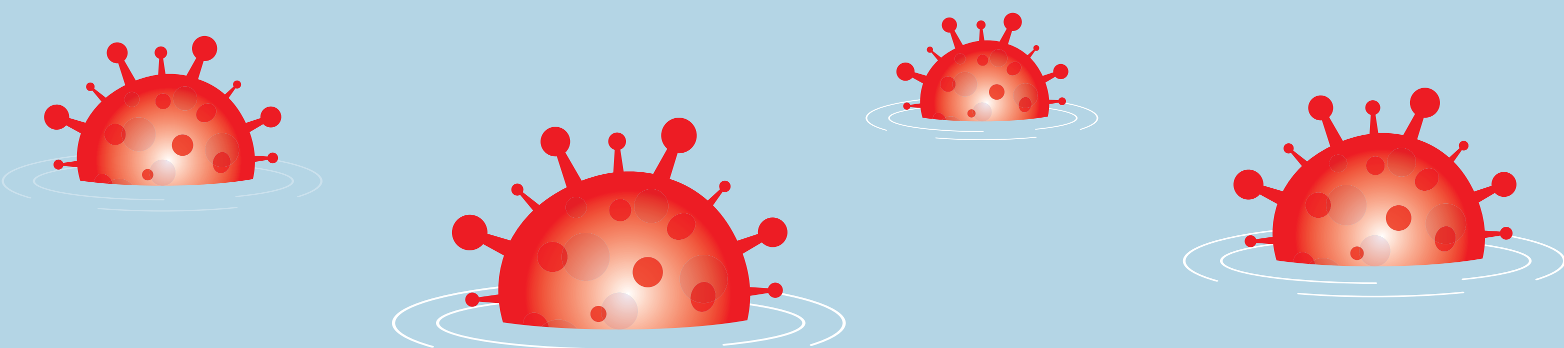
AGRI BUSINESS

SUMMER 2021

AN IRISH FARMERS JOURNAL REPORT IN ASSOCIATION WITH KPMG

SURVIVE & THRIVE

How the Irish agri-food sector has adapted to survive the dual threat of Brexit and pandemic uncertainty



KPMG

IRISH FARMERS JOURNAL

FOREWORD

PHELIM O'NEILL

Irish Farmers Journal markets specialist

When last year's Irish Farmers Journal/KPMG *Agribusiness* report was launched, we had just started adapting to doing business during a pandemic, and Zoom calls and webinars were still a relative novelty.

The past year has been like no other with disruption levels not experienced since the end of World War II. Not only have farmers and the agri-food industry had to function like the rest of society through a global pandemic, they also had to deal with Brexit.

In itself, it is a once-in-a-lifetime event even if Irish exporters to Britain haven't yet experienced the worst of it, as border controls have not been introduced.

While farming, processing and retailing have all functioned throughout the pandemic, sadly the restaurant and hospitality sector has been decimated.

In this year's Irish Farmers Journal/KPMG *Agribusiness* report, we talk to people in all of these sectors, and we look at how companies are adapting to Brexit.

While COVID-19 and Brexit have dominated the operational side of the industry, a new strategy that will guide the industry for the remainder of this decade and beyond is currently out for consultation.

It is clear that from now on agriculture will have to operate within exceptionally stringent environmental and emissions standards, and we explore how Bord na Móna is reimagining its business to adapt to the new reality.

This will be the ninth annual business report, again produced with the support of our partners KPMG. It has also had huge input from our former colleague Lorcan Allen for which I am extremely grateful.

TOM MCEVOY

Partner and head of food and agribusiness, KPMG

Few imagined that one year after the 2020 Irish Farmers Journal/KPMG *Agribusiness* report was published, we would be still be in the grips of the COVID-19 crisis. Hopefully, as the vaccination programme continues and certain lockdown restrictions are relaxed, we can look forward to a return to some degree of normal life.

So how has the agribusiness sector fared in the last year?

It has undoubtedly been a very difficult year for agribusiness due to the pandemic and even those businesses that have survived and prospered, have had to make significant changes to their strategy and operations.

The industry has come through the initial impacts on supply chains resulting from Brexit, but there may be further changes ahead that impact on the ability to seamlessly trade between the Republic of Ireland and NI and between the UK and Europe.

Nearly every day, the media alerts us to the impact of climate change. Sustainability (and the resultant impact on business models), is very high on the agenda of every management meeting of agribusinesses at present.

In this report, you will read articles from the leaders of new and established businesses, describing how they navigated through the worst effects of the pandemic; how their businesses have been affected by the disruption caused by Brexit; and how they are facing up to the probable imposition of tighter environmental regulations.

KPMG is delighted to partner with the *Irish Farmers Journal* for this, our ninth annual Irish Farmers Journal/KPMG *Agribusiness* report. This is the first *Agribusiness* report that I have been directly associated with, having taken over from my colleague, David Meagher – no doubt well-known to many of you – who has recently retired from KPMG.

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IRISH AGRICULTURE AT A crossroads

While the impact of COVID-19 has been dramatic, it is Brexit that casts the longest shadow over Irish agriculture

JUSTIN MCCARTHY
Editor and chief executive, Irish Farmers Journal

As the Irish economy reopens over the coming weeks and society emerges from the COVID-19 bubble, we will begin to see where real damage has been inflicted on the economy. Dealing with a global pandemic required an immediate response that no level of contingency planning could have fully prepared us for.

As we start the journey on the road back to normal, the phrase "new normal" is already a well-worn cliché. Once we get the basics of a proper haircut, we all look forward to getting out to meet friends and business associates face to face again after what seems like a lifetime of online screen calls. We will appreciate the opportunity to have a drink in a noisy bar and enjoy a trip to our favourite restaurants.

Yet, we have to wonder will the new normal reveal that many of these haven't survived the shutdown that has extended beyond a year? While this year's report reveals the ingenuity of businesses adapting to survive the pandemic, it is inevitable that there are those that won't make it.

Farming and food processing quickly adapted to keep food supplies going and it is a tribute to our farmers, factory workers and Department of Agriculture officials who, along with shop assistants, all kept the shelves stocked even at the height of panic-buying.

Consumer behaviour adapted by returning to preparing food in the home, something that was an opportunity for retail and hastened online retail.

While COVID-19 was a shock and a major disrupter, it is unlikely to have the same long-term impact on Irish agriculture and the food industry as Brexit.

It is something that finally came to pass and in ordinary times would be the main event of the year.

Irish agriculture hasn't yet felt the full impact because the UK hasn't implemented border controls nor has it concluded major trade agreements giving enhanced access for agricultural produce to the UK market from outside the EU.

The principle has been established though by giving Canada a specific 3,000t beef quota and Irish agriculture faces the likelihood that this will be repeated with Australia, New Zealand and South American countries in time. All of this will devalue the UK market for Irish exports parallel to UK agricultural produce continuing to sell uninterrupted in the EU.

CLIMATE CHANGE

Tackling climate change remains an ongoing issue and our familiarity with it makes it no less important.

It is a global issue that is being addressed at a national level and that has particular consequences for Ireland whose main natural resources are grass and water. This makes us a particularly suitable area of the world for livestock production but, in the absence of a global approach to the issue, our agriculture will be forced to constrain its production capability.

Irish farmers now need to focus on securing the funding at EU level through not just the CAP but the Just Transition Fund to enable them to concentrate on delivering the maintenance of the rural environment in the way that policymakers wish.

This one size-fits-all approach to climate change may not be the best approach and Brexit will cast a long shadow over Irish agriculture.

Yet, the key lesson from the global pandemic was the need to secure food supply and we need to remember that as we take on the challenges ahead.

WHILE COVID-19 WAS A SHOCK AND A MAJOR DISRUPTER, IT IS UNLIKELY TO HAVE THE SAME LONG-TERM IMPACT ON IRISH AGRICULTURE AND THE FOOD INDUSTRY AS BREXIT

SIGNPOST

Farmers for Climate Action

The Signpost Programme is a collaborative programme to lead climate action by Irish farmers and support the transition towards more sustainable farming systems

The main objectives of The Signpost Programme are to:

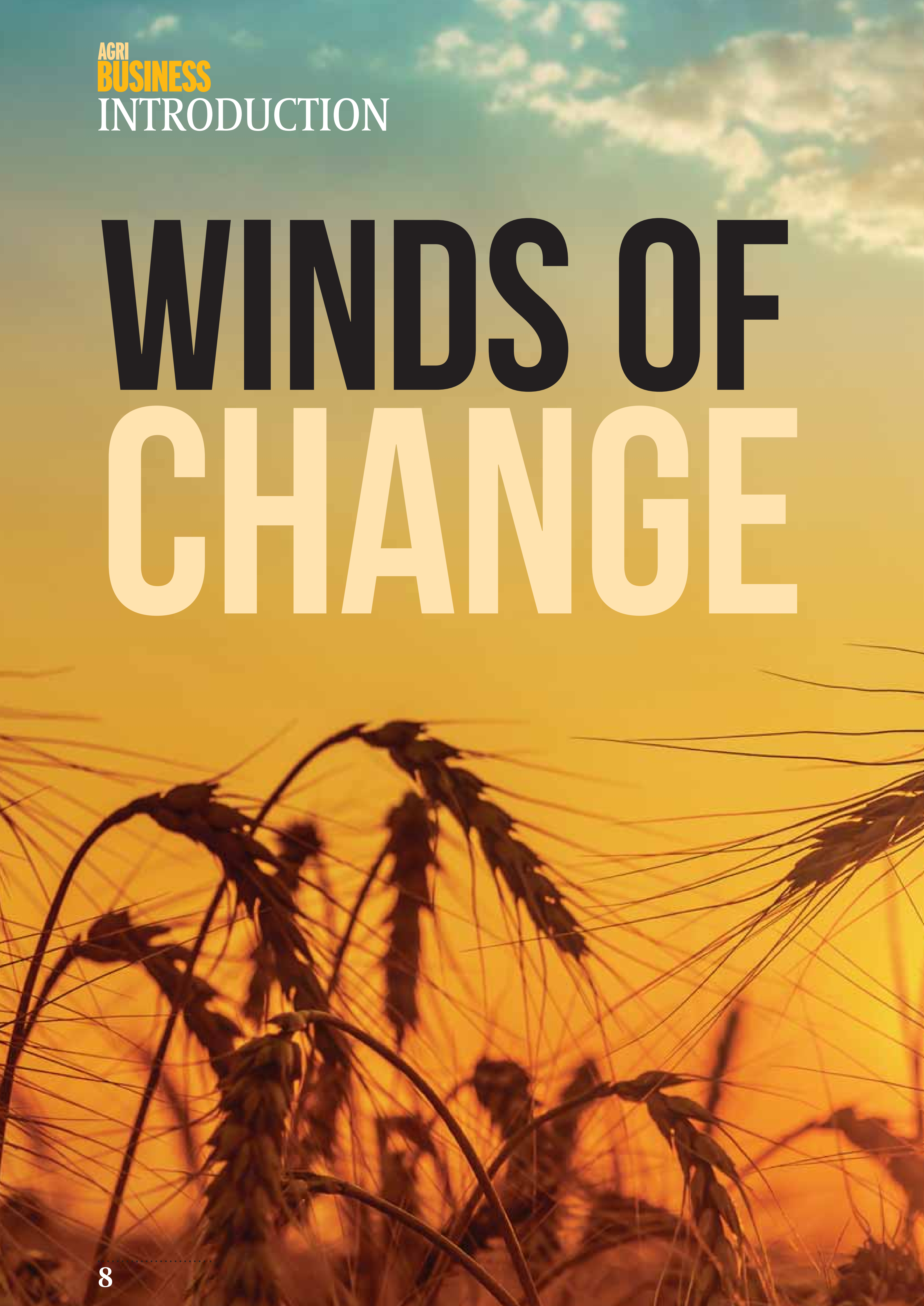
- Reduce greenhouse gas emissions
- Reduce ammonia emissions
- Reduce nutrient loss to the environment and contribute to improved water quality and biodiversity
- Save farmers money and improve efficiency of production systems

Open the camera on your phone & scan the QR code to find out more!

The Signpost Programme is a collaborative partnership of farmers, industry and State Agencies, working together for climate action.

For further details of the partners please refer to www.teagasc.ie/signpost

WINDS OF CHANGE

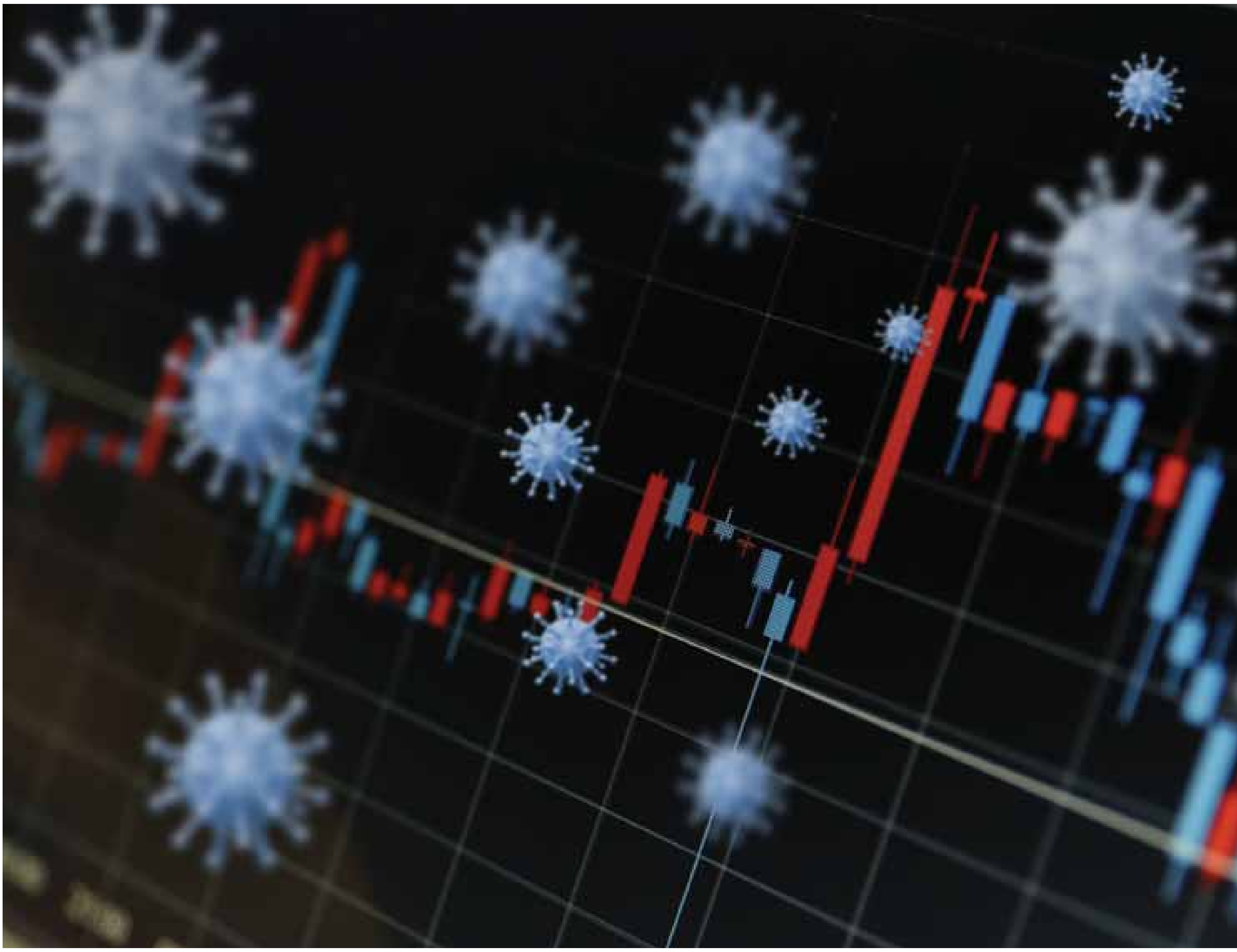


COVID-19, Brexit and the agri-food strategy 2030 are each momentous occurrences and they combine to make this a unique time for Irish agriculture and food. **Phelim O'Neill** reports

When it comes to reeling in the years, 2020-2021 will need a series of its own. Dealing with a global pandemic has brought unimaginable financial and human cost, yet the farmers, factories and shop workers found a way to keep food supplies flowing and scarcity was avoided. Many in the hospitality sector have had their businesses ruined while food retail prospered.

In this report, we analyse both experiences and marvel at the ingenuity of the hospitality sector to develop takeaway and home delivery in order to limit the commercial damage from the pandemic.

Another lesson from COVID-19 is that high-speed broadband is now as essential in rural Ireland as electricity. Where it exists, people with desk jobs have been able to work remotely and consumers have been able to continue shopping, albeit in a different way.



The surge in parcel deliveries has been made more straightforward by the availability of Eircodes, which eliminate the need for the skill of giving and understanding directions which were so much part of the fabric of rural life.

Of course, online shopping was already growing but the pandemic fast-forwarded the process by several years.

It is the same with the use of cash and traditional-style banking.

As shopping migrated to online and card payment rather than cash was encouraged for purchases, the main banks increased the pace of removing their physical presence through closing branches.

COVID-19 in itself didn't cause these developments but its presence, and lifestyle changes caused by lockdown, made the physical presence of banks less important.

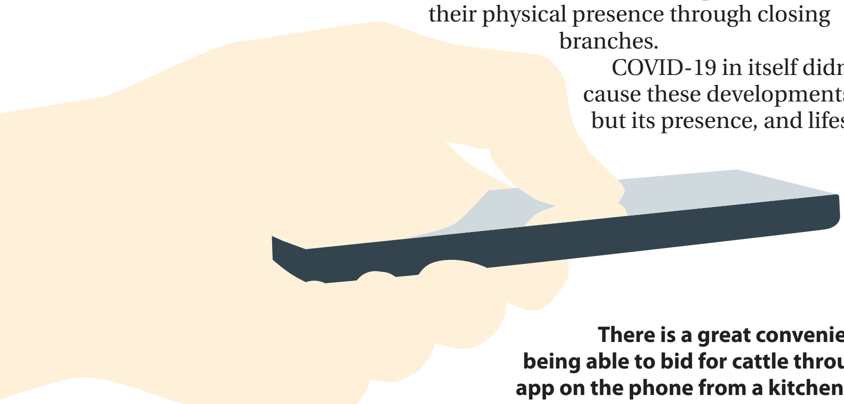
The business of farming has also been transformed by technology and, again, this was happening but was speeded up by lockdown.

Farmers have been required to engage with the Department of Agriculture online for calf registration and scheme applications. The lockdown has introduced the concept of online farm inspections but perhaps the biggest change of all has been the move to online buying and selling of cattle.

The local mart is primarily a place for farmers to convert their livestock to cash. However it is also a social outlet for many isolated people with limited social opportunities.

Lockdown stopped marts operating in their traditional way but while the social opportunity was lost, the business was able to move online.

Online trading has been embraced by farmers and has a particular attraction for livestock farmers, many of whom are working part-time off farm during the day. There is a great convenience in being able to bid for cattle through an app on the phone from a kitchen table. It also reinforces the need for good broadband or 4G mobile phone signal. Such has been the success of online selling that many livestock farmers want the facility to remain when traditional mart sales resume.



There is a great convenience in being able to bid for cattle through an app on the phone from a kitchen table.

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Online shopping was growing before COVID-19 but the pandemic fast-forwarded the process by several years.

High-speed broadband is now as essential in rural Ireland as electricity

BREXIT & TRADE POLICIES

BREXIT

Prior to the arrival of COVID-19 and the lockdown just before St Patrick's Day last year, Brexit was the biggest issue facing Irish agriculture.

The fact that it existed alongside the pandemic throughout 2020 made it no less an issue and the arrival of a very basic deal that avoided tariffs and quotas on Christmas Eve was greeted with relief that it could have been worse.

Ireland is the EU country most affected by Brexit and the consequences of a no deal would have left Ireland with the largest tariff burden in the EU 27, despite having just 5% of EU 27 trade with the UK. This is because if it came to trading under WTO terms and tariffs, agriculture – particularly beef – has the largest tariffs. In fact, if Irish agriculture was a country, then it would have had the second largest tariff burden in the EU, just behind Germany.

While the deal avoided that, there remains the cost and inconvenience that non-tariff barriers will bring to Irish exports entering Britain. These haven't been experienced yet because the UK government have deferred the introduction of full border controls until January 2022.

However, it is evident from the problems exporters from Britain to the EU are having with goods of animal and plant origin that it adds cost and disrupts service to the point that for small consignments it makes doing business too costly to be viable.

NI PROTOCOL

Nowhere is this more evident than in the implementation of the protocol designed to allow Northern Ireland (NI) to continue trading in the EU single market. This means that EU border controls have to be applied at NI ports on goods entering from Britain.

Suddenly, on 1 January, a 1kg online purchase of a speciality cheese or meat required the same veterinary certification and inspection process as a 20t container.

While it is commercially viable to do this for a 20t container, it simply isn't commercially viable or practical to do it for a 1kg consumer purchase.

Full implementation of controls has been deferred until 1 October 2021 but the problems are extensive.

Big business can adapt to some extent but, even then, the major supermarkets such as Asda and Sainsbury's which are serviced from distribution centres in Britain will find it simply not viable to supply many products of plant and animal origin.

The problem, as revealed by the Trevor Lockhart interview on pages 37 and 38, is that trade rules aren't designed for the normal trade of goods in an internal market such as the UK nor do they reflect the current state of technology to replace an historic paper-based system.

For the NI protocol to function as intended, there is a need for a risk-based and proportionate set of controls which protect the EU single market but allow business to continue. There is no off-the-shelf solution to this – a bespoke arrangement is required.

TRADE AGREEMENTS

The other major threat to Irish agriculture from Brexit is UK trade policy outside the EU. It is in the process of concluding trade agreements with Australia and New Zealand, both major exporters of beef and sheepmeat, plus dairy in the case of New Zealand.

A UK deal will mean enhanced access for these to the UK market, creating additional competition for Irish exports.

Also, it will not just be in the UK marketplace that this impact is felt for Irish exporters, it will have a knock-on effect in EU 27 markets as well.

This is because the EU-UK Trade and Cooperation agreement that allows tariff and quota-free trade both ways means that the UK can continue to export its beef and sheepmeat to EU markets, while imports to the UK satisfy the needs of domestic consumers.

Therefore, if UK producers are finding their market oversupplied with imported product which in the case of New Zealand sheepmeat this spring is half the price of UK or Irish, then the EU market risks being oversupplied with UK sheepmeat, creating a downward pressure on price.

This, combined with the cost and disruption of non-tariff barriers, means the full consequences of Brexit have yet to be felt by Irish agriculture.

A major threat to Irish agriculture from Brexit is UK trade policy outside the EU.

AGRI-FOOD STRATEGY 2030

There is no doubt that with the implementation of the targets set, Irish agriculture is likely to be the most sustainable in the world.

The fifth agriculture strategy is currently out to consultation, closing on 15 June. This strategy is less about productive agriculture and is focused primarily on protection of the environment and meeting stringent GHG emissions targets. This is the framework in which Irish agriculture will operate for the remainder of this decade and beyond.

The strategy defines what is required by way of emissions reductions. Put bluntly, a reduction in emissions of 10% has to be made by 2030, however it is achieved.

The adoption of Ag Climatise as the roadmap for environmental performance brings a level of certainty on how to achieve the ambitions but it is less clear on how the cost to farmers will be offset. This is against a background where food is expected to cost no more in 2030 than at present.

There is no doubt that with the implementation of the targets set, Irish agriculture is likely to be the most sustainable in the world.

While the strategy believes that this can be commercialised and give Irish produce a competitive advantage in the marketplace, it requires a leap of faith to believe that the market will pay for this when food is projected by UN FAO to cost the same or less.

Of course, the strategy was published in draft and there is an opportunity for everyone now to have an input.

It is also clear that with the change of president in the US, there is a renewed global focus on climate change and the measures that need to be taken urgently.

Perhaps Irish and EU agriculture will then not be alone in facing a new world where output is reduced. If output is reduced globally, then as the USDA impact assessment on Farm to Fork reveals, the value of agricultural produce will increase significantly. This will bring a separate problem to the fore and that is the issue of food security.

The USDA estimates that if the entire world of agriculture adopted the EU Farm to Fork model food prices would increase by 89% and a further 185m people, predominantly in Africa and Asia, will be exposed to food insecurity.

That means that for the market to deliver meaningful price increases, the supply of product has to be restricted everywhere.

If it happens on a global basis, it gives farm incomes a projected 15% boost but the knock-on effect is exposing the poorer people of the world to increased food insecurity.

If there isn't a market-led increase in farm incomes then farmers are exposed to carrying the cost of the 2030 strategy for agriculture. In this scenario, and bearing in mind the acknowledgment by the strategy of the need for viable farm incomes, the Government must be prepared to step in as underwriter.

We are fortunate in this year's report to have secured a range of interviews with people willing to tell their story on how they are coping with COVID-19 and Brexit.

The issue of climate is omnipresent and will remain so. It is fascinating to also see how a business such as Bord na Móna has evolved from being a peat-based energy producer to a more sustainable model.

COMMON AGRICULTURE POLICY (CAP)

The Common Agriculture Policy (CAP) is the main vehicle for delivery of EU funding to agriculture across the EU. It was the first common EU policy in 1962 and its purpose was to ensure supplies of affordable food for EU citizens.

This objective has long since been achieved and in its latest format, expected to be signed off in the coming weeks, it will pivot from production support to supporting environmental management and GHG reduction. National governments will present detailed plans to the EU on how they will deliver this and the agri-food strategy 2030 will be at the core of the Irish application.

The big change that Irish farmers will notice is that 25% of their current direct payment will have to be earned by delivery of environmental measures.

The current average direct payment to Irish farmers is approximately €9,000 and there is concern that many may forsake 25% of their payment instead of pursuing environmental projects.

The other big controversial issue with Irish farmers is the movement of payments from historic production-based entitlements to an area- or land-based payment. During the present CAP, all entitlements reached 60% of the national average, a rate of €150/ha.

The European Parliament wants this to move to 100%, achieving full flattening at €260/ha. The current thinking is that it is more likely to settle at 85% or €220/ha.

This is controversial because it creates winners and losers. Small, intensive farms with large payments carried forward from the time when CAP payments were production-based will lose out to farmers with large areas of land irrespective of its production capability.

It is estimated that 60,000 Irish farmers would benefit from increasing area-based payments, 55,000 would lose out, while 16,000 would remain the same.

The CAP is likely to be approved in the coming weeks and changes will take effect from January 2023.

1 YEAR OF COVID-19

Businesses are reopening with the hope that the disruption of further lockdowns is consigned to history. COVID-19 is an experience that will never be forgotten and its impact on Irish business has varied from devastation in the hospitality sector to enhanced business in retail. While our health services battled the pandemic, our farmers, factory workers and shop assistants were also on the frontline to ensure that everyone had access to the essential supplies to live, and where possible, work from home.

CUT & TASTE

Fiona Sweeney, strategic marketing director at Kerry Group, outlines to Lorcan Allen the consumer trends she noticed in the last year

The defining trait of the global food industry over the past decade has been the incredible pace of change, driven by consumer demand. Today's consumer wants food that is nutritious and sustainably produced, which doesn't spare on taste, texture or quality, and above all is affordable.

Consumers want locally produced food but, increasingly, they are also demanding an international twist or flavour to what they eat. The typical Irish consumer might have Mexican on a Monday, an Italian dish midweek, some Asian cuisine by Friday and cook a traditional roast dinner by Sunday.

Unravelling this conundrum is no easy task for the modern food company, especially when the consumer is often contradictory in their dietary choices. We know the average consumer has never been more health-conscious and worried about what they eat, yet indulgence products such as chocolate, confectionery, snacks and alcohol are still thriving sectors of the food industry.

Modern dietary choices in developed countries like Ireland are complex. International travel has broadened the average consumer's interest in international cuisine, while our desire for local produce is stronger than ever.

Added to this is a growing awareness among consumers about sustainable food choices, which has seen the plant-based phenomenon explode over recent years. It may still command a small section of our food aisles, but plant-based food is a mega-trend that is going to grow and grow.

All of the above are now well-established trends in the food industry. But what impact has the COVID-19 had on consumer food choices? According to Fiona Sweeney, strategic marketing director at Kerry Group, the events of the last year have only accelerated these trends, if anything.

"Consumer food trends such as plant-based, immunity and health, sustainability, food safety and trust, as well as digitisation have all been present in the food industry for many years. But it's these trends we've seen accelerated because of COVID-19," says Sweeney.

"If you take plant-based as an example, it was already growing across lots of different categories including meat alternatives and dairy alternatives. But we think that the pandemic is accelerating the trend because consumers now have this heightened interest in health, in environmental concerns and in food safety," she adds.

In a bid to better understand how consumers were changing their habits during COVID-19, Kerry Group carried out its own research in Europe during the past year, which showed that over 40% of consumers were choosing meat alternatives more often than they did 12 months ago.

The research also showed that 90% of European consumers who bought meat alternatives were

KEY POINTS

- Consumers want local produce but with international flavours.
- Food brands roared back to life during COVID-19.
- Explosion of e-commerce is the standout feature of the past year.

eating these products more than once a week. While the plant-based phenomenon is a difficult concept for traditional livestock farmers, Sweeney believes the consumer shift to these products is as much of a lifestyle choice as it is to do with sustainability.

Also, while it's still a relatively new phenomenon, the plant-based category is a broad church. Sweeney says there are two types of consumers interested in plant-based right now.

The first set of consumers are those looking for alternatives to traditional meat and dairy products. This group want alternative products to traditional meat and dairy but which still offer the exact same experience in terms of flavour, nutrition and texture.

The second group of consumers behind the plant-based lifestyle are almost veggie champions, says Sweeney, who are more interested in new vegetarian dishes made with lentils and vegetables as opposed to seeking plant alternatives to meat or dairy.

HEARTY

There's a lot of noise around plant-based foods over recent years but some other really interesting trends have emerged over the past year. The rise of discount supermarkets and own-label food products meant the days of the all-conquering consumer food brand looked to be numbered.

However, Sweeney says a lot of staple food brands roared back into life during COVID-19.

"People were cooking to escape during COVID-19. It was just something to do for many consumers. And it drove what we're calling a 'Back to Familiar' trend among consumers. The surge in scratch-cooking and baking has led to this resurgence in the centre of the supermarket," says Sweeney.

"The need for comfort has got consumers reaching out for familiar and known food brands. They are the kind of brands they may have remembered from their childhood. And that's seen some really familiar centre store food brands experiencing fantastic growth during COVID-19," she adds.

While it's been an unprecedented year, this unusual trend offers food brands an opportunity to reclaim customers they may have lost over recent years or to engage for the very first time with new customers they may never have had.

Kerry Group's strategic marketing director Fiona Sweeney.

Plant-based foods saw strong growth last year as health-conscious consumers sought to reduce meat intake.

E-COMMERCE

The explosion of e-commerce within the food supply chain due to COVID-19 has probably been the standout trend of the past 12 months. It takes the form of online ordering, click and collect, or food delivery.

The restrictions introduced across the world to stop the spread of the COVID-19 virus shuttered almost every restaurant and left many with no route to market. Faced with no alternative, many businesses turned to online ordering in a bid to maintain some form of revenue.

What we have today is a food service sector that is utterly transformed from where it was 12 months ago, with many businesses and restaurants establishing a working online sales platform for the very first time. Whether the model is take-away, click-and-collect or delivery, the food service landscape that emerges post-COVID-19 is going to be very different from where it was at the start of 2020, says Sweeney.

The growth in digitisation across food businesses and restaurants presents new challenges for food producers. For instance, maintaining the crispiness or heat of food when it comes to delivery is a challenge the average restaurant will never have had to deal with before.

The solutions to these problems are there but it can often require a menu change away from ingredients that don't travel well.

Again, it will be interesting to watch how many food service operators continue to maintain a presence in online sales, click-and-collect or delivery, once things start to return to normality. Given that most have now invested in the required digital infrastructure, you suspect that most restaurants and food businesses will continue to maintain an active e-commerce platform. Indeed, it's more likely that this is the new standard consumers will demand from the food sector from now on.

Post-COVID-19, it will be really interesting to watch the various strategic approaches taken by different food brands as they try to retain these new found and return customers. We may have thought the best days of many food brands were behind them but COVID-19 has turned that assumption on its head – at least for now.

Aside from the boost for familiar food brands, consumer nostalgia and comfort eating led to a resurgence in traditional food dishes like the Sunday roast, which is a form of cooking that has been in steady decline over recent decades due to time poor consumers.

But COVID-19 has left most of us with more time than we know what to do with so many consumers found themselves preparing really high-quality, showpiece cuts of meat as a way to kill some hours in the day.

Just like the food brands, Irish beef and sheep farmers need to ask themselves what they can do to keep these consumers engaged with their produce. The decline in popularity of roast cuts of meat and the increase in demand for minced meat and burgers has certainly not helped farm gate prices over the last decade.

If Irish farmers, through Bord Bia, can develop a strategy to hang on to these consumers then it would certainly improve the outlook for the coming decade.

FUTURE

Overall, the global food industry has not been immune from the impact of COVID-19. The pandemic has added cost to food businesses, played havoc with supply chains and has caused incredible disruption to the food service sector.

However, the food sector has shown its usual resilience when dealing with a crisis. Despite the unprecedented challenges, businesses throughout the food supply chain have adapted and many have even thrived. Supermarket shelves have remained well stocked throughout the past year and many food businesses now have an e-commerce sales channel they never imagined a year ago.

The pandemic has clearly accelerated many consumer trends but it has also turned other trends on their heads. It's been a very difficult year for many but there are positives for the food industry if they look for them.

And there will be opportunities as we emerge post-COVID. Having a strong strategic understanding of the new consumer post-COVID-19 will be vital for any food business to capitalise on these opportunities.

SBCI

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Strategic Banking
Corporation of Ireland

COVID-19

Credit Guarantee Scheme

Key features of the Covid-19 Scheme

- Loans from €10,000 to a maximum of €1,000,000 per borrower;
- Terms of between 3 months up to 5.5 years;
- Loans unsecured up to €250,000 (unless it is a requirement of the product feature, e.g. asset finance, invoice discount facilities);
- The Scheme permits the refinance and rollover of debt incurred as a result of Covid-19 (e.g. Covid-19 related expenses that were initially funded through short term/temporary facilities such as overdrafts);
- Loans will be available up to the end of 2021.

Loans can be used for

- Working capital or investment requirements.

Scheme costs

- The interest rate applicable to the loan will be determined by the participating lender. In addition, the participating lender will collect a premium which is payable to the Government of Ireland.

Who can apply?

To be eligible a borrower must

- Be a viable business with up to 499 employees (Micro, SME or small Mid-Cap enterprise), including Primary producers (Agriculture/Fishing);
- Have or expect to have a reduction of minimum 15% in the turnover or profitability as a result of Covid-19;
- Meet the eligibility criteria.

How do I apply?

- The Covid-19 Credit Guarantee Scheme is available trough a wide range of lenders (banks, credit unions and non-bank finance providers).
- The updated list of the Scheme providers is available on the SBCI website **www.sbci.gov.ie**

Rialtas na hÉireann
Government of Ireland

For further queries on the Covid-19 Credit Guarantee Scheme, please visit **www.sbci.gov.ie** or call **1800 804 482.**

COVID COLLAPSE

HOW SALES FELL BY 91% FOR ONE IRISH FOOD BUSINESS

Lorcan Allen speaks to Barry Murphy, managing director of Coolhull Farm, about the difficult year his family-owned food business has been through due to COVID-19

Over the last year, the two major events that directly affected the performance of the Irish agri-food sectors were Brexit and COVID-19.

However, while Brexit finally happened in December last year, it is an event that has been in the melting pot for the best part of four years and Irish companies have had some time to prepare for its consequences.

In the case of COVID-19, the opposite was the case. The impact of the COVID-19 virus was swift and brutal, effectively shutting down the global economy in a matter of days. Back in March and April 2020, only the most essential services remained in operation.

And while the food industry did qualify as essential, the impact was not equal for all businesses. Almost overnight, the retail channel became the only show in town and food companies that depended on the food service market were left stranded. Food companies like Coolhull Farm.

Based in Co Wexford, Coolhull Farm is a family-owned Irish food business that specialises in premium desserts such as ice cream, cheesecake, mousses, pastries and cakes.

However, the business was heavily reliant on the food service channel as a route to market with over 90% of sales to hotels, restaurants, cafés and contract caterers.

The mass shutdown of the food service sector across Europe was devastating for the business.

"Our sales for April last year fell 91% as a result of the first COVID-19 lockdown," says Barry Murphy, managing director of Coolhull.

"We had to make some very tough decisions early on. Our staff numbers had been heading towards 50 people prior to COVID-19 but we had to let people go temporarily as soon as the virus hit. The company was basically down to just three people, and I was

KEY POINTS

- Sales down 50% in 2020.
- Moved into retail and exports to offset loss of markets.
- Frozen dairy produce presents opportunity.

Barry Murphy, managing director of Coolhull Farm.

practically on my own trying to keep everything going in the factory," he adds.

SHOCK

After the initial shock in March and April, Murphy says business remained very slow in May. This was because any food service operators that were trying to reopen by doing takeaway or click-and-collect still had supply stocks from pre-COVID-19 that they were very slow to get through.

By June, Coolhull was starting to see the first trickles of activity in the food service market but it was inconsistent.

"We started moving some product again in June as some restrictions started to ease but it was very sporadic. We got back to making product maybe one or two days a week.

Then as the country began to reopen in the summer we got back to three days a week and finally back to five days a week as staycations got into full swing," says Murphy.

While the return of demand was certainly welcome, Murphy says it presented its own challenges for the business.

"Firstly, we had to ensure the correct safety protocols were in place for returning staff, particularly as there tends to be very little space in most food businesses and the virus spreads easily in a cold or chilled environment."

The second challenge was to reopen the business from a standing start and ramp up production to meet a surge in demand.

"Having seen our sales collapse in April and May, the summer staycations meant we were suddenly under incredible pressure. We ended up cramming almost half of our turnover for the year into just three months," says Murphy.

"I have to say the team really came together during that period. They went above and beyond to make sure we got through it," he adds.

RESTRICTIONS

However, the return of restrictions in October meant sales fell off a cliff once more for Coolhull. Murphy says the brief reopening in December was really important for the business as it brought in some much needed revenue, but overall the company finished 2020 with sales down almost 50% on normal levels.

The country has since spent almost all of the early months of 2021 stuck in Level 5 lockdown restrictions, which has been very difficult for many businesses.

"It's been a pretty bleak number of months since Christmas but we think one of our roads back will be via the retail channel," says Murphy.

When COVID-19 first hit last year, Coolhull reached out to supermarkets in a bid to see was there any opportunities there. It's taken almost a year but the company has won a number of listings with new products this year.

"We developed a new product which we call our Yummy Cakes range and that's got us listings with Tesco and SuperValu. It's going really well but it's still too early to tell the acceptance level by the consumer," says Murphy.

Coolhull Farm recently launched a range of ice cream cookie sandwiches.

The company has also recently launched a range of ice cream cookie sandwiches, which are being trialled in a number of retail stores and quick-serve restaurants around the country. While the business is still taking its first major steps into retail, Murphy believes the frozen dairy category offers lots of opportunities.

"If you look at the US, there's certainly a lot more creativity and variety in the frozen dairy aisle than in Ireland. We think we can rejuvenate the frozen dairy category in Ireland by bringing something different," he says.

Alongside the push towards retail, Coolhull continues to develop new product solutions for its food service customers that remain open with takeaway, delivery or click-and-collect services.

The company has developed a new ice cream sandwich range, which Murphy says is very easy for restaurant operators to include with meal deals and promotions.

Outside of Ireland, Coolhull has been steadily building its export footprint over recent years. While the UK is its main export market, Murphy says the business was starting to develop in European markets and had developed relationships with clients in the Netherlands, Germany and other European countries.

It's still early days but some of these customers are starting to come alive again now that a phased end to restrictions is beginning to take place in most of Europe.

RESILIENCE

Standing back from the day to day, its clear Coolhull Farm has been through a gruelling year. Yet despite all the incredible challenges, the business is still standing and doing everything it can to adapt, pivot, innovate and survive.

Like so many other Irish food businesses, the story of Coolhull over the past year really illustrates the fantastic resilience of the Irish food sector. There's not likely to be another year like 2020 in terms of the devastation it wrought on so many businesses. Yet for those that come through to the other side it could be the making of them in the long run.

CHANGING FACE OF RETAIL

Lorcan Allen speaks to Malachy O'Connor, a veteran of the grocery retail industry, to get his views on the impact that COVID-19 and Brexit have had on the supermarket sector

After years of wrangling, missed deadlines and theatrics in the House of Commons, Brexit finally happened last year as the UK formally exited the EU on 31 December 2020. The last-minute negotiations between Brussels and London ran right up to Christmas Eve but a deal was struck in the end.

Yet, despite both sides reaching agreement on a bare-bones trade deal, it has been long flagged by business groups, particularly those in the food industry, that Brexit was going to mean very significant changes to the efficiency of supply chains between the UK and Europe.

As the Brexit trade deal began to take shape under Boris Johnson and it became clear that the UK was leaving the EU's single market, the re-introduction of red tape on the trade of food and products of animal origin became inevitable.

In Ireland, the agri-food industry warned of a significant increase in the cost of doing business for beef and cheese exporters to the UK due to the increased paperwork required for animal health certificates and SPS checks.

In reverse, Brexit meant a lot more compliance paperwork on all imports of British-made and processed foods coming into Ireland.

Oddly, it was not sausages, beef or cheese which characterised the post-Brexit confusion for food exports between the UK and Ireland. Instead, the popular Percy Pig sweets sold by Marks & Spencer (M&S) became one of the first casualties of Brexit and illustrated the complexity of modern supply chains.

RED TAPE

It soon emerged that the iconic Percy Pig sweets are made in Germany, imported to the UK and then re-distributed from there to the M&S network of stores, including those in Ireland. This meant any product being shipped to Ireland by M&S was classified as an export from the UK to Ireland and, crucially, lost its country-of-origin status for free trade between EU member states.

The loss of its country-of-origin status meant these products were now subject to a whole raft of paperwork and even import taxes.

Unsurprisingly, M&S stores in Ireland went without the beloved Percy Pig sweets for many weeks as the retailer untangled the complexities of its supply chain.

While Percy Pig made the headlines, the same problems were being experienced right across the food supply chain between the UK and Ireland for a number of products that moved along similar supply chains.

For Malachy O'Connor, a well-known

consultant in the grocery retail sector having worked for over 20 years in key commercial roles with Tesco Ireland and Aldi Ireland, the supply chain disruption caused by Brexit came as no surprise.

"I remember giving a presentation in January 2019 at a conference for FMCG brand owners where I warned that Brexit was going to mean serious turbulence for supermarket supply chains. It was obvious because so much of the food that ends up on Irish supermarket shelves is coming from or travelling through the UK," says O'Connor.

"If you think about it, these major food companies have large supply depots in the UK where they import all their food to service the UK and Ireland as a single geography. They then break down these consignments and start distributing product to their network of stores in the UK and Ireland. It was really efficient but it was set up for seamless movement of product," he adds.

Now that Brexit has happened, that seamless movement of goods has come to an end for every company trying to move goods across the Irish Sea.

"Food supply chains between the UK and Ireland were so finely tuned it was incredible. There was never an empty container moving back and forth," says O'Connor.

"But now there's going to have to be a realignment of supply chains. There will be a significant increase in direct shipping to Ireland of EU goods from now on, which is going to add cost and be less efficient," he says.

"You actually have a scenario now where a lot of major companies are looking at Ireland and asking themselves can they afford to supply the Irish market. It's a small country on the edge of Europe that has a population the same size as Manchester so the cost of realigning supply chains may not be worth it for some companies," warns O'Connor.

While it may just be a short-term shortage, O'Connor says you can already see shortages of certain product lines on Irish shelves for a variety of reasons including Brexit. Since the start of the year, he says food items such as berries, pulses and nuts have been in short supply, while there has also been less availability of pet food and bin bags.

KEY POINTS

- Brexit has disrupted supermarket supply chains.
- Surge in demand for pet food as pet ownership increased with COVID-19.
- Food price is too low, driven not by consumers but by supermarkets themselves.

FUTURE

The COVID-19 pandemic has meant consumers were never more reliant on their local supermarket in order to eat. Before the virus hit, almost 50c in every euro spent on food in Ireland was done in a restaurant or food service outlet, meaning Irish consumers were eating out more than ever.

So what does this mean for the future of the sector? O'Connor says it will be interesting to watch how society reacts after the vaccine rollout.

He says supermarkets will continue to do well after COVID-19 but says there's definitely a real sense of cooking fatigue among consumers right now.

In the longer term, O'Connor says it will be interesting to watch how supermarkets react to the sustainability agenda. There's already a lot going on in terms of plastic packaging and food waste, but he says the price of food has fallen to a level that's too low.

"The fall in the price of food over the last decade was not driven by consumers. Instead, it was driven by the supermarkets themselves. Originally, this was by the big retailers trying to stem loss of sales to the discounters but sustained by them all in the battle to win market share.

"Unfortunately I think it has skewed consumer understanding of the cost of food, especially for local produce. And now it's actually really difficult to have food price inflation because of the competition," says O'Connor.

Against the backdrop of growing consumer awareness about sustainability and the carbon footprint of food, it will be fascinating to watch how the supermarkets compete with one and other over the coming decade.

Added to that, the increased costs of realigning supply chains might mean a return to food price inflation in Ireland over the coming years.

Or will the intense rivalry for market share between the big five retailers in Ireland mean food prices are set to stay rock bottom? Time will tell.

COVID-19 TRENDS

On the pet food shortages, O'Connor says this is mostly down to COVID-19 with pet ownership, particularly dogs, exploding in the last year. The sharp increase in household pets has seen a surge in demand for pet food, which the industry has struggled to keep pace with.

But what other trends has O'Connor noticed in the supermarket aisles over the last year related to COVID-19?

"There was price inflation of 3% last year as consumers were buying more brands last year. It was also noticeable that a lot of food companies cut the number of products they sell to focus on their core lines. This collaboration between retailers and suppliers was essential to meet the surge in demand.

"Alongside this, you could also see food companies bringing out bigger packs for their products because consumers were buying larger volumes," he says.

The other really interesting trend in the supermarket sector over the last year, says O'Connor, was the growth in online.

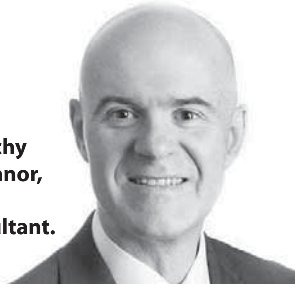
"Online grocery shopping effectively doubled last year in Ireland, although it's still quite small overall as it went from less than 3% to just 5.4% of the entire market last year. So it's growing but we're still way behind the UK in terms on online grocery where about 15% of grocery shopping is now done online," he says.

Prior to COVID-19, O'Connor says Tesco Ireland and SuperValu were the only two supermarkets in Ireland taking online grocery shopping seriously. However, the pandemic forced the other major players to try to catch up.

Lidl had been working with Buymie since 2018, giving it a head start on Dunnes Stores, which is now also working with Buymie, and Aldi, which has partnered with Deliveroo. However, O'Connor remains to be convinced about online grocery and how big a feature it will be of the Irish grocery market after COVID-19.

"I carried out some research recently which tells me that in-store shopping is still what most Irish consumers prefer. So I'm not sure how seriously the Irish supermarkets are taking online shopping. Unlike in the UK, Ireland has a low-density population outside the cities, which is hard to service with online," he adds.

> Online grocery shopping doubled last year in Ireland



Malachy O'Connor, retail consultant.

BOUNCE BACK

Ger Brady, chief economist with Ibec, explores how the Irish economy has performed so far and how the rural economy could bounce back as vaccines roll out

COVID-19 meant that the past year was the most challenging year in living memory for households, for business and the country more generally. While some sectors, such as Tech and BioPharma saw continued export success during the lockdown, it was a different story for many of our members in the "experience economy" which predominate rural employment. Hospitality, non-essential retail, other direct consumer-facing business, and those in the supply chains have had only a few weeks of normal trading since last March.

HOSPITALITY HIT HARDEST

This is reflected in total industry turnover in the accommodation and food sector being down over 60% in the period from April to December 2020, compared with 2019. Within this, some sub-sectors are down between 80% and 90% in turnover and will continue to be throughout the first quarter of 2021.

In non-essential retail companies, turnover is down by between one-quarter and one-third over the same period. As a result, the future of many pubs, shops, restaurants, hotels and other crucial businesses in both rural and urban areas remains in jeopardy.

We all know the problems, but what about the good news? Holding on to optimism as we live through this isn't easy but, as we get further into 2021 there are reasons for rural communities generally to be optimistic about the future after COVID-19. This is because, despite COVID-19, the Irish business model is still working.

IRISH BUSINESS MODEL

After the last recession, we saw how the Irish business model, based on openness to the rest of the world, helped us recover from a crisis quickly. At a basic level, the model works like this: step one is that Irish-based companies export goods and services, and foreign consumers pay Irish companies for those exports.

Step two is that those companies then use that money to pay their staff, suppliers and the taxman in Ireland. The final step, is that those staff, suppliers and the Government spend that money in local economies all over the country creating jobs in our consumer-facing sectors.

How do we know this model still works? There is no doubt that we face some increasingly challenging economic circumstances. As we speak, there are close to half a million people unemployed and the impact of COVID-19 on associated health restrictions was evidenced by the 9% fall in consumer spending in 2020. However, despite all of this, and the testing international conditions, Irish exports grew by 6.2% last year. Step one is still working. People abroad are buying what we are selling.

EXPORTS ARE CONTINUING

Those growing exports meant that in many sectors incomes continued to grow all through last year. It also drove Government confidence in our ability to afford to spend huge amounts of money supporting the incomes of people in the worst-hit sectors.

As a result, data from the Revenue Commissioners suggests private sector incomes in Ireland were flat in 2020, despite the economic backdrop. Step two is still working – even if the source of money for people in some sectors is very different to normal times.

But public health restrictions mean that step three is, for the moment, in a state of stasis. Household incomes have been supported robustly but people have had fewer opportunities to spend due to lockdowns. As a result, recent data from the Central Bank shows that household savings have skyrocketed by over €15bn in 2020.

WHAT DOES THIS ALL MEAN FOR RURAL IRELAND'S RECOVERY?

The food and drink industry, which is crucial to step one and two for rural communities, has held up better than most.

Last year no doubt provided challenges for some areas of the food industry due to the closure of restaurants, cafes and offices. But, overall, data from the World Trade Organisation shows that global trade in food and drink fell only marginally during the worst of COVID-19, compared with falls of well over 20% for trade generally. Quite simply, the industry is a necessity. People need to eat and drink.

While the food service market had struggled, retail sales grew significantly as people purchased their food and drink for home consumption.

During the recovery from our last recession, we saw how important this resilience in the Irish food and drink industry was to rural areas.

Between 2010 and 2019, the sector grew its exports by €5bn or almost 6% a year. This was more than twice the growth rate of the sector's exports between 2000 and 2008. It was six times the growth rate achieved since joining the EU in 1973.

Given the sector spends almost two-thirds of its turnover in the Irish economy – through wages, taxes, purchases from primary producers and local services – the majority of these growing export sales flowed directly to (mostly rural) households and suppliers.

To put this in context, the food and drink sector spent over €120bn in payroll and purchases in the Irish economy over the past decade. This amounts to 45% of the total domestic spending of all manufacturers – indigenous or multinational – or €25,000 for every man, woman and child in the country. This, in turn, gets spent in local economies and gave rural Ireland a platform for recovery.

POST COVID-19 BOUNCE

There are reasons to believe that, with help, the sector can repeat the trick after COVID-19. Firstly, we will see renewed demand globally in the coming years.

Secondly, the recent suspension of 25% trade tariffs on some key dairy and drink products by the Biden administration gives hope for a more productive trading relationship with the US soon.

Finally, despite the serious issues created by the new realities of our relationship with the UK, the worst-case scenario of tariffs is now off the table.

We had good reason to fear a far worse Brexit outcome up until December. Over 37% of Irish food and drink exports go to the UK market and Irish food products accounted for seven of the 10 most Brexit-exposed food and drink product categories in the EU.

While competitiveness challenges remain for the producers who are so key to getting the product off the island, there is scope to help them with key policy supports through the Brexit Adjustment Fund.

€1BN FUND

Ibec has set out the key areas where it believes the €1bn of EU funding can be deployed to best support Irish business. This can be done immediately through stabilisation supports.

Wage subsidies, tax warehousing and direct investment funds are already in place for COVID-19 and need to be extended to Brexit-impacted firms.

Firms will also require long-term supports to build new markets, such as export credit insurance, direct grants for productivity linked investment, marketing and trade promotion and an expansion of existing loan schemes. All of this would help to maintain and grow the means by which we get food and drink off the island and bring the cash infusion which will help rural Ireland recover from COVID-19.

Finally, where is the rural economy when it comes to step three – getting money spent in the local economies across the country? Outside of the food and drink sector, an efficient vaccine rollout might see some semblance of recovery in the second half of 2021. It won't be like before but there is potential for life to become more normal. As a result of vaccine rollout, people will have more opportunities to spend time in local towns and villages, shopping, eating, drinking and generally enjoying life again.

REOPENING THE RURAL ECONOMY

Households will stop saving so much and money earned from our open trading business model will start to flow again bringing local economies back to life. That is before we get to the question of where the €15bn already saved goes to.

Based on our previous experience of SSIAs in the 2000s, a fair amount will be saved. Some will be spent on things we had long put off like the house, garden or car.

Finally, a portion will be spent making up for lost time – meeting friends and family, breaks away, going out and generally enjoying life. Rural towns and villages need to start thinking about ways to capture some of that activity over the coming years.

To achieve this optimistic outcome – continued and enhanced support from Government for the worst-impacted sectors will be needed through much of 2021. The Brexit Adjustment Fund will also need to be used judiciously to boost our long-term ability to sell abroad.

Finally, vaccine rollout will need to run smoothly and give us a chance at relaxing some restrictions over the summer. For rural Ireland, there is now real hope for the second half of 2021 that as vaccine rollout takes place, and the robust export performance of our key sectors continues. This will help release record household savings, bring down unemployment, and give the economic recovery a much needed shot in the arm. It won't solve every problem rural Ireland faces but it would be a good start.

KEY POINTS

- COVID-19 created winners as well as losers in the economy.
- While society closed, exports kept moving.
- Irish food and drink accounts for 45% of the total domestic spending of all manufacturers including multinationals.

Ger Brady, chief economist, Ibec.

VALUE RETURNS

Lorcan Allen speaks to JP Scally, chief executive of Lidl Ireland and Northern Ireland, about the unprecedented challenges presented to the grocery retail sector by COVID-19

On 12 March 2020, Leo Varadkar gave his now famous speech to the Irish public from Washington DC during his St Patrick's Day visit to the US. It was 11am Irish time when Varadkar descended the steps of Blair House beside the White House to inform the Irish public the country was headed into its first lockdown in a bid to contain the rampant spread of the COVID-19 virus.

It's now over a year since COVID-19 first barged its way into our daily lives and that historic speech from the then Taoiseach seems like a lifetime ago for many. However, for JP Scally, chief executive of Lidl Ireland and Northern Ireland, the memory of that day is still clearly etched in his mind.

"I remember Leo Varadkar started his speech at 11am that morning and by 11.30am things were already kicking off. Within minutes, our stores became overrun with panicked customers stockpiling food, toilet paper and other staples they could get their hands on," says Scally.

"I remember it was a really tough time for all our store teams. It was pure panic-buying and it lasted for the rest of that week," he adds.

EMPTY SHELVES

The sight of empty supermarket shelves all over Ireland became a defining image in the early days of the first lockdown as worried consumers, understandably, sought to stock up on essentials. While things have since settled down, supermarkets and the grocery retail channel have played an essential role over the last year to keep the entire country fed.

As it turned out, March 2020 ended up being a bigger month for grocery sales than Christmas, with almost €1.1bn spent on groceries and other essentials.

"The initial panic-buying phase put huge pressure on supply chains around the world. We saw what had happened in China and Italy so we had been gradually building stocks throughout the month of February. And we had just opened our new 54,000sq ft distribution centre in Kildare, which helped. Thankfully, we were able to quickly scale up to demand due to our robust and agile supply chain, including the large network of local Irish suppliers we work with," says Scally.

"For the first month, we were working 24/7 with our suppliers trying to secure supply day after day. Imports of certain products became a challenge. For example, it was very hard to get pasta because Italy was really hard hit by COVID-19 and a lot of the facilities were closed. Then flour became really short when the home-baking craze took off and eggs became difficult to source due to an outbreak of avian

JP Scally, CEO of Lidl Ireland and Northern Ireland.

influenza," he says.

Aside from food, Scally says cleaning materials became very scarce because there was a 400% to 500% increase in sales volume in that category as shoppers stocked up on domestic cleaning products.

However, once the initial wave of panic-buying settled down and consumers could see that food supply chains were holding up, Scally says a new phase took over with Irish consumers switching to less frequent trips to the supermarket but for much bigger shops.

CONSUMER TRENDS

Given his position as CEO of Ireland's fourth largest retailer, Scally has had a bird's eye view of the consumer food trends that have emerged in the past year. So what were Irish consumers buying last year?

"We definitely saw Irish consumers treating themselves a lot more last year. We saw big increases in sales of things like fresh produce and premium beef. Our sales of premium Angus steaks were up 60% last year. And, of course, alcohol sales did very well because people were stuck at home," says Scally.

Recognising that consumers were indulging more during lockdown, Lidl introduced new ranges of premium, fresh desserts and expanded its coffee beans range with consumers looking for premium coffee products to replace the barista coffee from work or the city.

Other food products like potatoes, gravy stocks and any product lines linked to baking, such as dried fruit or baking soda, did really well last year as consumers were forced to cook at home more than ever before.

"I think a lot of Irish consumers really re-connected with food last year because they had time to cook again. There is definitely more appreciation for good food and many people have learned that home cooking is not so difficult. In saying that, there is definitely a lot of cooking fatigue out there right now," says Scally.

Interestingly, while traditional meat and fresh produce sales saw a big bounce last year, Scally says there was a notable increase in sales of Lidl's range of "reduced-meat" products, which are a new range of half quinoa-half beef products that Lidl has developed in partnership with Irish beef company Liffey Meats.

In contrast to the bumper sales in most categories of the food aisles, the Lidl boss says it was interesting to see how sales of cosmetics and grooming products such as shaving foam, deodorants and shower gel went in the opposite direction last year.

LONG-TERM

With a full year now passed since COVID-19 first turned our lives upside down, what consumer food trends does Scally feel may continue after society begins to reopen and return to normal?

"I actually think the consumer trend that emerges from COVID-19 is going to be the return of value shopping. I said consumers were treating themselves a lot more in the last year but we could see this trend was changing near the end of the year," says Scally.

"Since the end of 2020 and right through from the start of this year it's clear that people are now starting to watch the pennies. They are focusing on value for money now in their shopping because there are real fears of a recession out there. People are worried about what will happen to their jobs and businesses

KEY POINTS

- March 2020 was a bigger month for grocery sales than December.
- Sales of cleaning products soared at the start of lockdown.
- Consumers will return to value shopping.

SUSTAINABILITY

Aside from consumer food trends, Scally says the big focus in the grocery sector is now firmly on sustainability.

Earlier this year, Lidl announced that it was phasing out the circulation of almost 6.3m plastic "Bags for Life" and will instead offer customers the option to buy a heavier-duty shopping bag made from 100% recycled material.

The retailer plans to increase the number of electric charging points at its network of stories and has recently announced a new partnership in Northern Ireland where eight of its delivery trucks will be powered by renewable bio-methane (biogas) produced from food waste.

"The one thing I see is that consumers are more and more interested in sustainability. A lot of consumers have a new-found appreciation for nature because of COVID-19 and they want the economic recovery from the pandemic to be a green recovery," says Scally.

after the Government's COVID-19 supports end," he adds. If this is the case, Scally is likely seeing a trend that has so far been invisible in unemployment figures and other economic data. Many economists have warned that the Government wage subsidy scheme and other supports are keeping many Irish businesses on life-support and that a recession is likely for the Irish economy once those supports finish.

For Lidl, consumer demand for value in their weekly shop will certainly be a major opportunity to continue to grow its Irish business. From a standing start, the German retailer has eked out a 12% share of the €10bn grocery market in Ireland.

Over the next year, Lidl says it aims to create 1,200 new jobs and plans to open an additional six stores. The supermarket giant already operates 209 stores in Ireland and currently employs about 6,000 people.

Scally says employees of supermarkets and grocery retailers literally found themselves working at the frontline of the COVID-19 pandemic last year, helping to keep critical food supply chains open all over the world.

And while there have been many challenges since last March, Scally says it has been really heart-warming to see the number of cards and letters sent in to the staff at Lidl by Irish consumers as a thank you for the role they've played over the last year.

In recognition of the role they've played throughout the pandemic, Scally says Lidl Ireland has paid out three bonus payments to all its staff in the past year, with the latest bonus payment totalling €2m.

Lidl's 54,000sq foot distribution centre in Co Kildare.

FUTURE

Although there is now some light at the end of the tunnel with the vaccine rollout, it's still very difficult to predict how the Irish, and indeed global, economy will emerge post-COVID-19.

On the one hand, consumers have never saved as much cash as they have in the last year and most will be eager to spend some of these savings as soon as they can, be it on a holiday abroad, weekend trip away, a night out or dinner in their favourite restaurant.

On the other hand, many consumers are clearly worried about their job security or the future of their own business, particularly when the Government supports for COVID-19 inevitably come to an end.

Yet judging by what JP Scally and Lidl are seeing in terms of consumer shopping habits since Christmas, it looks likely that many Irish consumers are already tightening their belts in anticipation of a difficult period ahead.

FOOD FORESIGHT

Lorcan Allen speaks to Maureen Gahan, Bord Bia's food service specialist, about the impact of COVID-19 on the industry and the long-term prospects for food service operators

It's now over a year since COVID-19 first entered our daily lives. While many businesses have adapted to the "new normal" of living with the virus in order to continue operations in some capacity, many small, family-run businesses in the food service industry have had their doors closed for the majority of the past 12 months.

No other sector of the economy has been dealt such a swift and decisive blow as the food service sector, as Government health restrictions meant the mass shutdown of pubs, restaurants, cafés and hotels all over Europe.

In total, Europe's food service market is valued at an enormous €600bn and has been growing rapidly over the past decade as consumers continue to eat more and more food out of home. On the island of Ireland (Republic of Ireland and NI), the total food service market was valued at €8.5bn before COVID-19 hit, while the UK food service sector had grown to become a €100bn market.

Up to last year, Ireland's food service market had recorded eight consecutive years of topline growth and had become a crucial route to market for many food businesses. The sector was particularly important for Irish beef exports into the UK and accounted for a significant volume of Irish cheese too.

As such, the sudden collapse in demand from the food service market last year reverberated right down through the food supply chain and caused a short-term drop in Irish meat and dairy prices at the farm gate.

DEMAND SHOCK

After the initial demand shock last March and April, the market settled down as the industry began to adapt to the public health restrictions as best as they could.

Some food service operators have tried to keep open by offering takeaway, delivery, or click-and-collect options for consumers. Even still, turnover for these businesses is way down on normal levels and most have been forced to cut staff numbers.

In November last year, Bord Bia published a detailed new insights report on the state of the Irish food service sector after a devastating year for all operators.

The report showed that food service sales in Ireland had collapsed by 48% in 2020 to just over €3.3bn, while in Northern Ireland the food service sector had shrunk by 46% to just under €1.2bn.

The numbers were stark but not unexpected given the extent of the lockdown restrictions in March, April and May last year and again in October and November.

Also included in the report from Bord Bia was a forecast for the sector's recovery post COVID-19, which spelled out a number of best- and worst-case scenarios for food service operators.

In a best-case scenario, Bord Bia forecasts that food service sales would recover 41% in 2021, which would mean a €1.9bn jump in sales on 2020 levels. In this scenario, however, the food service market would still be down 14%, or almost €2.2bn, on where it was pre-COVID in 2019.

However, this best-case scenario was based on the assumption that public health restrictions would be eased in early 2021 as Government vaccines programmes ramped up.

As we now know, the rollout of vaccines in Europe has been dogged by supply issues and severe public health restrictions have been in place in most European countries since the beginning of 2021.

WORST-CASE SCENARIO

In its forecast for a worst-case scenario for the food service sector, Bord Bia estimated that sales would recover by just 16% in 2021, which would mean almost €720m in extra sales. However, this would leave the overall food service market in Ireland down 22%, or €3.3bn in sales, on where it was pre-COVID-19.

These worst-case projections for the food service industry were based upon a slow rollout of the COVID-19 vaccine, continued public health restrictions for most of the year and the continued absence of international tourism in Ireland.

According to Maureen Gahan, Bord Bia's food service specialist, the outlook for the food service industry in Ireland has actually regressed to a worse state than the worst-case scenario forecast by Bord Bia's in November.

"I would say the outlook for food service in Ireland in 2021 is now actually worse than the worst-case scenario we outlined last year. We did not envisage this level of public health restrictions in 2021 when we were doing the analysis," says Gahan.

"When the Government does start to pull back restrictions later this year, how many hotels and food service operators will actually reopen? Some operators have already said they are going to hold off until 2022 to fully reopen because there will be no proper tourist season again this year," she says.

"Even if the vaccine rollout is completed and the economy reopens in the second half of the year, food service operators are still going to be living within public health guidelines for a long time to come. So the food service sector could see a burst of consumer spending in quarter four this year but they will still be at reduced capacity because business will still have to limit numbers and have sanitising protocols in place," says Gahan.

"We will be going back out to the industry for a series of research interviews this month and publishing a mid-year White Paper in June. This will allow us to review our initial predictions for the food service sector and confirm updated forecast growth figures for the market in 2021," she added.

While the vaccine rollout should help the food service industry reopen on a more permanent basis later this year, Gahan thinks it could be 2025 and beyond before we see a full recovery in the food service industry to pre-COVID-19 levels of business.

"The food service industry is extremely resilient. It came through a very difficult period after the financial crash in 2011. However, I don't think we're going to see a full recovery in the sector for three to five years," she says.

Maureen Gahan, food service specialist, Bord Bia.

KEY POINTS

- No other sector of the economy has taken as big a hit from the pandemic as food service.
- Very important sector for Irish food and drink exports.
- Public health guidelines will affect the sector for a prolonged period after reopening.
- The longer-term impact on Irish hospitality and recovery in conference business will be slow.

CATERING

While restaurants and cafés are the most visible operators, there are many other areas of the food service industry where business owners are facing a very uncertain future, including contract catering and hotels.

Tourist numbers into Ireland over the last decade have swelled to more than 11m people every year, who spend an estimated €5.8bn on food, drink and accommodation. However, the short-term future of tourism is quite challenged.

Even with a successful global vaccine programme, it will be many years before tourism numbers fully recover. This leaves many hoteliers and food service operators in regions of Ireland that are tourist-dependent with an uncertain outlook for the years ahead.

An even bigger question mark is now hanging over the future viability of many contract catering businesses in this country.

The COVID-19 pandemic has accelerated a shift to home-working, meaning many companies will be weighing up the benefits of large offices and canteens for staff over the coming years.

At the same time, it's difficult to see the number of conferences and public meetings returning to pre-COVID-19 levels again, which would also be a major blow to the catering industry.

So while the vaccine rollout may mean an end to the stop-start restrictions that really hurt the food service industry last year, the longer-term impact of COVID-19 could mean much more fundamental changes to the market.

11M

tourists, on average, visit Ireland each year.

REALITY BITES

Michael Archer speaks to two Irish restaurant owners about the major challenges of 2020 and how it forced them to move their businesses online

The pandemic has hit every business hard. In particular, restaurants across the country have struggled hugely to stay afloat with many being forced into adapting their business model entirely.

Lockdowns and COVID-19 public health restrictions have disrupted businesses for the past year, with most restaurants forced to close for a large part of the past year.

To combat these challenges, many Irish restaurants have adapted by using click-and-collect services and takeaway sales.

In comparison to a normal year, restaurant sales are still down significantly. However, many Irish restaurants have held on to a degree of optimism and are grateful that they were able to survive so far.

CASE STUDIES

The Leaping Salmon

From left: Ernest Horgan, owner, and colleagues Eoghan Connolly and Patrick Deasy.

The Leaping Salmon is a gastro pub located in the heart of Blackrock village in Co Cork. The business is renowned for its pizzas and the lively atmosphere in the pub. Owner Ernest Horgan says he was forced into operating a click-and-collect service when the second lockdown hit last October.

Once the second wave of restrictions was implemented by the Government, The Leaping Salmon started up a phone-in service for collecting food. Horgan says one of the biggest challenges at the beginning was catering for the pub's main customer base, a demographic that largely struggles with technology.

After an initial trial, he says the business pretty much abandoned its click-and-collect website service in place of customers simply phoning in orders.

Overall, The Leaping Salmon's sales were still down 70% last year as a result of the loss of normal business from COVID-19.

Despite the significant loss of revenue, Horgan said the business was lucky in many ways as it was the only establishment in the area offering this form of service and it managed to wade through the darker months of the pandemic and stay open.

Looking ahead to the second half of 2021, Horgan says he does not want to see pubs and restaurants reopen until they can stay open fully as the stop-start system over the last year has been both mentally and financially draining.

The Leaping Salmon in Co Cork.

KEY POINTS

- Restaurant sector among hardest hit by COVID-19.
- Click-and-collect or telephone orders has preserved some business for restaurants.
- No point reopening until they can stay open.
- COVID-19 has added operating costs for businesses.

Kinara

In Dublin, Eastern dine-in restaurant chain Kinara has had to completely adapt its business model since the pandemic hit. One of the most popular eastern cuisine restaurants in Dublin, the Kinara group operates three restaurants in the capital and has been in business for the past 30 years.

Although COVID-19 has brought a myriad of new challenges, owner Sean Collender took a pragmatic approach and wasted no time in changing Kinara's business model to a click-and-collect takeaway service.

Collender says his restaurant business has seen plenty of bumps over the years but "absolutely nothing compares to what has happened this past year". He was forced to react swiftly and, once the first lockdown hit, he set up a click-and-collect system on the Kinara website.

Unfortunately, while the business continued to operate, Kinara was forced to cut its staff numbers from 93 to just 30 people within a 24-hour period as the business reduced its numbers to just 10 staff members at each of its three restaurants.

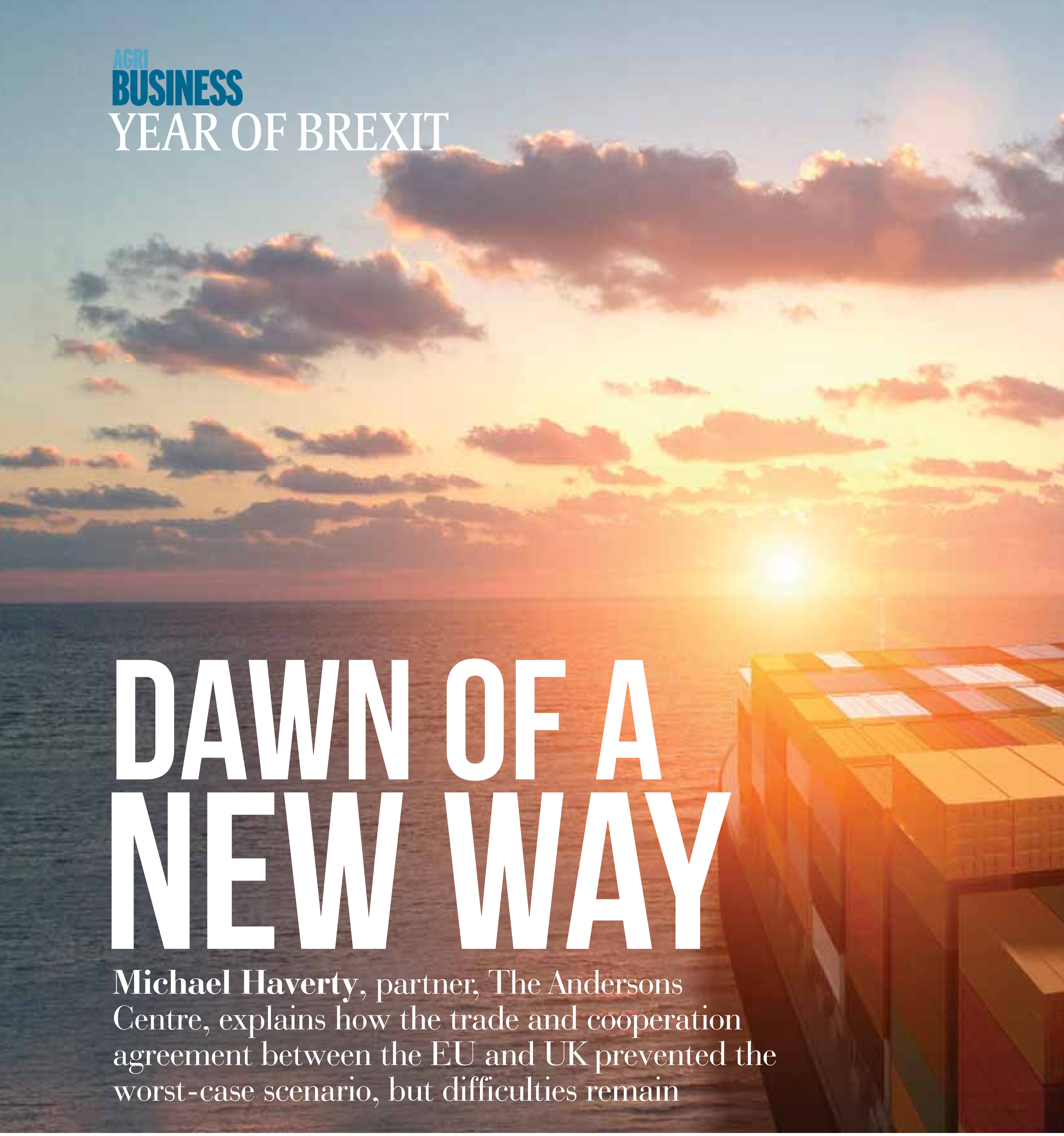
Aside from staff, Collender says the business was hit with a lot of instant costs which dented the cashflow in the early weeks of the pandemic. For instance, he recalls paying over €2,000 for face masks during the early weeks of the first lockdown which would cost less than €200 today.

While business levels were still down significantly on a normal year, Collender says Kinara's takeaway service did relatively well given the circumstances. After an initial surge in demand, he says the novelty aspect of getting restaurant standard food for takeaway wore off with consumers after the first few months and sales began to drop.

Kinara continues to operate a click-and-collect service from Thursday to Sunday, with Friday and Saturday their busiest nights. Despite the enormous challenges of the last year, Collender is hopeful for the future and looks forward to reopening his restaurants for full dine-in service later this year.

2 YEAR OF BREXIT

Brexit finally came into being on 1 January this year. Checks and veterinary certification are now a necessary part of doing business between the EU and UK. So far, Republic of Ireland exporters have been shielded as the UK is not introducing border controls until 1 October. The EU is implementing full controls and, consequently, food and plant-based imports from Britain have fallen dramatically. Northern Ireland has particular problems as part of the UK that can also participate in the EU single market.



DAWN OF A NEW WAY

Michael Haverty, partner, The Andersons Centre, explains how the trade and cooperation agreement between the EU and UK prevented the worst-case scenario, but difficulties remain

The EU-UK Trade and Cooperation Agreement (TCA) avoided the cliff-edge of a no-deal Brexit, but it has reimposed friction on trade between the UK and the EU, as well as between Britain and the island of Ireland. This has major implications for both the UK and Irish agri-food sectors.

This article examines some of the key challenges which have arisen from a British agri-food perspective and explores ways in which these issues could be addressed to achieve a "steadier state" in the long-term EU-UK relationship.

Table 1 gives an overview of the UK's production and exports for a selection of agricultural commodities. Exports to Ireland have been split from exports to other EU member states. Non-EU exports are also shown, as are overall UK self-sufficiency estimates.

Unsurprisingly, exports to the EU are dominant across all commodities. They are most prevalent in sheepmeat, where just over one-third of UK output is exported; 95% of which is to the EU.

Exports to the EU are also important in other commodities, particularly for pork and poultry where carcase balancing plays a key role.

The UK produces a significant surplus of barley and 88% of exports are to the EU. Wheat exports are down on historic levels (normally two million tonnes per annum) and the EU is again the dominant destination.

TRADE AND COOPERATION AGREEMENT (TCA) IMPLICATIONS

The announcement of the TCA came as a relief to most British farmers as it meant that tariff-free and quota-free trade could continue for eligible products.

The notable exception is seed potatoes; particularly important in Scotland, due to the EU's ban on imports from third countries (including Britain). This highlights that tariff-free trade is not barrier-free trade and the TCA brings a whole plethora of regulatory hurdles that must be overcome.

Within the EU, Britain could trade with other member states with minimal difficulty. Although the TCA does not impose tariffs and quotas for products eligible for free-trade, non-tariff measures (NTM) – barriers, particularly customs, sanitary and phytosanitary (SPS) regulations and rules of origin requirements, are now significant.

The ending of free movement will also influence UK farming's competitiveness, particularly as the new Seasonal Agricultural Workers' Scheme (SAWS) only offers 30,000 places but the seasonal labour requirement for UK agriculture is estimated at 80,000.

Dispute settlement may also pose problems given the nature of the level playing field rules, as an undercutting of environmental standards, for example, could bring about retaliatory tariffs in agricultural trade. Non-tariff measures (NTM) costs are the most problematic. In previous studies, Andersons has identified 25 to 30 additional categories of NTM costs which are now applicable on UK exports to the EU. These NTM cost estimates are summarised below, both on a probabilistic basis (average over 100 loads) and on a checked-load basis, the so-called "unlucky load" that is subject to the full range of regulatory checks and delays.

For unlucky loads, NTM costs can surpass 25% for red meat and dairy. They can be as high as 50% for poultry meat and up to 100% for composite meats and highly perishable fruit and vegetable products.

Here, value deterioration brought about by delays due to physical checks and sampling account for the majority of costs.

On a probabilistic basis, although costs decline substantially, given the thin profit margins in many agri-food categories, their effect is still highly influential and will create pressure on prices at both the farm and consumer levels.

Arguably, the impact on SMEs is even more pronounced as they ship fewer loads and will have less scope to absorb the prohibitive costs of an unlucky load.

British exporters only had one week (over Christmas) to prepare

Table 1: Overview of UK agricultural output and trade for selected commodities (2019)

Commodity	Beef	Sheepmeat	Pigmeat	Poultry meat	Cheese*	Butter*	Wheat	Barley
Output (£m)	2,758	1,257	1,318	2,653	1,312	628	2,442	1,073
Production (Kt)	917	318	922	1,901	462	188	16,225	8,048
Produced and consumed domestically (Kt)	750	211	764	1,537	272	127	15,114	6,257
Total exports (Kt)	167	107	276	364	190	61	1,111	1,791
Of which:								
To Ireland (%)	16%	6%	19%	14%	6%	19%	14%	7%
To other EU (%)	68%	89%	39%	56%	76%	64%	73%	81%
To non-EU (%)	16%	5%	43%	30%	18%	17%	14%	12%
Self-sufficiency (%)	86%	109%	66%	91%	61%	92%	99%	127%

Sources: Defra, AHDB, HMRC and CSO, analysed by Andersons. Notes: *Output based on wholesale cheese and butter prices.

for the TCA's introduction as border controls became effective across the EU from 1 January. Many were simply unprepared for the barrage of red-tape which has ensued.

Some exporters have reported delays of a day or more and while this is settling down to a degree, several agri-food traders have experienced NTM costs more akin to unlucky loads than the anticipated average.

Unsurprisingly, this has had an impact on trade as illustrated by the latest UK's Office for National Statistics (ONS) data, released on 12 March. It shows that exports of food and live animals to the EU are down by nearly 64% in January vis-à-vis December 2020. However, these statistics need to be treated as the sharp recovery in February suggests.

A significant amount of stockpiling took place in December as traders prepared for the ending of the transition period. Many British traders deliberately chose not to send shipments to the EU in early 2020 as they waited to see how the Border Control systems would cope.

Furthermore, seasonal trade in agri-food tends to dip during January to March. Therefore, it is likely to be April before a definitive answer emerges as to how much UK agri-food exports to the EU have changed as a result of the TCA.

ADDRESSING CHALLENGES

Despite claims that the challenges experienced since January are mainly due to "teething problems", it is clear that many of the new regulatory requirements are permanent fixtures.

Customs declarations are now a fact of life for UK-EU trade, as are rules of origin. Although improvements can be made in these areas, their benefits will be marginal. The area with greatest potential to alleviate friction on UK-EU (and Britain to NI) trade is SPS regulation.

Notwithstanding any new veterinary agreement, agri-food supply-chains will still need to adjust to the changed trading relationship.

Mixed-product and groupage loads will become less common. Instead, export shipments of single product loads (eg boneless beef) will be dispatched to a single EU destination, where any additional processing that is required will then be undertaken.

Traders will need to carry increased contingency stocks to negate the effect of regulatory checks and ensure that all products shipped meet key rules of origin requirements (eg =85% of shipments by weight qualify for preferential trade with the EU). Therefore, it is likely that agri-food trade between the UK and the EU will decrease somewhat.

Given the geographic proximities involved, trade volumes at a commodity level (eg carcase beef, lamb) will still be significant and close to historic levels. However, there may be less scope for value adding, with more processing being undertaken at the destination.

Undoubtedly, a UK-EU veterinary agreement running alongside the TCA would significantly reduce border friction both on UK-EU trade and Britain-NI trade. But it will not remove friction completely. To allay the issues which have emerged in Northern Ireland, a further de-dramatisation of border controls will be required.

One way of approaching this is for products where Britain continues to align with the EU on standards and where shipments are undertaken by "authorised" (trusted) traders, deemed to present a minimal risk to the Single Market, undertaking regulatory checks away from the Border Control Posts (BCPs) could be considered.

Addressing NI Protocol issues requires flexibility, integrity and maturity on all sides. Recently, these qualities have been in short-supply. Both sides must do better.

History has taught us that it is futile to continually re-run old feuds. A re-setting of the UK-EU relationship, akin to the New Decade, New Approach Deal to restore the Northern Irish Executive, is badly needed.

KEY POINTS

- Despite the deal, many issues remain for trade between UK and EU because of non-tariff barriers.
- A veterinary agreement would reduce or even eliminate checks depending on the type agreed.
- Resetting UK-EU relationship is essential to resolving issues, particularly the protocol covering trade between Britain and Northern Ireland.

VETERINARY AGREEMENT

There are three potential veterinary agreement templates that the EU and the UK could follow:

1. Swiss-style: this is based on a Common Veterinary Area between Switzerland and the EU. Effectively, Switzerland follows the EU's regulatory controls for trade in animals and animal products and Swiss legislation needs to move in lockstep with EU regulations. In return, eligible produce can move freely between Switzerland and the EU. Implementation is managed by a joint veterinary committee. While Switzerland can engage with the EU when legislation is being drafted, it does not have any voting rights on its adoption. Several UK farming bodies have expressed their preference for a Swiss-style agreement.

2. NZ-style: this agreement recognises NZ and EU standards as being equivalent but does not require further alignment. NZ meat products entering into the EU are only subject to 1% physical checks and not the default of 15% or 30%.

3. Canada-style: under CETA, equivalence was granted to Canada when exporting animal products such as beef and poultry meat into the EU, but subject to physical check rates of 10% . While better than the default levels of checks, a Canada-style deal would only have a limited impact on border friction.

Given the UK government's stance, it will not countenance a Swiss-style agreement as it would breach its "sovereignty" red-line. The UK is rumoured to be pursuing an NZ-style veterinary agreement. However, the EU has concerns, given Britain's proximity to, and volume of trade with, Europe and its openness to regulatory divergence.

Accordingly, a UK-specific type of veterinary agreement is likely to emerge. This could start off with default physical check rates akin to, but not quite as favourable as, New Zealand's, with scope to revert back to default check levels, if the UK diverges in key areas (eg accepts hormone-treated beef) – effectively an extension of the level playing field concept in the UK-EU TCA.

Michael Haverty is a partner at UK agricultural and farm business consultancy The Andersons Centre www.theandersonscentre.co.uk.

This beef served at the State banquet on the occasion of the royal visit to Ireland was sourced from Slaney Foods in Wexford and salt moss dry-aged by Kettyle Irish Foods (part of Fane Valley) in Fermanagh before final preparation and delivery to Dublin for the banquet.

MAKING BREXIT WORK

Phelim O'Neill spoke to Fane Valley group chief executive Trevor Lockhart prior to the announcement that the joint venture with ABP was ending with the ABP acquisition of the Fane Valley interest in Slaney, Linden, Irish Country Meats and Kettyle Irish Foods

The Fane Valley Co-op which began in south Armagh at the beginning of the last century is now a large supplier of products to farmers and a major processor of beef, sheepmeat and a manufacturer of speciality foods.

While it is centred in Northern Ireland (NI) with headquarters in Moira, Co Armagh, it has a major presence south of the border through the joint venture with ABP in Slaney and Irish Country Meats (ICM).

Through ICM, Fane Valley has sheepmeat processing capability in Belgium with A. Lonhienne and it also has abattoirs in the north of England which supply carcases for processing in its Linden Foods factory in Dungannon, Co Tyrone, all in partnership with ABP.

It has speciality meat processing businesses in Silver Hill Duck, Hilton edible offal processors, Duncrue fat processors, Kettyle Irish Foods, and Whites, which has been manufacturing porridge oats since the middle of the 19th century.

The farmer-facing side of the business comprises feed mills in Newry, Co Down, Omagh, Co Tyrone, and Ballindrait, Co Donegal. Between them they produce 450,000t of animal feed annually, making Fane Valley the second largest miller on the island of Ireland.

They also have 17 stores across NI supplying farm requisites with a comprehensive website providing online access to these stores and a delivery service.

The group employs 3,000 people, split evenly between the UK and Republic of Ireland/Belgium.

BORDERS HURT BUSINESS

Given the nature of the business, it was little surprise that Lockhart's first comment on Brexit was that borders of any type don't work, either on the island of Ireland or on trade between Britain and the island of Ireland.

Rewinding to last autumn and the daily debate of will there or won't there be a deal, he was delighted to welcome the deal that did eventually arrive because despite its shortcomings, the alternative would have been worse.

The Fane Valley business depends on seamless trade on the island of Ireland, and both ways with Britain, to function.

The most high-profile example of this was probably providing beef for the State banquet during the royal visit to Ireland in 2011.

Beef from a Co Wexford farm was processed in Slaney before coming north to Co Fermanagh for the salt moss dry aging process and final cutting and preparation in Kettyle Irish Foods, also part of the Fane Valley Co-op. In what was a hugely symbolic and historic visit exclusively to the Republic of Ireland, this brought a Northern Ireland element to the occasion.

SILVER HILL DUCK

The example that Lockhart gave, which best demonstrates the complexities of operating either side of the Irish border, is Silver Hill Duck, whose factory sits alongside the N2 road outside Emyvale in Co Monaghan.

The process begins with eggs from Aughnacloy in Co Tyrone going to a hatchery in Co Monaghan and, from there, the young ducks are placed with grower farms more or less equally either side of the border.

These farms use meal supplied from Fane Valley's mill in Omagh, Co Tyrone, and all ducks go to Emyvale for processing.

Onward sale of the duck is then split almost equally between Britain and Ireland, with 20% exported to the EU and beyond.

While Lockhart uses this as the example that best illustrates the complexities of cross-border supply chains, a major concern is the functioning of the protocol that sets the rules for movement from Britain to the island of Ireland.

Like all of the large processors in NI, Linden Foods, the red meat processing division of the Fane Valley ABP partnership, brings carcase beef and sheep in from Britain for deboning and further processing at their Dungannon factory.

The oats processing side of the business has also been disrupted while the consumer and retail difficulties have been well documented.

NI PROTOCOL

Lockhart's view of the NI Protocol which creates the unique trading position of NI with both the EU and UK has to be "risk-based with proportional and pragmatic controls that protect the EU single market parallel to operating within the UK market".

He goes on to explain the big challenge at present is inbound from Britain to NI because of controls that were designed decades ago that didn't foresee the scope of technology, as well as being for a different purpose.

They do not reflect current product traceability or IT systems.

Trevor Lockhart, Fane Valley CEO.

KEY POINTS

- Fane Valley is a farmer-owned co-op that operates across Ireland and Britain.
- It has a joint venture in meat processing with ABP through Slaney Foods, ICM and Linden Foods.
- It wants pragmatic and proportionate controls for trade between Britain and NI that are risk-based.

He accepts that the EU does not want to create a position whereby members can leave and retain the benefits without the downsides, but the uniqueness of NI requires proportionate controls, which enables trade to function without unnecessary barriers.

If the EU and UK can get to a workable arrangement, then Lockhart is optimistic about the industry and Fane Valley Co-op's position in it.

Barriers are an impediment to trade and everything that can be done to avoid them has to be done is his view.

PROBLEM WITH UNCERTAINTY

While the business is now adapting to Brexit, Lockhart regrets the fact that there have been years of limbo while we waited to see what, if any, deal would emerge between the EU and UK post-Brexit.

Business hates uncertainty and that is what Brexit caused since the referendum. In practical terms, this has meant companies deferring investment decisions on large capital expenditure. This absence of investment meant that company development has been delayed and while there is now a level of certainty that will enable investment to proceed, the lost years are never fully recovered.

"The Brexit outcome isn't perfect, it was never going to be but at least it has brought some clarity and certainty."

GOVERNMENT SUPPORT

Given that Fane Valley operates either side of the Irish border, Lockhart has an insight into how government interacts with industry. He is complimentary of the Irish Government's strategic plan for agriculture and the industry investment programme announced at the end of 2020.

A similar programme in Northern Ireland awaits the updating of its last strategy for agriculture in 2012 and until this is complete, an investment plan for industry is delayed.

Fane Valley may be a farmer-owned co-op, well into its second century of trading but it is its ability to embrace change and adapt to the current market and trading conditions that are the basis for its sustained success.

In the beginning, it was about collecting and processing milk locally and selling the produce within travelling range of small local creameries.

Fane Valley withdrew from milk processing a number of years ago and focused on building its business around meat processing and milling alongside a thriving farm requisite business across 17 locations in NI.

COVID-19

The farmer-facing side of the business, like the food processing side, incurred extra costs in protecting against COVID-19 but Lockhart is thankful that farming and food processing was able to continue with limited disruption unlike many other sectors of the economy.

The rollout of vaccines and the reopening of hospitality gives Fane Valley optimism for the remainder of this year, and if the EU and UK can agree a suitable and proportionate suite of border controls for trade in and out of Britain, the business is well placed to keep progressing.

VICTORY IN THE WRONG GAME

Ian Proudfoot, global head of agribusiness, KPMG International, considers export challenges and the value of New Zealand's success in conquering COVID-19

Until recently, New Zealand was ranked as having the best health response to the COVID-19 pandemic of any country in the world (it has just been surpassed by Singapore). A combination of our geographical remoteness, full border closure to non-citizens and residents and a series of short, hard lockdowns have enabled our government to deliver on an elimination strategy. This has allowed life to return to a high level of normality compared to the rest of the world. We are working from the office, travelling freely around the country, enjoying sports events and concerts and able to dine out without any significant restrictions.

But normal is not normal and as we watch vaccination levels rise around the world with no clear timetable for our arms to be jabbed there is a growing concern among our food and fibre sector that we have played and won the wrong game.

The game we have played is one everybody started playing early in 2020, a finite game you win by vanquishing the virus.

The result of this game has given the community within our bubble a combination of comfort and complacency (so much so the incumbent Labour government won an unprecedented electoral majority in October 2020). It is a game premised on a belief that global norms will come back and will be what they were before.

The challenge is that New Zealand is a nation that grows and sells food to the world and the industry is getting strong signals that "normal" in our markets is very different to "normal" a year ago. We sense that the rest of world stopped playing our game months ago and recognised that COVID-19 is in fact an infinite game, one where the rules constantly change, the playing field shifts and the participants evolve.

It is not a game about winning but one about adapting quickly to new realities so that you can remain a strong and sustainable player in the game in whatever the now normal reality is that the world serves up to you. So what are the now normal realities that organisations around the world need to be thinking about as they seek to maintain and build international customer relationships in the world as it is today, not how it was a year ago or how our intuition tells us normal should be?

The first challenge any exporter raises relates to supply chain and the significant problems they are facing in getting product to a customer, regardless of where they are in the world.

In 2019, most exporters had around 80% confidence that their products would be delivered on schedule despite the global supply chain for food and fibre products being stretched.

You could be relatively certain that a container would be moved from A to B for the cost agreed and would generally arrive on time.

That is not the case anymore. I have heard many executives talk about the day-to-day fragility of their supply chains in recent months.

Costs are higher, access to containers highly restricted and cool storage capacity is maxing out regularly. On-schedule deliveries now sit at around 35%, clearly illustrating the challenges exporters are facing.

Assuming higher freight rates are here to stay and become part of the now normal, I expect exporters to be challenging their business models and supply chains to assess if they are fit for purpose in this new world.

INTELLECTUAL PROPERTY

Consequently, the importance of intellectual property (be that genetics, growing systems or algorithms) and brands will increase exponentially. It is not impossible to envisage a situation where a traditional food exporter transforms into a licensor of an IP-based production system and generates their return from the efforts of farmers and growers around the world.

The role of China in the global food system will usually be raised in the same breath as supply chain challenges. It is impossible to overstate the influence that the Chinese market has on global demand and pricing, even if you sell nothing to China.

African swine fever in the Chinese pig herd has driven global protein markets as China sought imports to replace domestic production. Government support for milk as a core element of a healthy diet has underpinned dairy markets. On the other hand, companies have had markets closed to them because of political tensions between governments. In recent months, New Zealand exporters have watched on as Australian wine, grain and red meat companies have seen Chinese markets evaporate as the governments of the two countries faced off over the source of the pandemic. This highlighted the narrow path that must be negotiated between traditional political allies (particularly the US) and important economic relationships, particularly China.

STRUCTURAL INEQUALITY

Another now normal reality that organisations are coming to terms with relates to the growing awareness and acknowledgement of the level of structural inequality in society. This has been brought into sharp focus in the last year by the food inequity that the pandemic has highlighted but also by the focus placed globally on the Black Lives Matter movement.

MANAGING THE CHALLENGES

The challenges we face cannot be effectively managed from within our South Pacific bubble. As a result, the biggest unknown we currently face is what the runway looks like to reintegrate into the world. When will we be vaccinated, when will our borders reopen and when can we travel freely to engage face to face with customers and partners around the world? Our success in eliminating COVID-19 and winning our finite game will be worth nothing if we do not adapt quickly and become a player in the infinite game that is already the everyday reality for the rest of the world.

It is also more widely acknowledged that addressing these issues is not the sole responsibility of governments. Organisations are either part of the solution to these structural problems or they are inherently part of the problem.

This requires a different lens to be applied to trading relationships, particularly with many suggesting that globalisation of the food system has contributed to inequitable food access. The need to invest in trade relationships and demonstrate that trade delivers positive benefits to all, has become a priority for our export sector.

The Trade for All Agenda implemented by the NZ government is focused on promoting the benefits of a rules-based trade system to all and is backed by initiatives that deploy our agri-food knowledge and expertise to support marginalised communities within our trading partners to produce their own food.

The exponential lift in the utilisation of digital technologies in the last year has been well documented. It has dragged the agri-food sector, one of the last bastions of the analogue era, into the digital age years earlier than it would have achieved under its own steam. For exporters, this means that consumers now expect a product to carry a digital footprint to support its provenance and provide full traceability. It creates a wealth of new opportunities to utilise data to tailor product solutions and supply channels to better meet the needs and expectations of consumers.

CLIMATE

While it dropped off the front pages over the last year, the response to climate change remains the era defining issue that the global community faces. While New Zealand has already enshrined a zero-carbon goal into legislation, work is ongoing on how the food and fibre sector will play its part. Our legislation recognises that not all greenhouse gases behave in the same way in the long term and therefore adopts a different approach to methane, a much shorter-lived gas which is inherent to pastoral animal agriculture.

Our exporters have spent the last decade or more responding to "food miles" claims which have been constructed based on perception rather than scientific analysis. Fear is growing that a product's carbon footprint could soon become another mechanism used to facilitate non-tariff barriers (and even carbon import duties).

There is consequently a recognition that while legislation may allow time for an economically practical transition there is a significant chance that market access may need faster action and product innovation to retain a ticket to play.

KEY POINTS

- New Zealand isolated despite COVID-19 victory.
- Challenge in striking a balance with China.
- Climate change remains era-defining issue.

3 SUSTAINABILITY AGENDA

The need to tackle climate change has made sustainability an essential element of every business. Being sustainable requires varying degrees of reimagining what a business is about and one of the most striking is Bord na Móna, whose core business has transcended from peat harvesting to renewable energy. Irish agriculture and food production has already travelled a long way but the road to sustainability is never-ending and the journey will continue.

CHAIN TRACK

Short food supply chains and direct-to-consumer selling are often touted as solutions to weak farm incomes. But does the model add up? **Lorcan Allen** reports

It's mid-March and lambing season is in full swing on Kilmullen Farm in Newcastle, Co Wicklow. Owned by the Bourke family, Kilmullen Farm is one of the best-known sheep farms in Ireland.

For Eamon Bourke, the third generation of his family to farm at Kilmullen, March will be his busiest time of the year on the farm as he busies himself lambing down his flock of ewes. However, the lambs born this spring on Kilmullen Farm will not go to the local meat factory.

Instead, these lambs are raised and fattened before they are ready to be butchered directly on the farm. The Bourkes package and box their own lamb and have been selling direct to Irish consumers for 10 years.

Eamon's wife Margaret is the driving force behind Kilmullen Farm's direct-to-consumer food business and she's very honest about the demands of this business model.

"There are plenty of times when I ask myself are we crazy to be doing what we're doing," says Margaret.

"We control absolutely everything in the process of producing our lamb. We raise, butcher and package all of the lambs. We do all of the marketing and transport and we pay the fees to have a spot at the farmer markets we go to," she adds.

Farming is a labour-intensive occupation at the best of times but selling your produce direct to the consumer can really add to the workload. It means taking on the role of farmer, processor, marketer, logistics specialist and sales agent all in one.

"We're very open with our customers about pricing. Last year we charged €195 for a whole lamb and despite the exceptionally high factory prices this year, we are adding only a small increase. It will be based on weight with a 19kg lamb €190, €20kg €200 and so on."

There will be very little premium this year to reflect all the extra work involved.

However, for the Bourke family, the direct-to-consumer model clearly provides other rewards that are much harder to measure.

"I just love and value the connection we have with our consumers. I get such a huge buzz from meeting our customers at the farmers' market. At this stage, I know the individual preferences of many of them. There is a whole conversation that goes with each order of lamb. We get to share in their special occasions, the reason for the barbecue, we trade recipe tips and talk of life. These are the experiences you cannot put a price on," says Margaret.

"So for me the rewards of this business model are twofold. It allows us to be the price-setter but there is definitely a lifestyle element to this because it allows us to connect with people. I'm so proud of the lamb cuts we produce and there's a great thrill

Margaret and Eamon Bourke, with their children, Samuel and Eleanor, operate Kilmullen Farm, a direct-to-consumer food business in Co Wicklow.

in the feedback you get from customers about your own produce," she adds.

Many Irish farmers will identify with this pride in the food they produce but getting the direct feedback and interaction with the end consumer is obviously something few farmers ever get to experience.

Direct selling to consumers via farmers' markets and local supply chains is still relatively niche in Ireland. Given Ireland's small population and the food sector's focus on supplying global export markets, the majority of farmers supply their produce to the local co-op or meat processor.

In contrast, the prevalence of short food supply chains in many European countries is much higher. According to a 2016 report by the European Parliament, about 15% of EU farms sell more than half their produce directly to consumers.

Greece is the EU member state where direct-selling to consumers is most prevalent, with 25% of all farms selling at least half their production direct to consumer. In France, 21% of farmers sell at least half of their produce direct to the consumer or within short food supply chains.

In contrast, less than 5% of Irish farmers sell some of their produce directly to the consumer or within very short supply chains.

Given the persistently low incomes for most Irish farmers, particularly in beef and sheep enterprises, many commentators believe very short supply chains or the direct to consumer business model is the solution for Irish farmers seeking to earn a better income from their farm.

By bypassing the processors, retailers and various other middle men dotted throughout the food supply chain, they argue farmers will be able to set their own prices for their produce and make a sustainable return for their products, just like the Bourke family.

However, a new report by Agriculture Stratégies, a French think-tank on agriculture and food policy, reveals short supply chains are not delivering the superior returns for farmers that might be expected.

According to the report, direct selling to consumers does allow farmers to get a premium sales price for their produce, albeit there is a ceiling on how much any consumer is willing to pay for food given the competitiveness of the sector.

> It allows us to be the price-setter but there is definitely a lifestyle element to this because it allows us to connect with people

Despite the available premiums, the report concludes that most of the higher sales price is consumed in the increased production, transport and marketing costs for the farmer, which the consumer does not see.

Alessandra Kirsch is a director of research at the Agriculture Stratégies think-tank and author of the report. Speaking to the *Irish Farmers Journal*, Kirsch says that there is a perception that direct-selling to consumers or very short supply chains are the solution to the income challenges in farming.

However, she says this perception ignores the increased costs placed on the farmer, not to mention the added labour required to produce, process, package and then sell the food.

FRENCH STUDY

As part of her study into this area, Kirsch analysed the profitability of a number of French beef farmers who were selling beef direct to consumers (Table 1 – page 44).

Her research shows these beef farmers were able to achieve a sales price of €12.16/kg of meat from selling direct to consumers, which is a little under €4,200 for a 500kg carcase animal.

Based on the French beef price of €3.75/kg this year, the farmer would have taken home just under €1,900 if he/she had sold the animal directly to the factory. So on a turnover basis, direct selling looks impressive.

However, when the extra costs of the business model are included, the added value is much less. Kirsch's research shows the additional cost to these farmers to process, package, transport and market their

own beef was just over €1,600, or €3.25/kg, per animal on average.

Once all the additional costs are included, French farmers who operate a direct-to-consumer business model make an extra €500/head, which is less than an extra €1/kg on their base beef price if they had sold the animal directly to a factory.

And while a €1/kg price increase is not to be dismissed in the beef sector, it is important to note how much extra workload and effort is required on the part of the farmer to achieve it.

"In agriculture, the question of working time is often overlooked by farmers as many of them never count the cost of their own labour," says Kirsch.

"This is a common trait among farmers because they are passionate about what they do. They do not see it as a profession where you count your hours," she adds.

Kirsch says French consumers who buy directly from farmers are willing to pay some level of a premium but they still expect food to be priced broadly similar to what they would pay in a supermarket given the elimination of middle men in the supply chain.

CHEAPER

In many cases, she says, many consumers believe food they buy directly from farmers should be cheaper than in the supermarket because they think there are less people taking a cut along the chain.

"Consumers do not see the increased workload, production costs and risks for the farmer in this model so their willingness to pay a premium is limited," says Kirsch. "Many consumers ignore the economies of scale in the modern food industry which makes food so affordable," she adds.

Like the Bourke family in Co Wicklow, farmers right across Europe engage in the direct-to-consumer business model because they enjoy the connection with the consumer and having control of their own business.

However, the volumes sold via direct-selling or local supply chains will always be small. In Brussels, the current European Commissioner for Agriculture and Rural Development Janusz Wojciechowski repeatedly talks up the merits of local supply chains as the solution to weak farm incomes across Europe.

Kirsch rejects this idea and says European farmers should not be forced down this road as a perceived solution to low farm incomes, especially with all the increased costs and risks that come with it.

"The EU is not showing the courage needed to tackle the real problems with farm incomes. The real job to be done here is to make the main food supply chain work. Forcing farmers to work even harder for a small premium in order to make a living is not the answer," says Kirsch.

"In France, we have a new law which is designed to stop food being sold for prices below the cost of production. But French supermarkets don't want to increase the price of food for their consumers so this law is having little impact. The only area it seems to be working is for the price of milk," she says.

CONSUMER LABEL

France has also introduced a new consumer label on certain food items which reads "C'est qui le Patron?" or "Who's the boss?" in English. The aim of this new label is to try to empower French consumers to choose food products with this label, which guarantees a fair share of the price goes direct to the primary producer.

Kirsch says there needs to be more initiatives like this to try to solve the problems in the traditional food supply chain instead of telling farmers they must invest in a direct selling business model.

The EU has made a start to tackling this incredibly complex problem by introducing a directive on unfair trading practices. However, there is still a long road to travel before equilibrium is restored in food pricing.

Affordable food is hugely important for the 500m consumers that live in Europe. Yet a balance has to be found between affordability for the consumer and sustainability for the farmer. Otherwise, the family farm model of food production in Europe will struggle to survive for much longer.

KEY POINTS

- Direct sales from farm to consumer creates a premium but adds a huge workload with processing, marketing and logistics.
- Report by French think-tank shows that short supply chains aren't the answer to the farm incomes problem.
- Value of time spent working is often overlooked as many farmers don't count the cost of their labour.

Table 1: Profitability of a number of French beef farmers who were selling beef direct to consumers

	Farmer 1	Farmer 2	Farmer 3	Farmer 4	Average
Carcase weight (kg)	413.2kg	490.8kg	555.2kg	557kg	504.05kg
Total additional expenses per kg of carcase	€3.42	€3.01	€2.96	€3.58	€3.24
Sales price excluding taxes (€/kg)	€13.08	€11.37	€11.37	€12.80	€12.16
Meat efficiency (meat weight/carcase weight)	65%	70%	69%	67%	68%
Gross margin from direct selling (€/kg of carcase)	€5.08	€4.94	€4.91	€4.99	€4.98
Added value from direct selling	€448	€463	€506	€550	€492

BORN A CHAMPION ENTREPRENEUR


The late Denis Lynn.

Prior to his tragic death just over two weeks ago, Denis Lynn spoke to **Lorcan Allen** about the Finnebrogue story. Following consultation with his family it was felt that the interview should be carried in this year's Agribusiness report in memory of Denis. He was described by Stuart Irwin from KPMG, our partners in this report, as "one of a kind and an archetypical entrepreneur, an absolute visionary in the NI agri-food sector whose energy and enthusiasm will be sorely missed". The Irish Farmers Journal and KPMG extend our condolences to his family and everyone at Finnebrogue – **Justin McCarthy**

The story of Northern Ireland artisan food company Finnebrogue is one of evolution. In the mid-1980s, founder Denis Lynn originally started off the business importing French fries from the Netherlands.

After the best part of a decade importing French fries, the first evolution of Finnebrogue took place as Lynn decided to try his hand at venison.

The move into venison was clearly a major learning curve for the Co Down native.

"I lost a fortune in venison. I thought I was going to lose the business and my home farm. I really underestimated the overheads and costs of the business. One thing I've certainly learned from that time was that fixed overheads keep moving," says Lynn.

Over a six-year period, Lynn says his venison business had racked up £200,000 (€235,000) in losses, which was enormous money for a privately owned business. By 2006, he says the business had run out of cash and the support of the banks.

EVOLUTION

In a bid to turn things around, the second evolution of Finnebrogue took place – one which would be defining for the company.

"We were making venison sausages and burgers. But the market was too small to gain any real scale. So, in 2006, we decided to try making pork sausages as this would allow us to utilise our equipment more," he says.

"I didn't know how to make pork sausages when we first started. But not knowing meant I could see things differently. When I look at any product I ask what's wrong with it and how can it be made the best it possibly can be?" says Lynn.

Finnebrogue enlisted the help of Bernard Mense, a German master sausage-maker, to help develop a new, premium product for the UK and Irish market.

Taking this new approach to making sausages, Finnebrogue produced a new high-end range of sausages which Lynn describes as having more "juiciness and succulence" baked in.

The company won its first supply contract for its sausages in 2006 with UK retailer Marks & Spencer (M&S) and the new range performed really well. By 2009, Finnebrogue had secured the entire contract to supply premium sausages to M&S stores throughout the UK and Ireland.

Interestingly, while Finnebrogue quickly established itself as a premium producer of artisan sausages, the company held back from taking the obvious next step – producing a range of rashers.

"I was really unhappy with the nitrates issue in pork. And I didn't want to start producing bacon rashers until we could get around that," says Lynn.

After years of research, Lynn eventually came across a Spanish company called Prosur, which had developed a natural flavouring method for bacon using fruits and spice extracts. Collaborating with Prosur, Finnebrogue finally launched its range of nitrate-free bacon in 2018 under a brand called "Naked".

The company has since extended the brand to its range of sausages and cooked ham. The Naked brand is just over two years old but Lynn estimates that it is valued at more than £30m (€35m) already.

GROWTH

The rapid growth in the Finnebrogue business can be clearly seen in its topline figures. In 2009, when the business had just won the entire contract to supply M&S with its top-tier range of sausages, Finnebrogue had annual sales of £3.5m (€4.1m).

This year, Lynn says the business will generate sales of £180m (€212m), which reflects a compound annual growth rate of 38% for the past 12 years. Keeping up with this pace of growth was something of a nightmare, admits Lynn.

In the last six years, Finnebrogue has invested £90m (€106m) in capital projects to build extra capacity across its network of processing.

The most recent investment is a £30m (€35m) capital project to build a new facility to produce plant-based alternatives to traditional meat products.

For Lynn, the plant-based revolution in food will be the third major evolution of Finnebrogue. The company has launched a new range of plant-based alternatives to traditional chicken, pork and beef products under its Naked brand.

Earlier this year, Finnebrogue announced it had won a new contract with UK retailer Asda to supply it with a range of eight new plant-based products, including meat-free kievs, nuggets, goujons, rashers and mince.

Finnebrogue sausages.

"We're going to produce meat-free alternatives to sausages, rashers, beef and chicken. But for plant-based alternatives to succeed they need to perform like traditional animal-based products, be cheaper and be just as nutritious," says Lynn.

"Right now, meat and dairy alternatives cost three times the price of traditional products. But every week they are getting cheaper. And they are also getting better and getting more nutritious," he adds.

INVESTMENT

Underlining the potential growth in demand for plant-based foods, Lynn says Finnebrogue's new purpose-built facility for making plant-based will have the option to double capacity over the coming years as the market grows.

Lynn says he fully intends for Finnebrogue to tackle the likes of Impossible Foods and Beyond Meat head-on over the coming years as the market for plant-based foods expands.

However, while Finnebrogue is clearly targeting plant-based as a market for future growth, Lynn believes traditional meat will still be an important part of human diets.

"I think there will still be a market for meat in the future but it will be really high-quality meat. I am already eating less meat because I believe it is better for me and better for the planet. But when I do eat meat I want it to be really high-quality," says Lynn.

As part of this flight to premium products, Finnebrogue is on the verge of publishing environmental scores on all of its front of pack labelling from this year.

"We've got ourselves into a position where we're going to be able to start publishing enviro scores on all our products later this year. Some of the largest food companies in the world are really engaged with us on this," says Lynn.

"I love eating pork but we need to start thinking about what an eco-pig would look like in terms of its

Finnebrogue factory.

impact on the environment. Or what does an eco-cow look like?

"I think that's where there will still be a market for really high-quality meat products that have minimal impact on the environment. That might frighten farmers but Ireland is perfectly set up to take advantage of this because of the grass-based farming system," he adds.

FUTURE

Lynn came to the meat industry as an outsider, which allowed him to see things differently and create the differentiated, high-end products that has set his company apart for the last decade.

His ability to see things differently means he does not see plant-based foods as a threat to his core pork business today.

Instead, he has jumped at the opportunity this new market will present and invested heavily to get the capacity in place to meet the future demand growth he believes will inevitably come for plant-based alternatives.

"I honestly don't see a slowdown coming. The growth story of this business is only starting," says Lynn.

Finnebrogue originally started off its business importing French fries from the Netherlands.

KEY POINTS

- Started with importing chips before moving into venison.
- Lost money, contract for premium sausages with M&S was the big breakthrough.
- Future meat market will be for high-quality meat alongside plant-based alternatives.

BROWN TO GREEN

In a wide-ranging interview, Bord na Móna chief executive Tom Donnellan outlines his vision for the future of the company and how it can help tackle the climate crisis. **Lorcan Allen** reports

When Tom Donnellan joined Bord na Móna in 2018, the company was facing a very uncertain future. The growing climate crisis meant the days were numbered for its core business of harvesting peat, which had become unsustainable on a number of fronts.

Planning permission for the peat-fired power stations in the midlands was coming to an end and the public service levy (PSO) that effectively supported Bord na Móna was also due to end.

On top of these major headwinds, the company was haemorrhaging money due to an unbalanced cost structure and the Irish Government had just introduced a carbon tax on all fossil fuels. It was a perfect storm for a company that is almost as old as the Irish state.

"When I joined Bord na Móna, the company was at a crossroads. There was a real concern as to whether it could continue as an entity. Many felt that climate change was the death knell for the company and they couldn't see a way forward," says Donnellan.

"At the time, the strategy was to keep harvesting peat up until 2030. That was plan A. And plan B was to keep harvesting peat after 2030. There was no vision for the company outside of peat," he adds.

A native of Co Clare, Donnellan joined Bord na Móna from the private sector having worked most recently for Alcatel Lucent, a France-based telecoms giant owned by Nokia. However, before he could begin to think about a new strategic direction for Bord na Móna, Donnellan recognised that he had to get the company back to a financially sound position first.

At the time, Bord na Móna's horticulture business and fuels business (peat briquettes) were losing money, while the company's core business of selling peat to generate electricity was only profitable due to the PSO levy. Mostly, the company's cost structures had grown to an unsustainable level.

PROFITS

In 2017, the year before Donnellan joined, Bord na Móna had made an operating loss of €6.1m, while pre-tax losses were close to €15m.

In a bid to turns things around, Bord na Móna underwent a major restructuring programme in 2018 and 2019 as it stripped out 40% of fixed costs from the business, an unusual step for a semi-state company.

The majority of these fixed costs were related to staff, as the company had become "top heavy" with too many management layers.

Over 400 employees left the company as part of a voluntary redundancy scheme, with half of these redundancies in some form of management role. For an old institution like Bord na Móna this restructur-

ing process came as something of a shock, particularly for local communities in the midlands.

Between 2018 and 2019, Bord na Móna incurred almost €80m in restructuring charges related to redundancies and the closure of certain operations. The business is now on a much sounder footing and Donnellan said he expects Bord na Móna to deliver a significant profit for 2020, which will be the first profit in four years.

Donnellan says Bord na Móna will also be debt free this year for the first time in the company's history, having slashed its net debt from over €170m just four years ago.

With the finances of Bord na Móna stabilised, Donnellan and his team set about creating a new strategic direction for the company.

"Climate change was seen by many as a threat to Bord na Móna but it actually presents loads of opportunities. We developed a new strategy for the company called "Brown to Green" and repositioned Bord na Móna as a climate solutions business," says Donnellan.

Tom Donnellan, chief executive of Bord na Móna.
\ Damien Eagers Photography

As part of this new strategy, Bord na Móna will have four new business units dedicated to:

- Renewable power generation.
- Resource recovery and the circular economy.
- Peatland restoration and management.
- New business and innovation.

RENEWABLE POWER

Transitioning into renewable power generation was slowly happening when Donnellan first arrived at Bord na Móna. The company operated a number of wind farms around the country, was beginning to develop its biomass capacity to fuel its power station in Edenderry, Co Offaly, and also owned a 5.6MW biogas plant in Kildare.

However, the new strategy for Bord na Móna has seen a step change in its ambitions in this area.

"We've gone from building a new renewable project every four years to now building two projects every year. We've doubled the size of the team in our renewable power division to 200 and these are all really high-skilled jobs," says Donnellan.

With the finances of Bord na Móna stabilised, Tom Donnellan and his team set about creating a new strategic direction for the company.

"The goal is to develop a really diverse portfolio of renewable energy assets over the next decade. These will be a mixture of wind, solar, battery and biogas assets," he adds.

This year, Bord na Móna is in the process of constructing a 75MW wind farm at Cloncreen, Co Offaly, following an investment of €100m, while the second phase of its wind farm in Oweninny in Co Mayo is also nearing completion.

The Oweninny wind farm is a 50-50 joint venture between Bord na Móna and ESB. The first phase of the farm was completed in 2019 and has capacity for 93MW of renewable power.

When the second phase is completed, the renewable energy capacity of the wind farm will increase to more than 170MW per annum.

A third phase is also planned for Oweninny, which would further increase its renewable energy capacity close to 270MW per annum.

The company also received planning permission last year to begin work on a 90MW wind farm at Derryadd in Co Longford, which will also be the first wind farm to include a battery storage facility on site.

Bord na Móna has also started the planning process for an 85MW wind farm between Birr and Cloghan in Co Offaly, while it is at the pre-planning stage for two new wind farms at Ferbane and Edenderry in Co Offaly and another planned for Ballivor in Co Meath.

Outside of wind, Donnellan says Bord na Móna is getting ready to begin construction of a new 807ha solar farm at Timahoe in Co Kildare, which would produce up to 70MW of renewable power. The company is also planning a new large-scale biogas facility at Cúil na Móna bog in Co Laois, which would be able to produce renewable bio-methane from up to 80,000t of landfill waste.

Meanwhile, at its Edenderry power plant, Bord na Móna hopes to continue producing electricity at the facility after its current planning expires in 2023. From 2023, the company will not be allowed to burn peat at the facility and is instead aiming to use 100% biomass to generate electricity at Edenderry.

This would eliminate the need for peat altogether and see 850,000t to 900,000t of biomass used every year as feedstock for the plant.

Bord na Móna has submitted its planning application to continue to operate the Edenderry power plant after 2023 solely on biomass but this is likely to face opposition from environmental groups.

NEW BUSINESS

The final division of the repurposed Bord na Móna will focus on new business developments and investments in innovation.

The company is opening a new "green innovation hub" at Lough Boora in Co Offaly, which will be backed by the EU's Just Transition fund. Donnellan says Bord na Móna has a long track record of innovation and hopes the new green hub will be a centre for incubating new business ideas and innovations linked to sustainability and climate solutions.

The green innovation hub is backed by Enterprise Ireland and will also include collaborations from Athlone IT, Maynooth University, Limerick IT, Kilcormac Development Association and Offaly County Council.

CIRCULAR ECONOMY

When Donnellan and his senior management team stood back and looked at Bord na Móna, the other area where they saw significant growth opportunity was in its waste management business AES. At the time, many within the company saw AES as non-core to Bord na Móna and felt it should be sold.

Instead, Donnellan has doubled down in this area and sees Bord na Móna as being a major consolidator in the waste management industry over the coming years as the concept of the circular bio-economy gains momentum.

Today, the company operates a traditional waste collection service and two major recycling plants.

The first recycling plant is located in Drogheda and recycles used tyres into a product called crumb rubber, which is then used in astro turf pitches and other similar surfaces.

This business now recycles half of the 1.5m used car tyres in Ireland every year and has also developed schemes to help farmers dispose of old tyres that may have once been used to cover silage pits.

The second recycling business operated by Bord na Móna is based in Littleton in Co Tipperary at the site of an old peat briquette factory. This facility has the capacity to process 24,000t of plastic fill every year and is currently expanding to include recycling capability for bottled plastic.

Outside of recycling, AES operates the largest landfill site in Ireland at Drehid, Co Kildare, and another landfill at Cúil na Móna in Laois.

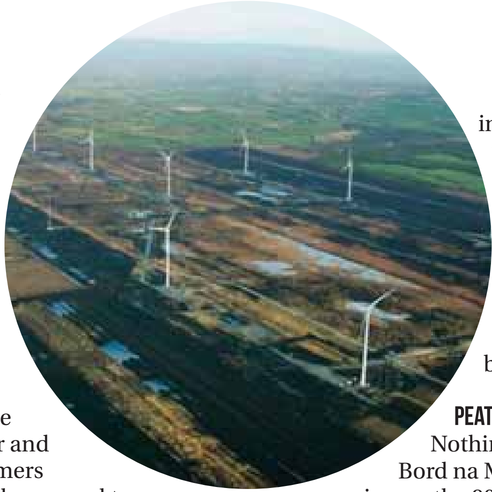
The company aims to transform its Drehid site into what's known as a "sustainable landfill", where all waste is stored in a lined cell structure that protects the natural environment while also capturing the naturally occurring gases from the waste to be used as renewable biogas.

Bord na Móna already has a biogas facility up and running at Drehid and it is now planning a second biogas plant at its Laois landfill.

This concept of producing renewable energy from waste is an important part of Bord na Móna's strategy for its waste management division as it feeds into its broader strategy for a circular economy.

The entire waste management industry is changing rapidly thanks to technological advancements. Up to now, Ireland has exported a significant portion of all its waste, with most of its plastic recyclables shipped overseas.

The EU is clamping down on member states exporting their waste, meaning significant investment will be required in the Irish waste management sector over the coming decade to build new waste processing or recycling facilities.



Bord na Móna wind farm.

However, the waste management sector in Ireland remains highly fragmented today with a lot of family businesses operating throughout the country.

Given its scale, Donnellan feels Bord na Móna is perfectly placed to act as a consolidator in this sector as smaller, family-owned businesses are unlikely to be able to fund the required capital investments in new technology that will be needed to continue in the industry.

PEAT

Nothing illustrates the unfolding transition at Bord na Móna like the changes that are happening on the 80,000ha of bogs it still owns today.

At its peak, Bord na Móna harvested up to 6.5m tonnes of peat every year. The majority of this peat was used to fuel the power stations in the midlands but it was also used to create peat briquettes and provided an important raw material for the horticulture sector.

At the start of this year, Bord na Móna formally announced it had ceased all peat harvesting operations. The value of Ireland's peatlands is now clearly linked to their capacity to act as a vast carbon sink. Over the coming years, Bord na Móna will invest €126m in an unprecedented bog rewetting programme across 33,000ha (82,000 acres) of land.

The company aims to trap 109m tonnes of $C0_2$ back into its peat soils after decades of draining and harvesting. Donnellan believes this new division of Bord na Móna will be key to its success as it seeks to reposition itself as a climate solutions business.

Alongside this, Bord na Móna has said it will cease making peat briquettes in the coming years, which are hugely popular with Irish consumers. However, the company says it has recently developed a new "green briquette" made from renewable biomass.

On the horticulture side, Donnellan says a number of its major retail customers in the UK and abroad have been seeking an alternative to traditional peat for growing plants for the past number of years.

And while peat is still the key input for the horticulture sector today, renewable forms of plant compost are coming on stream that will eventually displace traditional peat once stocks run out.

KEY POINTS

- Traditional business loss-making.
- €80m restructuring costs but debt free in 2021.
- Goal to develop diverse portfolio of renewable energy.

FUTURE

While he's only been with the company for three years, Tom Donnellan has already achieved a lot at Bord na Móna.

With the company now in a healthy financial state, Donnellan is planning a €1.6bn programme of capital investments over the coming decade to drive the required change in Bord na Móna as part of its "Brown to Green" strategy.

CAPITAL

Raising the required capital doesn't look like it will be an issue for the company with Donnellan reporting really strong interest from financial markets eager to funnel money into green or sustainable business opportunities.

As part of this capital investment programme, Donnellan expects employment levels in Bord na Móna to increase back to about 2,000 people from its current level of 1,500, which would be an important boost to the midlands economy that has so depended on the company for many generations.

"The midlands of Ireland is part of the DNA of this company. There's great loyalty to Bord na Móna from communities here and we have a responsibility to be more relevant than ever to those people. We want to be a provider of really high-value jobs that young people today are looking for," he says.

Overall, Donnellan's goal is to bring Bord na Móna full circle where it will be a fully fledged climate solutions business.

As of today, about 75% of the company's turnover comes from renewable energy and sustainable products but Donnellan says this figure will have reached 100% by 2025.

It still has a road to travel but if Bord na Móna completes its transition to the climate solutions business as laid out in Donnellan's "Brown to Green" strategy, it certainly can lay claim to being one of the most impressive business transformation stories in Irish history.

SOLVING THE AMMONIA CONUNDRUM

Irish agribusiness Easyfix built its success on best-in-class animal welfare solutions. Now it is turning its attention to the sustainability agenda, writes **Lorcan Allen**

The 1990s was a time of enormous change in Ireland. After centuries in the doldrums, an economic boom took off in Ireland as our economy began to change dramatically. Fuelled by foreign direct investment by some of the world's largest multinationals, Ireland emerged as one of the world's fastest-growing economies in the world during the 1990s.

The nature of employment also changed with a much greater emphasis on highly skilled roles that had not existed previously. Even the Irish national football team reached levels that had previously been unimaginable as they qualified for the 1990 and 1994 World Cups.

And just as every other area of Ireland was changing, so too was Irish agriculture. The inflow of European funding into Irish farming over the 1980s and 1990s via the Common Agricultural Policy (CAP) resulted in significant infrastructure investment on farms up and down the country.

KEY POINTS

- Rubber-covered slats were slow to catch on with Irish farmers.
- Solving ammonia problem on Irish farms will be tricky.

In particular, a building boom took off within Irish agriculture as farmers began to invest in proper housing facilities for livestock for the very first time. The advent of the slatted shed in Irish farming was a crucial turning point in terms of animal welfare, manure management and grassland farming.

The installation of proper winter housing was particularly important for Irish farmers in the western part of the country, where heavier rainfall typically results in longer periods indoors for livestock.

INNOVATION

Seeing all these concrete slatted tanks going up on farms all around him, Galway native Michael Earls began thinking about the next logical question – was a cow really designed to be standing on concrete slats for prolonged periods of the year?

With this question in mind, Earls began experimenting in the mid-nineties with rubber slats on his home farm in Athenry, Co Galway. After much trial and error, he eventually developed the first iteration of what most farmers know today as the Easyfix slat rubber system.

Earls patented his new design and Easyfix was born as a company in 1996. This year, the company

celebrates 25 years in business. It has grown from a one-man operation based out of a farmyard to a business that employs almost 50 people and has export sales in over 60 global markets. Indeed, almost two-thirds of the company's sales today come from export markets.

Despite its global appeal, the Easyfix slat rubber system wasn't an easy sell at first, says Niall Earls, sales manager with Easyfix.

"Back in the 1990s, most Irish farmers were just so happy to have a slatted shed for their cattle. The idea of rubber slats was quite a difficult sell at the time. But Irish farmers really care about the welfare of their livestock and we slowly changed their mindsets about rubber slats over the years," says Earls.

Having steadily built up the business in Ireland, Easyfix got its first opportunity to export in the early 2000s when it won some business in the UK and the Netherlands. However, it wasn't until 2008 that the company got its first big break internationally when it was asked to take part in a study on veal production systems by Wageningen University in the Netherlands.

ABOVE: Easyfix feed barriers.

LEFT: Easyfix mats.

ANIMAL WELFARE

Anyone who has any experience of agriculture in the Netherlands will know how animal welfare is by far the biggest concern among Dutch consumers. As such, Easyfix was asked to participate in the Wageningen study to trial its rubber slats from an animal welfare and performance perspective.

"Animal welfare is a huge concern for Dutch consumers, particularly in its veal industry. We agreed to take part in the Wageningen study and our slat rubber system would have got a lot of recognition from the results of that study," says PJ Burke, sales director with Easyfix.

In the years that followed the release of the Wageningen study, Easyfix began to attract international customers from all over the world, including farming powerhouses such as the US and Germany.

The company now operates dedicated international sales offices in the UK, Germany and South Dakota in the US. Easyfix is currently looking at opening a fourth international sales office in Spain.

Easyfix founder Michael Earls.

Ronan Boyle, who leads a lot of the international sales for Easyfix, attributes the company's success in global markets to its mindset.

"One of the key things that makes Easyfix a successful company is our approach to business. We really believe in the face-to-face and personal approach to customers. You have to be mobile and you have to get in front of customers," says Boyle.

"A meat processing company from Botswana contacted us a number of years ago saying it needed to upgrade its lairage facility. A week later I was in Botswana meeting the company and we got the contract for supplying the rubber mats. You can accomplish an awful lot by taking that approach with customers," he adds.

While slat rubber remains the number one product for the company, Easyfix has increasingly innovated over the last decade to develop more and more new products.

The company has a contract to supply rubber fittings to DeLaval, the global milking machine manufacturer, while it has also branched into manufacturing plastic products for the equine industry.

But Easyfix's core business remains inside the farm shed. As well as manufacturing slatted rubber, the company offers

FUTURE

While Irish agriculture faces some daunting challenges over the coming years, most of which relate to sustainability and cutting emissions, farmers should be confident that technologies will emerge to solve these problems.

Ammonia is perhaps the trickiest problem of all to solve but the agriculture industry is developing solutions to the challenge. The new slurry management system from Easyfix is just the latest technology to emerge that has the potential to offer Irish farming a whole suite of options when it comes to reducing its environmental impact.

Of course, adoption of new technology will be slow unless it is properly incentivised by regulators. Moving the dial on behavioural change at farm level means the EU and the Department of Agriculture and farm advisors needs to support farmers on making these, often costly, investments on their farms.

Just as the investment in slatted sheds in the 1980s and 1990s yielded major improvements in animal welfare standards, subsidising a new wave of investment in ammonia reducing technology across European farms will yield major benefits for air and water quality.

plastic cubicles, feed barriers, cow mattresses and many other plastic-based products.

Easyfix mats and cubicles.

SUSTAINABILITY

However, Easyfix is now beginning to look at new opportunities that could take the company in interesting new directions. Having built a business focused on the environment above the slats in a slatted shed, Easyfix has made a recent acquisition that will allow it to go below the slats for the first time.

In March of this year, the company announced it had acquired a new slurry management system called "Aeromix", which can dramatically lower ammonia emissions from stored slurry.

Easyfix said it will rebrand the system as Easyfix Slurry Technology and that it will form a new division within the company. Having built a successful business on rubber products, this is clearly a new departure for Easyfix which will take it outside its core business.

Yet there is clearly opportunity in this space. The sustainability agenda is only going to intensify in European agriculture and ammonia is one of the most difficult challenges facing farmers in many countries.

In Ireland, almost 100% of ammonia emissions come from agriculture. For the past three years, ammonia emissions in Ireland have consistently exceeded the ceiling of 116 kilotonnes per annum set by the EPA.

The most recent figures published by the EPA show Irish ammonia emissions in 2018 stood at 119.3 kilotonnes.

Reversing this trend of rising ammonia emissions is going to be tricky for Irish farmers, especially since the EU has set an even stricter limit on ammonia levels for Ireland for the coming decade with the ceiling lowered to just 112 kilotonnes.

> EPA figures show Irish ammonia emissions in 2018 stood at 119.3 kilotonnes

In 2020, Teagasc published a strategy roadmap for reducing ammonia emissions in Irish agriculture, which outlines 13 different measures that farmers can take to reduce ammonia.

The two standout technologies from this roadmap were protected urea and low-emissions slurry spreading (LESS). Together, these two measures alone would deliver up to 80% of the target outlined in the ammonia marginal abatement cost curve (MACC) at a cost of €5.5m per annum.

They would result in a 10% cut in ammonia emissions from Irish farms and bring ammonia levels down to 107 kilotonnes per annum, which is well below the emissions ceiling set by the EU.

However, both of these measures only deal with ammonia lost in the field. According to the EPA, the storage and housing of livestock manure is the source of almost half (47%) of all ammonia emissions in Ireland.

As such, intervention within the slatted shed or housing unit offers major potential to slash ammonia, which has a very negative impact on air and water quality.

And this is the opportunity that Easyfix is targeting next. The Aeromix system it recently acquired is a technology that is fitted inside a slurry storage tank. The system injects air into the slurry at intermittent phases, which keeps the slurry agitated at all times and helps greatly reduce ammonia emissions from stored slurry.

Trials conducted by Wageningen show the system reduced ammonia emissions from stored slurry by more than 50% compared to normal slurry storage.

Given the urgent need to reduce emissions of all kinds, a future where it will be mandatory to include a system like this in all new slurry storage units or slatted tanks is foreseeable.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