined.

Prospects for 2007

There would appear to be some potential for an improved mushroom market environment in 2007. This is largely due to a reduced supply of mushrooms following the difficulties evident in the Dutch mushroom sector. However, Irish production levels may decline further as smaller producers exit the sector. The best prospects for future success lies in the development of larger production units that can compete with the scale of other import suppliers to the UK market.

Amenity Exports

Amenity exports showed a rise of two per cent in 2006 to an estimated €17.2m.

Hardy Nursery Stock

Despite intense competitive pressure in Britain our main export market for amenity products, Irish growers largely maintained exports in 2006 at €6.7m. Further gains were made in the Northern Ireland market which is showing increased potential and this partially compensated for difficult trading environment in Britain. A combination of factors including increased transport costs, rationalisation within the supply chain and a flat consumer market has resulted in the demise of a number of Britain's main trading nurseries who traditionally augmented their home-grown stock with Irish stock.

Small advances were also made in American and Asian markets with laboratory-bred new plants introductions. Little change is anticipated for 2007.

Foliage, Daffodil Flowers and Bulbs

Increased sales of cut foliage did not materialise as anticipated and overall export sales values remained largely unchanged at €4.8m. A lack of raw material continues to be a major factor resulting in our inability to supply customers' needs. The decision by the Department of Agriculture & Food to allow foliage production on set aside land plus allowing single payment to be stacked up on 50 per cent of holdings, will impact positively in 2007. In 2007 150 new acres will be planted with 120 acres of 2003 and 2004 plantings coming on stream. It is hoped to expand the production base by 750 acres over the next three years.

Christmas Trees

2006 recorded a strong export performance by the Irish Christmas tree sector. Trade was boosted by strong interest from UK, French and Dutch buyers who are now looking to the Irish suppliers for trees. As a result, the value of exports grew by just under 10 per cent to €5.7m.

This growth in demand bodes well for 2007, although any further growth will require additional growing capacity.

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**Funded by the Irish Government
under the National Development
Plan 2000-2006**

Bord Bia
Irish Food Board