

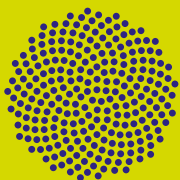
**May
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Food Drink Ireland Business Monitor

Implementing Brexit

Q2 2021

Brought to you by





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Director

Non-tariff barriers now a reality

FDI has welcomed the Trade and Cooperation Agreement (TCA) reached between the EU and the UK as disastrous tariffs have largely been avoided but the agreement reached is still very much a hard Brexit. The UK has left the single market and left the customs union, and this has introduced a number of barriers to trade with Great Britain in particular.

Food and drink companies face substantial non-tariff barriers to trade between Ireland and Great Britain with customs, SPS and other food safety requirements, initially for imports and in the months ahead for exports too.

Looking first at imports, most of the initial teething problems have been resolved but shipments through the ports remains at lower-than-normal volumes. There are additional costs and supply chain complexities arising from both SPS and customs controls and all hit the bottom line.

Exports to Great Britain have been working reasonably well. Companies were largely prepared for the new customs formalities which came into effect from 1st January. However, east-west trade flows have been impacted by difficulties for backloads from GB leading to shortage of trailers, delays and increasing costs of transport as many trucks return empty to Ireland.

The challenges will increase for exporters when the second phase of the UK's Border Operating Model takes effect from 1st October. Irish exporters will face a new SPS regime for Products of Animal Origin such as meat and dairy with veterinary certification / documentary check requirements, additional administration and additional costs. From 1st January 2022, Irish agri-food exports consignments will have to enter the UK through ports with Border Control Post (BCP)

facilities and will be open to further SPS controls (identity checks and physical examination). This step presents further potential for disruption to logistics.

A big concern with Brexit is our reliance on the UK land bridge for trade with Continental Europe. Capacity and frequency of direct sailings to the Continent has been increased but further capacity is needed. Exporters and importers are still using the UK land bridge by necessity. Additional processes are required, some delays are experienced and additional costs associated with paperwork and Transit Guarantee facilities are being incurred. However, the land bridge will continue to be a strategically important route to market for many Irish food and drink exporters and importers.

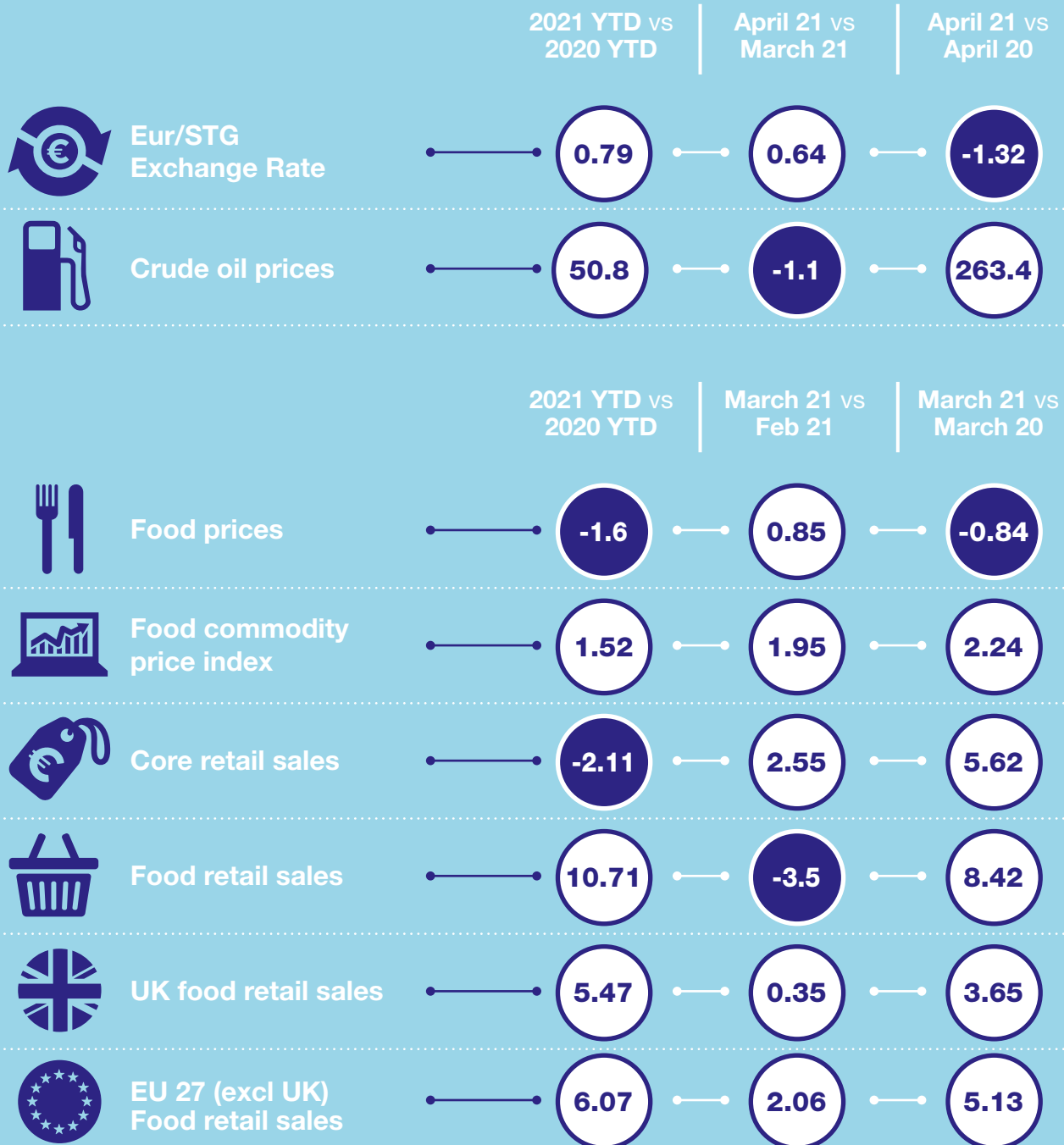
The rules of origin in the TCA are severely disadvantaging many in the food and drink sector, and Irish consumers. Here are three examples:

- Much of the flour we import from Great Britain has a Canadian wheat content in excess of 15%. This exceeds the tolerance level in the rules of origin, so the full tariff of €172 / tonne is imposed.
- Many companies have evolved supply chains that stretch to the continent and utilise GB distribution hubs to serve the Irish market. Under the rules of origin, they now face paying a full tariff on many of the goods coming from these hubs even though they originated in the EU.
- Dairy products processed from the mixed North/South milk pool will not be able to avail of preferential tariffs in the many Free Trade Agreements that the EU has negotiated- as well as access to sCMO Market Tools. Spirits will be similarly affected.

In the months ahead a big concern is regulatory divergence. Last month we saw changes in the certification requirements for composite products, changes that the UK did not adopt. As these divergences grow more frequent there needs to be an awareness of the closeness of the Irish and UK markets in terms of distribution systems, common packaging and so on and the unique difficulties that will therefore be faced by Irish producers and suppliers. The scope for divergence in regulation and standards potentially increases further in the medium to long term, especially as the UK completes trade deals with other global partners. This presents a significant new competitive threat for our food exports to Great Britain and a cost burden on imports from Great Britain.

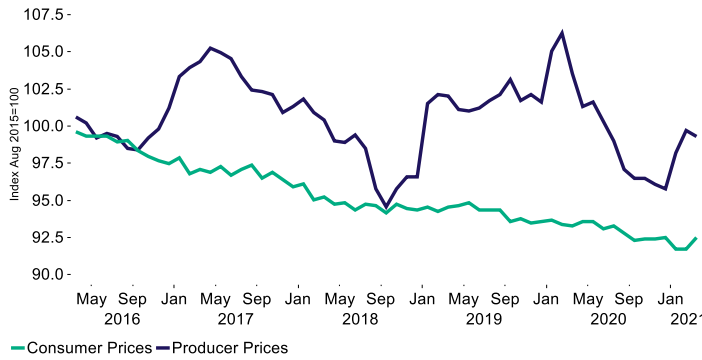
As we look to the future, in addition to seeking reductions in these non-tariff barriers, our priority must be to maintain our valuable UK market position and continue to diversify our exports to the rest of the EU and further afield. As the most exposed sector in the economy this requires supports from Ireland's €1 billion allocation from the Brexit Adjustment Reserve and from Budget 2021's Recovery Fund. The non-tariff barriers faced by Irish exporters are substantial and a drag on individual company competitiveness. There needs therefore to be a renewed focus on lowering the cost of doing business in Ireland.

Food business snapshot



Domestic market

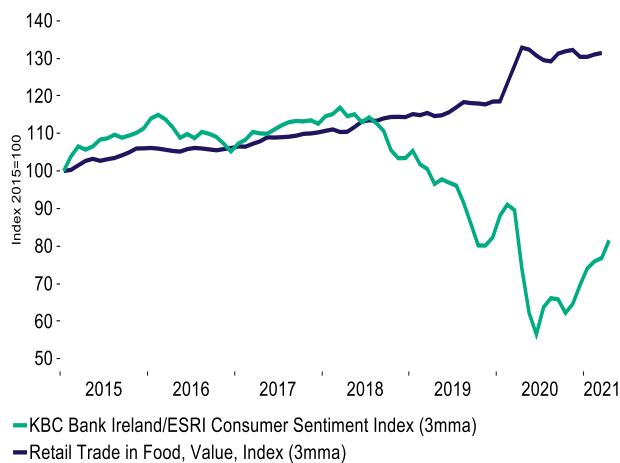
Figure 1: Food prices



Food prices

In April 2021, prices on average as measured by the Consumer Price Index were 1.1% higher compared with April 2020. Consumer prices in the month of April increased by 0.7%. Food prices decreased by 0.8% in the year and increased by 0.3% in the month. Non-alcoholic beverage prices increased by 0.3% in the year and increased by 0.9% in the month. The price of Food & Non-Alcoholic Beverages fell annually due to lower prices across a range of products such as meat and milk, cheese & eggs.

Figure 2: Food retail and consumer sentiment



Retail sales and consumer sentiment

The volume of retail sales (ex bars & motor) was up 1% in the month of March from February and was 2.4% higher than February 2020. Those parts of the sector that have been forced to close are still experiencing the largest annual falls by value. The KBC Bank Irish consumer sentiment index edged up to 77.9 in April from 77.1 in March. The sentiment index is now at its strongest level in 13 months. The improved confidence reading likely reflects an Irish consumer increasingly hopeful of improving news about Covid-19, but with residual concerns about the longer-term economic outlook.

Numbers on COVID-19 related payments

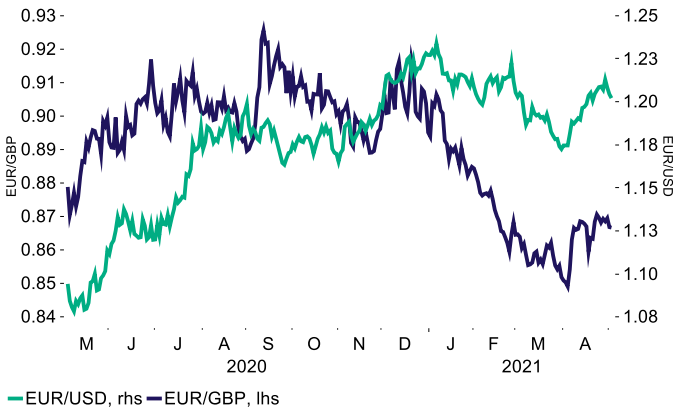


Employment forecast

The first half of 2021 has been difficult for large parts of the Irish economy. 2021 began with close to half a million people on the Pandemic Unemployment Payment (PUP) as large parts of the domestic economy remained closed. The Covid-19 crisis continues to have a significant impact on the labour market in Ireland in April 2021. The Covid-19 Adjusted Measure of Unemployment indicates a rate as high as 22.4% if all claimants of the Pandemic Unemployment Payment (PUP) are classified as unemployed. The Covid-19 adjusted unemployment rate is down from 23.8% in March 2021 and from 30.5% in April 2020.

Macro Trends

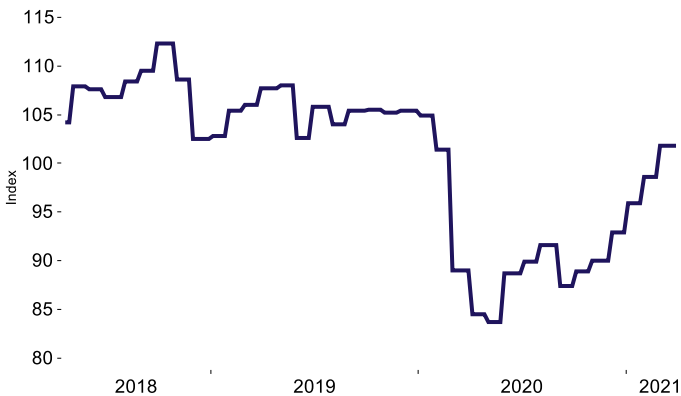
Figure 4: Sterling and dollar exchange rates



Exchange rates

The EU-UK trade deal that was finally agreed on Christmas Eve had no immediate impact on sterling. This was because the agreement was expected by the markets and furthermore it was a very limited trade deal. Nevertheless, the fast roll-out of the vaccines saw sterling make gains in Q1, boosted by the prospect of an economic recovery. The Q1 Monetary Policy Report from the Bank of England forecasts UK GDP growth picking up to 5% in 2021 and 7.25% in 2022, despite the economy being in lockdown at the beginning of 2021. The US has begun to see a reopening of its economy on the back of mass vaccine rollout. In light of this reopening and a substantial stimulus plan under the Biden presidency, the US Federal Reserve is forecasting GDP growth of 10% in the first quarter of the year and 6.5% for 2021 overall.

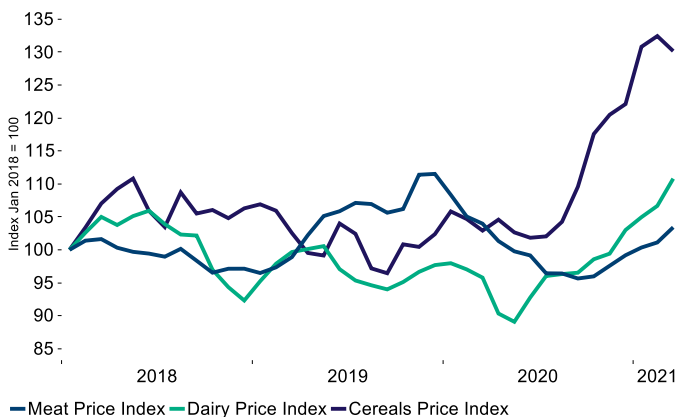
Figure 5: Wholesale Price Index-Gas Oil



Factory gate prices

Monthly factory gate prices increased by 1.0% in March 2021 according to the CSO. This compares to a decrease of 3.4% for March of last year. The annual percentage change showed a decrease of 10.1% in March 2021, compared to a decrease of 14.0% in the year to February 2021.

Figure 6: Food commodity indices

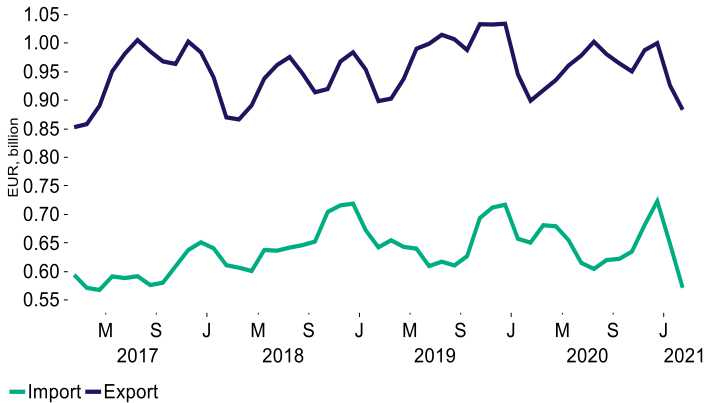


Food commodity indices

The FAO Food Price Index (FFPI) averaged 120.9 points in April 2021, 2.0 points (1.7 percent) higher than in March and as much as 28.4 points (30.8 percent) above the same period last year. The increase marked the eleventh consecutive monthly rise in the value of the FFPI to its highest level since May 2014. The April rise was led by strong increases in the prices of sugar, followed by oils, meat, dairy and cereals.

Trade

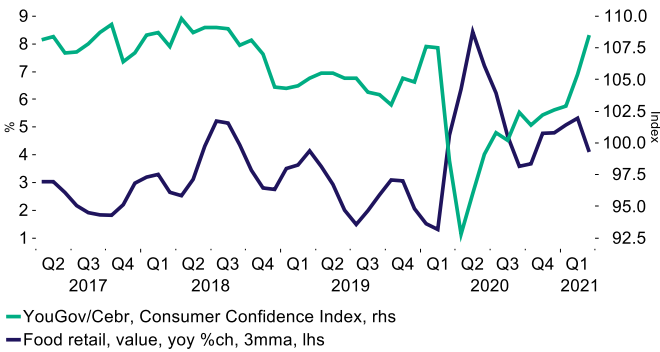
Figure 7: Irish monthly food trade, 3 mma



Irish monthly food trade

Figures released in the annual Bord Bia Export Performance and Prospects report 2020/2021 show that the value of exports of Irish food, drink and horticulture were held to a marginal 2% decline in 2020, valued at €13 billion (v €13.2 billion in 2019), during a period of unprecedented change. Prepared consumer foods (PCF) exports in 2020 were worth €2.5 billion, representing a 4% reduction year-on-year due to channel disruption brought on by the pandemic. Dairy continued its growth trajectory into 2020 delivering a 3% uplift in the value of exports to €5.2 billion. The second largest category in Irish food and drink exports, the meat and livestock sector, delivered a resilient performance in 2020 with a 2% increase in total value to €3.4 billion.

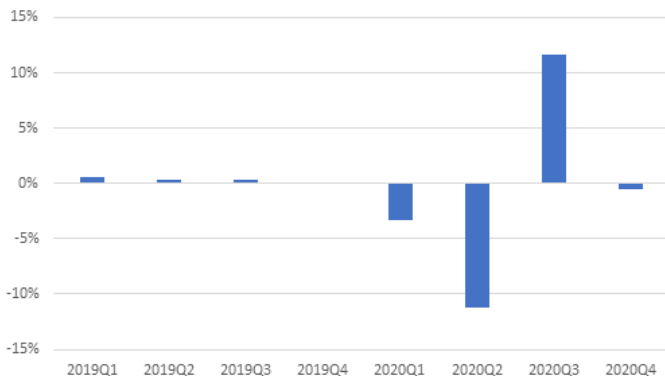
Figure 8: UK consumer confidence and food retail



UK consumer confidence

In the UK, retail sales volumes continued to recover in March 2021, with an increase of 5.4% when compared with the previous month reflecting the effect of the easing of coronavirus (Covid-19) restrictions on consumer spending; sales were 1.6% higher than February 2020 before the impact of the coronavirus pandemic. Sales volumes increased in March 2021 by 5.4%, continuing the growth witnessed in February of 2.2%. Consumer confidence is at the highest level in nearly three years. There has been a steady increase as the British economy starts to reopen, according to the latest analysis from YouGov and the Centre for Economics and Business Research (Cebr). Additionally, for the first time during the pandemic more households than not now believe their finances will improve over the next year.

Quarter-on-Quarter EU27 GDP growth, % change



Consumer spending across the EU

The EU Commission's Winter forecasts predict a rebound in EU GDP growth of 3.7% for 2021. While concerns around potential inflation in the US have brought discussions of future price increases to the fore, annual eurozone inflation remains low and stable at 0.9% as of February. The ECB is expecting a strong uptick in inflation this year, with a forecasted average increase of 1.5% in 2021. While this would be a quick increase over a relatively short period, it would bring eurozone inflation in line with the ECB's primary objective of price stability, defined as keeping inflation near but below 2% annually.



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