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€8.85 billion

The value of Irish food & drink exports increased by 12% in 2011 to reach €8.85bn.

PERFORMANCE & OUTLOOK

Overview

- It is estimated that the value of Irish food and drink exports increased by 12% in 2011 to reach €8.85 billion. This amounts to a rise of almost €1bn and follows a similar rise in 2010. Exports in 2011 are running 25% ahead of the levels recorded in 2009.
- The export performance was boosted by global prices for major commodities, a positive supply/demand balance in some key categories, a tentative return to price inflation across most major European markets and reduced volatility in exchange rates.
- In addition to the high prices evident for most commodities during 2011, a number of key sectors - including dairy, beverages and pigmeat - also recorded higher output. Overall, it is estimated that volume growth across some key categories accounted for 25% of the total growth in export revenues during 2011.
- Food and drink exports grew at three times the rate of total merchandise exports for the first nine months of 2011, leaving the sector accounting for 25% of the rise in export revenue.
- All categories recorded an increase with the exception of live animals. The strongest performers were dairy, meat and seafood.
- The prospects for Irish food and drink exports in 2012

remain positive, although lower output availability in some sectors combined with some anticipated softening in global commodity prices are likely to result in more limited growth potential.

- The growth in export returns for primary products has helped boost producer confidence in the sector and we are already seeing the first signs of herd rebuilding in the beef and sheep sectors, which will boost output over the medium term while dairy producers continue to gear up for quota removal in 2015.

Destinations for Irish Food & Drink

- During 2011, further changes in the market distribution of Irish food and drink exports were evident with a reduced reliance on the traditional UK market as a greater proportion of our exports go to other European countries and international markets.
- The **United Kingdom** is estimated to have accounted for just over 41% of total Irish food and drink exports in 2011 with shipments rising by 6% to reach €3.66bn. The main drivers of export growth to the UK were dairy and beef and to a lesser extent sheepmeat and poultry.
- Exports of Irish food and drink products to **other European markets** are estimated to have increased by 16% or €400m in 2011 to reach €3bn. All major markets recorded strong export growth led by the Netherlands, Germany and France. As a result, the share of exports going to the region increased to 34%.

- Irish food and drink exports performed very strongly to **International markets** led by significant growth in dairy, meat and seafood exports. For the year, it is estimated that exports outside of Europe grew by 20% or €350m to reach almost €2.2bn.

Key Drivers of Export Performance

- While the consumer search for value continues, the first tentative signs of higher consumer prices emerged across the euro area during 2011. In October 2011, the consumer food price index for the euro area was almost 3% ahead of a year earlier while UK prices were 5% higher.
- It remains to be seen what impact any economic developments within Europe will have on consumer confidence. Given the tentative nature of increases to date, any negative economic developments are likely to put renewed pressure on prices.
- Ireland's Competitiveness Scorecard for 2011 published by Forfás showed that during the period April 2008 to February 2011, Ireland's overall harmonised competitiveness index depreciated by more than 12% in real terms, which is helping the sector's competitiveness on export markets.
- Despite the economic recession, agricultural commodity prices remain at record levels. Following the new all time high recorded in February 2011, the FAO food price index has eased somewhat but still recorded growth of 26% during the first 11 months of 2011.

€1.8 billion

Since 2009 the value of food & drink exports has increased by €1.8bn or 25%.



Meat & Livestock

- The **combined value of meat and livestock exports grew by an estimated 11% to €2.8 billion in 2011**. Increased export revenues were recorded for beef, pigmeat, sheepmeat and poultry, which offset reduced exports of livestock.
- The value of **beef** exports is estimated have jumped by 15% or over €230m during 2011 as lower volumes were offset by a strong increase in cattle prices.
- A rise of 9% in export meat plant pig supplies during 2011 combined with a rise of 9% in average pig prices helped to boost the value of Irish **pigmeat** exports by 18% or almost €60m.
- Stronger poultry volumes combined with a modest increase in prices resulted in the value of Irish **poultry** exports rising by 3% to reach an estimated €210m.
- A stabilisation in export availability and ongoing strong prices for lambs led to the value of Irish **sheepmeat** exports rising by 10% in 2011 to reach €180m.
- Lower live cattle and sheep exports more than offset strong pig shipments and despite stronger prices prevailing, the value of **livestock** exports is estimated to have declined by 16% to €205m.
- The prospects for the meat & livestock sector in 2012 remain broadly positive with a tight supply situation both in Ireland and across Europe expected to help maintain

strong returns for beef exports. Feed price developments will play a critical role in both the pigmeat and poultry sectors while after more than a decade of decline some recovery is anticipated in the volume of sheepmeat exports.

Dairy Products & Ingredients

- Overall, it is estimated that the value of dairy exports increased by 17% to exceed €2.66 billion, helped by higher prices reflecting strong global dairy demand for much of the year and higher milk production in Ireland.
- For most products, European prices increased by 10% to 15% during 2011 with the strongest increases evident in powders and butter. Global prices showed similar trends. The Fonterra auction price for WMP increased by 7% in 2011, which followed a rise of 40% in 2010.
- Milk output in Ireland increased strongly throughout 2011 as a combination of good grass growth and high prices boosted output. For the 10 months to October deliveries were running 6.5% higher. However, deliveries slowed down considerably over the autumn months and for the year a rise of around 5% in output is anticipated.
- All export destinations showed strong growth, led by Continental European markets, which increased by almost a third to €880 million. This leaves the region accounting for a third of the total. Exports to International markets also performed well, helped by strong shipments to China, South East Asia, the Middle East, Africa and the United States.

- The prospects for 2012 remain generally positive with global demand likely to be sustained at levels well above historical averages. If global stocks begin to build, it will put some downward pressure on prices, although overall market fundamentals remain sound in many regions. The greatest uncertainty exists within Europe given recent economic developments. Following a strong increase in output during 2011, the early months of 2012 are likely to see reduced Irish milk output.

Prepared Foods

- The market environment for Prepared Food products remained competitive throughout 2011. However, the strong cost focus within the category and an ever increasing focus on product development and expanding the range of customers and markets served helped the sector deliver a commendable export performance.
- **Overall, export values of products covered under the prepared foods category increased by an estimated 12% to €1.54 billion.**
- The strongest performing categories during the year were value added dairy products, meat based products and chocolate confectionery. These helped to partly offset a difficult environment for other categories.
- The improved efficiencies evident among Irish manufacturers leaves them in a better position to compete in key markets. However, ongoing high commodity prices, promotional and currency pressures allied with economic uncertainty and accompanying austerity measures, seem



€1.22bn

Beverage exports are estimated to have increased by 6% in 2011 to reach €1.22bn.

set to create a challenging marketing environment for prepared food manufacturers in 2012.

- However, the strong drive by manufacturers to adapt existing products and develop new ones to meet changed consumer shopping requirements and diversification to a broader range of markets should help export values.

Beverages

- The global market for Irish beverages improved during 2011, despite ongoing economic uncertainty, pressure on price levels and intense competition across most major categories. A strong focus on new product development and increased volumes to emerging markets helped to boost trade.
- Overall, exports are estimated to have **increased by 6% in 2011 to reach €1.22bn**. The growth in the value of exports was led by whiskey, which continued to show strong double digit growth while cream liqueurs, beer and cider showed more modest growth. Exports of non-alcoholic beverages increased in 2011, with water and coffee performing particularly strongly.
- The prospects for Irish beverage exports in 2012 remain largely positive with further good growth anticipated in whiskey exports while cream liqueurs, beer and cider are also expected to grow as new markets emerge to replace lower sales to some traditional destinations.
- Much will depend on economic developments, particularly in the euro zone, which will have a strong influence on

consumer spending. Despite the current economic situation, consumers in many parts of the world seem to be still willing to purchase premium spirits.

- The sector faces challenges in the form of ongoing high raw material prices, pending legal changes relating to excise on wine based creams and changes to trade classifications for Irish cream liqueurs.

Seafood

- The value of Irish seafood exports showed strong growth during 2011 despite volumes falling by a fifth. All categories of seafood put in strong export performances as reduced volumes of many species were offset by higher prices and a greater spread of export markets by the sector.
- Overall for the year, **the value of seafood exports is estimated to have increased by 13% to an estimated €420 million**.
- The prospects for Irish seafood exports in 2012 remain positive. However, much will depend on supply levels from competing sources across a number of species and the level of consumer demand given the current high prices. As with other sectors the ongoing exchange rate uncertainty and export credit insurance will continue to present issues for the sector.

Edible Horticulture & Cereals

- The strength of cereal prices combined with stronger exports of mushrooms to the UK boosted the value of

edible horticulture and cereal exports in 2011. For the year, overall **exports of edible horticulture and cereals increased by 9% to reach €210m**.

- The prospects for edible horticulture and cereal exports remain broadly positive for 2012 as an anticipated tightening in mushroom supplies across Europe is likely to boost demand for Irish mushrooms. The second of the three year EU funded promotional programme will be rolled out in the UK during 2012, which will help further boost sales and build on the momentum created in 2011.

Industry Issues

- The results of the annual Bord Bia industry survey, completed in late December 2011, show increased optimism among food and drink manufacturers across all categories. In total, 85% of exporters that responded viewed the prospects for their business in 2012 as good or very good. This compares to 70% in 2010.
- Almost two thirds of respondents rated their business prospects as much improved/improved compared to a year earlier. In terms of sales prospects, 69% of respondents stated that they had increased their sales forecasts for 2012.
- The principal reasons highlighted for the improvement in business prospects for 2012 included:

64%



Some 64% of respondents to Bord Bia's annual industry survey stated that they had increased their spend on business development and sales over the last 12 months.

- 86% had secured new customers.
- 71% had developed new product offerings.
- 66% had secured new markets (either geographical or channel).
- 59% had improved competitiveness.
- 31% had better price prospects.
- The strength of the sector is highlighted by the fact that some 42% of respondents stated that they had increased full time staff numbers over the last year with a further 46% maintaining numbers in full time employment.
- When asked about changes in their business some interesting responses in relation to business development emerged:
 - 56% had increased the number of product lines.
 - 64% had increased spend on business development and sales.
- Exporting respondents also highlighted a number of critical factors for business success over the next 12 months. These included:
 - Control of costs within their own business - 93%.
 - Costs of businesses that provide services to them- 78%.
 - Development of new channels or markets - 75%.
- In terms of challenges facing their business, exporting respondents list the following as the principal challenges facing them in the UK:
 - Difficulty in passing on increases in input costs increased from 70% to 81%.
 - However, difficulty in securing price increases showed a slight fall from 75% to 69%.

- Some 71% listed the focus by consumers on value for money, compared to 65% in 2010.
- Competition between retailers fell from 59% to 52%.
- The renewed focus by manufacturers over recent years on costs and investment in business development has left the sector in a better position to compete in what continues to be a highly competitive sector.
- The main policy developments that will shape the future direction of the Irish Agri-food sector continue to focus around WTO and the CAP. The last year has seen little, if any, movement in terms of the WTO with more focus continuing to be placed on bilateral agreements. The most notable of these has been the discussions between the EU and Mercosur.
- In terms of the CAP, the publication towards the end of 2011 of the EU proposals for the shape of the CAP post 2013 highlight a number of challenges for Ireland. Any final agreement needs to ensure that Ireland's primary agriculture supply base is maintained and the policy measures are in place to help drive the sector towards the targets set out in Food Harvest 2020.

ECONOMIC ENVIRONMENT

- Global economic activity is increasing but has weakened considerably and become more uneven, leaving a fragile and unbalanced global economy facing many challenges.
- Against this backdrop, OECD countries are projected to expand by 1.6% in 2012, while the International Monetary Fund (IMF) expects global growth to continue

but to operate below potential having projected output growth of around 4% in 2012.

- The signs of a slowdown in the rate of economic growth in the BRIC Countries – Brazil, Russia, India and China – are an indication of the interconnected nature of the global economy and the importance of demand from Europe and the US.
- The recent performance of Irish exports means that export levels are now above their pre-recession peak, while exports in the majority of western economies remain suppressed below their respective pre-recession levels.
- The significant improvement in Irish competitiveness has been a key factor in achieving strong growth, while a diverse portfolio in comparison with other countries has created a more resilient export sector.
- Due to productivity gains and wage restraint, Ireland has recorded the largest decrease in unit labour costs among euro area countries.
- Despite notable improvements in competitiveness, Irish exports continue to face the challenges of dealing with the difficulties evident in the euro zone, which is facing an uncertain short-term economic outlook.

CONSUMER TRENDS

- As part of our Consumer Lifestyle Trends Programme, Bord Bia has recently explored the opportunity areas for food and drink companies in the health, wellness and nutrition space. The research was undertaken in

conjunction with The Futures Company to develop a detailed view on the future of health and wellness.

- The research highlighted a number of important drivers shaping the health and wellness agenda:
 - Consumers are living in an increasingly uncertain and resource constrained world.
 - Healthcare resources globally are under increasing pressure.
 - Social and demographic shifts will define the health and wellness landscape.
 - Information and practical guidance will be important.
 - Positive food values are threatened by changing lifestyles.
 - Nature and science remain in tension.
- By thinking about different ways in which these drivers might combine, a number of new opportunity areas for food and drink manufacturers were identified. In total the research identified the top 15 opportunities. The following five are designed to highlight some of the areas of opportunity identified.
 - **Simple goodness: “I want my children to eat healthy foods that are free from nasties”.** Parents are increasingly worried about what goes into the products they give to their children. There’s a growing trend towards the simplification of ingredients, “clean labels” and additive-free food.
 - **Food as fuel: “I want food and drink that help me perform at my best”.** Maximising physical

performance and endurance is becoming an integral part of managing health. Products that boost energy levels are moving out of the niche sports market and into the mainstream.

- **Ageing well: “I want to act and feel younger for longer”.** Advances in science, rising incomes and better diets mean that average life expectancy is rising in most countries. For consumers there are two main priorities: finding ways to manage health issues as they age; preventing physical and mental decline.
- **Brain food: “I want to boost my concentration, focus and mental stamina”.** As the complexities of everyday life increase, mental acuity becomes more important. Food and drink that boosts concentration is becoming more popular across different age groups.
- **High benefit, low impact: “I want sustainable food that offers good nutrition”.** Population growth, climate change and rising resource prices are putting unprecedented pressure on global food markets. Securing the supply of nutritious food will require a concerted approach from governments, scientists and food and drink manufacturers.

BORD BIA INITIATIVES

Marketplace International 2012

Bord Bia will host Marketplace International 2012 on the 7th of February in Ireland’s new National Convention Centre. Over 300 international and 100 local food and beverage buyers are expected to attend. The buyers, which include representatives from retail; foodservice; convenience; online; wholesale; catering; distribution and manufacturing channels, will have the opportunity to meet with over 170 Irish branded and private label suppliers during 3,500 prescheduled meetings taking place throughout the day. Bord Bia is aiming to secure €15m in new business from the one day event.

Bord Bia’s Food and Drink Summit

Bord Bia’s Food and Drink Summit will present an update on progression towards Food Harvest 2020 initiatives, the vision for the Irish food and drink industry. The event attracted over 150 representatives from Ireland’s food and drink, including the industry’s leading CEOs in 2011.

Bloom 2012

Bord Bia’s gardening, food and family festival, Bloom, will take place for the sixth consecutive June Bank Holiday Weekend in 2012. Bloom will feature spectacular show gardens; over 50 floral displays; the Bord Bia Food Village showcasing the best of the Irish food industry including an artisan food market and five days of live entertainment for all ages. Bloom 2011 attracted 90,000 visitors to the 70 acre site where 400 exhibitors from the food and horticulture industry participated.

Brand Forum

Bord Bia's Brand Forum promotes the importance and advantages of the branded route to market. Member food and drink companies, range in size and profile from small enterprises to multinationals. Bord Bia works with Irish food and drink companies to develop and grow their brands with inspiring brand speakers, practical workshops and 1-2-1 mentoring. There are six events throughout the year at which industry and academic experts share their views on building better brands. A series of workshops are provided on themes such as social media and, PR, along with two days of mentoring on how to develop their brand. In 2011 there were over 80 member companies in the programme.

Trade Fairs

Bord Bia will participate at a number of key trade fairs during 2012 to boost the market profile and export reach of the Irish food and drink sector. A sample of some of the key trade fairs targeted for 2012 include:

- SIAL China
- Gulf Food
- SIAL Paris
- Speciality & Fine Food Fair, London
- European Seafood Exposition
- Fruit Logistica



THE **ECONOMIC** ENVIRONMENT

OVERVIEW

Export growth has been clearly set out as one of the key drivers in Ireland's economic recovery. Economic developments in our main trading regions in the European Union and beyond are going to play a critical role in the rate of growth achieved.

The other key factor likely to dictate our export performance is that of the competitive position of Irish export sectors relative to our competitors. The decisive action taken by the food and drink sector to reduce costs and enhance efficiencies while at the same time investing to broaden its customer and market reach leaves the sector well placed to deliver sustainable growth in exports over the medium term.



8.5%



China's economy is projected to grow by 8.5% in 2012, which is lower than the 9.3% achieved in 2011.

7%



India will accompany China in leading the global recovery during 2012. Economic growth in excess of 7% is envisaged.

PROSPECTS FOR 2012

The weaker than anticipated recovery in the United States and the worsening of the crisis in the euro zone sent reverberations across the global economy in 2011 which have resulted in a deterioration of consumer and business confidence across most advanced economies. As a result, global economic activity is set to increase at a slower rate in 2012 due to a more fragile and unbalanced global economy.

However, ongoing impressive growth rates are expected in emerging economies across Asia and Russia while prospects remain good for the Middle East.

IMPACT ON THE FOOD SECTOR

The Irish food sector has to date shown strong resilience in the face of the challenges presented by global economic developments. However, the continued pressure on consumer spending in many developed economies had dampened the prospects for growth. European consumer prices showed a tentative return to growth in 2011 and it remains to be seen if this can be maintained in the face of the economic uncertainty currently evident.

The strength of global agricultural commodity prices is set to be maintained, albeit at levels below the peaks recorded in the early months of 2011.

0.2%

The OECD has forecast the euro area to expand by a mere 0.2% in 2012. Emerging European economies are projected to offset little, if any, growth in more advanced economies.



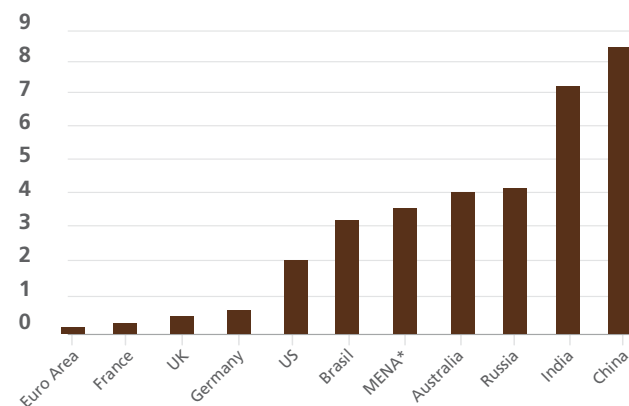
INTERNATIONAL ECONOMIC OUTLOOK FOR 2012

The weaker than anticipated recovery in the United States and the worsening of the crisis in the euro zone have resulted in a deterioration of consumer and business confidence across most advanced economies.

Notwithstanding the ongoing volatility and uncertainty, the return to more robust activity in these economies will be delayed rather than derailed, provided policymakers implement the required action over the coming months.

Global economic activity is increasing but has weakened considerably and become more uneven, leaving a fragile and unbalanced global economy facing many challenges. Surplus countries are resisting exchange rate appreciation however, in favour of imposing recessionary deflation on deficit countries, thereby increasing the likelihood of weakened global growth during 2012.

GDP growth in 2012, % change



*Middle East/North Africa.

Source: OECD Economic Outlook No. 90

Global economic growth to continue but at slower rate

Against this backdrop, OECD countries are projected to expand by 1.6% in 2012, while the International Monetary Fund (IMF) expects global growth to continue but to operate below potential having projected output growth of around 4% in 2012.

The deceleration of economic growth in the BRIC Countries – Brazil, Russia, India and China – is an indication of the interconnected nature of the global economy and the importance of demand from Europe and the US. It is therefore in the interest of the global economy that the euro zone problems are resolved and that the US economy reaches its potential if a more complete global recovery is to materialise.

GDP Growth in Major Economies and Ireland (% change)

Real GDP Growth	2011 (e)	2012 (f)
Ireland	1.2	1.0
Euro Area	1.6	0.2
Germany	3.0	0.6
France	1.6	0.3
United Kingdom	0.9	0.5
United States	1.7	2.0
Australia	1.8	4.0
Middle East & North Africa*	4.0	3.6
Brazil	3.4	3.2
Russia	4.0	4.1
India	7.7	7.2
China	9.3	8.5
OECD	1.9	1.6

E = Estimate, F= Forecast

Source: OECD Economic Outlook No. 90,

*IMF World Economic Outlook

UK GROWTH SLOWING

The UK recovery slowed significantly in 2011 due in particular to weak consumer spending which has been squeezed by tax increases and rising prices. Depressed real disposable income and fiscal consolidation are all factors that have contributed to sluggish economic growth in the UK. The UK has embarked on an ambitious fiscal consolidation path but this has created headwinds for economic growth. Government spending had been supporting economic growth to date but is set to decline in 2012 and be replaced by increasing exports as the main



2%

The US is expected to build on the modest growth recorded in 2011 and expand by 2% in 2012.

contributor to growth. The reliance of the UK on exports to euro zone countries is likely to impact on export growth.

Slower growth of 0.5% is projected for the UK in 2012. A relatively weak sterling is likely to persist. While this is expected to prop up exports and shrink imports, the contribution of net trade to overall GDP growth will be hindered as a result of adverse events in the UK's main markets – Europe and the US – which will also suppress UK investment and consumption.

Mixed trends across euro zone

The prospects of the European economy facing recession again in the first half of 2012 have increased due to the escalation of sovereign debt problems, fiscal austerity and the continued lack of liquidity, each of which are weighing on business and consumer sentiment.

While most of the leading indicators are now pointing to a sharp slowdown in economic activity, it is extremely difficult however to predict the extent of this due to the sheer volatility and turbulent nature of economic developments. Europe is very much in control of its own destiny and there will be a lot of focus on the 2012 European Summit, scheduled for the beginning of February. It is expected to finalise a pact to tighten budgetary discipline and move towards a more stable economic union.

The IMF assumes that the actions of European policymakers will be sufficient to contain the crisis and envisages Europe averting a major recession. The OECD has forecast the euro area to expand by a mere 0.2% in 2012 despite an

expected contraction of approximately 0.4% in the first quarter. Emerging European economies are projected to record relatively robust economic growth while advanced economies will recover at different speeds, but only marginally.

Germany and France economies slowing

Germany had barely been affected by the turmoil in the euro area periphery and took advantage of its strong initial competitiveness position. However, the imbalances within the euro zone have not been adequately resolved and fears of contagion and lack of confidence in the monetary union have impacted on Germany's economy and have led to a sharp deceleration in activity with growth of 0.6% projected this year.

France has also been subject to a sharp slowdown triggered by unresolved European sovereign-debt problems. While it appears to be falling into a recession, this is expected to be temporary and economic activity is forecast to increase slightly at a rate of 0.3% this year.

US economy to grow by 2% in 2012

The US is expected to build on modest growth in 2011 and expand by 2% in 2012. While the US is better positioned than the European Union, it faces considerable downside risks, particularly from a further deterioration of the euro zone crisis.

The US economy must also contend with fiscal consolidation, a weak housing market and increased household savings. While each of these warrant particular

attention, deep political divisions continue to hamper the process. The implementation of certain policies will be required to sustain the recovery but it is imperative that a plan is implemented to put public debt on a sustainable path. The materialisation of either of these risks has the potential to further weaken US growth, which in turn would impact on global growth.

Chinese economic growth set to reach 8.5% in 2012

China's economy has been soaring at annualised growth rates of close to 10%, with continued government spending playing a key role. However, inflationary pressures are beginning to exert themselves. Property prices are beginning to decline, which will negatively impact on investment and government revenues. Net exports are likely to slow economic growth due to feeble demand in the US and Europe. Despite these challenges, the Chinese economy will continue to surge ahead in 2012 but at a marginally lower rate of around 8.5%.

Japan has been burdened by high levels of public debt and slowing exports, and the adverse effects from the earthquake have compounded these weaknesses. Nonetheless, the Japanese economy is expected to emerge from a temporary recession with growth of approximately 2% in 2012.

In summary, the IMF is projecting developing Asia to grow by 8% in 2012 compared to an estimated 8.2% in 2011.

4.1%

The Russian economy is expected to grow by 4.1% in 2012.



India, Brazil and Russia to maintain growth

Having experienced turbulent growth last year as a result of inflationary pressures, India will accompany China in leading the global recovery during 2012. Economic growth in excess of 7% is envisaged in 2012 with elevated consumer prices expected to retreat gradually.

Economic activity in Brazil has been performing remarkably well since its prompt recovery from the global financial crisis. Growth is expected to continue in 2012 despite the persistent inflation burden which hovered above 6% in 2011. The necessary monetary tightening in 2012 will mean that output will expand by approximately 3.2%. Russia's economy is also expanding while benefitting from stronger commodity prices brought about by the global economic recovery, and is expected to grow by around 4.1% in 2012.

Middle East and North Africa

Social unrest and ongoing conflict has affected growth in some Middle East and North African (MENA) countries while elevated oil prices have increased output in the region's oil exporters.

The oil importing economies of the MENA region (Egypt, Morocco, Tunisia etc.) are expected to expand in 2012 with growth of approximately 2.5% but this outlook is subject to large downside risks. The outlook for oil-exporting economies is more positive with output forecast to expand by around 4% led by Qatar, Saudi Arabia and Iraq. In summary, the IMF is projecting the MENA region to expand by 3.6% during 2012.

COMPETITIVE POSITION OF IRISH EXPORTERS

Export developments

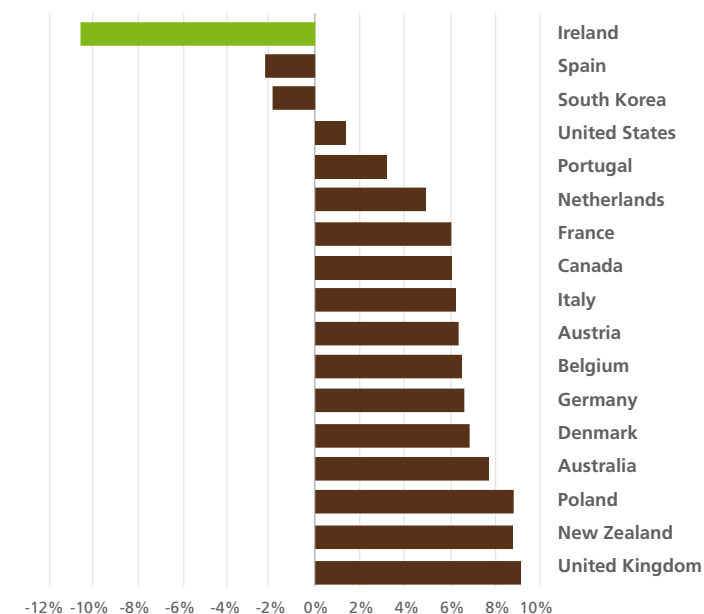
The strong performance of Irish exports means that export levels are now above their pre-recession peak, while exports in the majority of western economies remain suppressed below their respective pre-recession levels.

The significant improvement in Irish competitiveness has been a key factor in achieving strong growth, while a diverse portfolio in comparison with other countries has created a more resilient export sector. Despite notable improvements in competitiveness, Irish exports continue to face the challenges of dealing with the difficulties evident in the euro zone, which is facing an uncertain short-term economic outlook.

Labour costs

Some of the earlier competitiveness losses in the Irish economy are now being reversed. Due to productivity gains and wage restraint, Ireland has recorded the largest decrease in unit labour costs among euro area countries. While growth in average hourly earnings was broadly flat, wages are growing in trading partner countries, implying the relative labour cost in Ireland has improved.

Percentage changes in total economy nominal unit labour costs (Q2 2008–Q2 2011)



Source: European Commission and OECD

Measured in real terms (adjusting for inflation) the difference in labour costs is much less marked due to considerably higher inflation elsewhere, particularly in the UK. Real earnings in Ireland are expected to have declined by 3.6% in 2011, compared to a 2.3% decline in the UK.¹

1. Ernst & Young Economic Eye, Winter Forecast.

1.2%

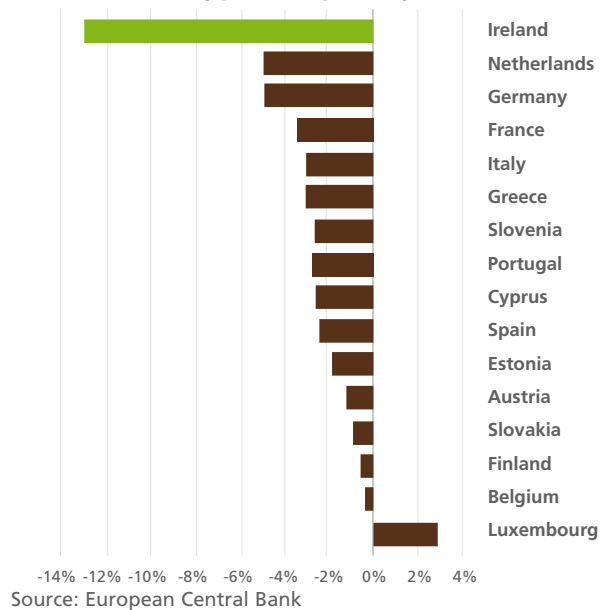
The Harmonised Index of Consumer Prices, shows that inflation in Ireland, at just 1.2%, is the lowest in the EU and less than half the Euro zone average.



The weakness of domestic demand in Ireland has meant that there has been little or no inflation in domestic goods and services. Indeed the internationally comparable measure of inflation, the Harmonised Index of Consumer Prices, shows that inflation in Ireland, at just 1.2%, is the lowest in the EU and less than half the Euro zone average, which is estimated at between 2.6% and 2.8% in 2011.²

The projection for 2012 is for a continuation of this trend with CPI inflation set to remain suppressed at approximately 1.4% and HICP inflation subdued at around 1.0%.³

Changes in Harmonised Competitiveness Index, based on GDP deflator (Q2 2008-Q2 2011)



The chart to the left shows the percentage change in the Harmonised Competitiveness Index (HCI) of the various euro area countries over the three year period to Q2 2011. A decline in the index signals an improvement in competitiveness, Ireland's HCI has fallen by more than 12% over this period – by far the most significant improvement in competitiveness of all the euro area countries.

Over the period 1998-2008, the HCI increased by almost 30% (i.e. reducing competitiveness) with close to half of this corrected to date. This compares to Germany's HCI, which is still 15% lower than its 1998 level.

Exchange rate movements

There was a weakening in the euro exchange rate against both the dollar and sterling in the second half of 2011 amid concerns over the euro debt crisis. More favourable exchange rates will be welcomed by indigenous exporters who have been competing on several fronts with a weak sterling.

Conclusions

The significant improvement in Ireland's competitive position has paved the way for a continued export led recovery. However, it is important that the adjustments to competitiveness are further reinforced. Ireland's real exchange rate is back to 2005–2006 levels, when the loss of competitiveness and market shares were already well under way. In the past 3 years Ireland has regained about half of the labour cost disadvantage which it had against its euro area competitors and, given the intensity of competition in the external environment, it is vital that this cost disadvantage is reduced further.

In summary, overall competitiveness has been improving but the domestic cost base remains relatively high. With inflation projected to remain suppressed and expectations of relatively weak wage developments, it augers well for further competitiveness improvements in 2012. This will in turn provide a boost to exporters despite slightly less favourable growth in our trading partners.

2. ECB Monthly Bulletin, December 2011.

3. DKM Economy Watch, Issue 9, October 2011.




THE MARKETING ENVIRONMENT

OVERVIEW

Health, wellness and nutrition trends are increasingly shaping the direction of the food and drink sector as consumer needs and expectations evolve. Research undertaken by Bord Bia in partnership with The Futures Company examined the issue, its likely evolution between now and 2020 and the implications for Irish food and drink manufacturers.

By thinking about different ways in which drivers of the health and wellness agenda might combine, a number of new opportunity areas are expected to emerge for food and drink manufacturers.



A greater understanding of nutrition and its role in managing personal health risks will change consumer expectations of food and drink manufacturers.



KEY DRIVERS OF HEALTH & WELLNESS AGENDA

The key drivers that are expected to shape the health and wellness agenda over the coming years include:

- Consumers are living in an increasingly uncertain and resource constrained world.
- Social and demographic shifts will define the health and wellness landscape.
- Healthcare resources globally are under increasing pressure.
- Positive food values are threatened by changing lifestyles.
- Nature and science remain in tension.
- Information and practical guidance will be important.

IMPLICATIONS FOR FOOD & DRINK SECTOR

While we are unlikely to see the complete demise of mass market health foods, a greater understanding of nutrition and its role in managing personal health risks will change consumer expectations of food and drink manufacturers. Products will need to work harder to appeal to a more fragmented market where “my needs” are all-important.

The challenge for food and drink manufacturers is finding ways to develop broader health and wellness programmes that fit with their product portfolios.

75%

The WHO estimate that by 2020, chronic diseases will account for almost three quarters of deaths worldwide.



THE FUTURE OF HEALTH AND WELLNESS

As part of our Consumer Lifestyle Trends Programme, Bord Bia has recently explored the opportunity areas for food and drink companies in the health, wellness and nutrition space. The research was undertaken in conjunction with The Futures Company to develop a detailed view on the future of health and wellness.



Setting the Scene

It is in the context of increasing complexity that the future of health and wellness is being shaped. As consumer needs and expectations evolve there are a number of important drivers:

Consumers are living in an increasingly uncertain and resource- constrained world.

The global population is growing, putting more pressure on scarce resources. Increased volatility in energy prices and rising raw material costs are having an impact on food. Pressure on food supplies is being exacerbated by water shortages, particularly across Africa and Northern Asia.

Healthcare resources globally are under increasing pressure.

The combination of ageing populations, changing lifestyles and surging rates of chronic diseases is putting healthcare systems across the world under immense pressure. As the cost of treating chronic illness and age-related conditions such as Alzheimer's continues to rise, greater emphasis is being placed on the importance of prevention rather than cure.

Social and demographic shifts will define the health and wellness landscape

In every continent except Africa populations are ageing. As we live longer, the need to manage health and protect quality of life increases. Advances in science and technology are extending life spans. However, age-related diseases such as dementia and osteoporosis are increasing at unprecedented rates.

Simultaneously, changing lifestyles and diets are contributing to a rapid growth in obesity and other chronic lifestyle diseases. According to the World Health Organisation, by 2020, chronic diseases will account for almost three-quarters of all deaths worldwide.

Globally, in 2010 the number of overweight children under the age of five was estimated to be over 42 million. Close to 35 million of these are living in developing countries.

The other side of the story is equally unsettling: micro-nutrient malnutrition continues to be a huge problem. Despite rapid economic expansion, in India, more than 75% of pre-school children suffer from iron deficiency anaemia and 57% of preschool children have sub-clinical vitamin A deficiency. According to the UN, based on current indicators, halving serious and moderate malnutrition in Southern Asia could take up to 200 years.

More people now live in cities. According to United Nations Population Division estimates, the rate of global urbanisation will increase considerably in the coming decades, reaching 60% in 2030 and 70% in 2050. More people are also living alone. The fastest growing social unit over the next five to 10 years will be the single-person household, reflecting broader changes in family dynamics.

As the pace of life increases and the "domestic unit" changes, this will have a significant impact on eating habits.

Information and practical guidance will be important.

Consumers have unprecedented access to information about nutrition and managing health; but there's still an "information gap" with 45% of consumers saying they are confused by conflicting information about how best to manage their health. With multiplying choice and often conflicting advice, many people are left with a limited understanding of what is good for them and what is not. Positive food values are threatened by changing lifestyles. As family structures and lifestyles have changed, many of the positive food values that were centred on family meal times in the home have been slowly eroded. Parents themselves are under increasing time, energy and financial pressures making it more of a challenge to provide nutritious and affordable family mealtimes.





Rising childhood obesity rates and changing household structures are leading to renewed focus on children's diet and nutrition.

Nature and science remain in tension.

Consumers continue to prefer food and drink, and in some cases health solutions, that are as close to natural as possible. However, this is increasingly sitting in tension with advances in science and technology that are revolutionising our approach to health and the way we eat. This is evident in the greater blurring of the food and pharma categories – with new food and drinks being developed that can target health problems.

OPPORTUNITY SPACES

By thinking about different ways in which these drivers might combine, a number of new opportunity areas for food and drink manufacturers were identified.

These opportunity spaces have been discovered through a process of combining trends, futures and foresight techniques. In total there are 15 opportunity spaces set out over the following pages.

1. Simple goodness: "I want my children to eat healthy foods that are free from nasties"

Parents are increasingly worried about what goes into the products they give to their children. Food fortification – the use of vitamin and mineral supplements – has fallen out of favour with parents sceptical of the benefits to their children's health. Instead, there's a growing trend towards the simplification of ingredients, "clean labels" and additive-free food.

Historic and ongoing concerns about artificial additives, colours and flavourings in the West, and health scares in emerging markets means the world's parents are scrutinising ingredient lists closely.

Parents, confronted with a vast array of information on what's good for their children and what's not, are likely to want a "simplifying strategy" for managing risks. "Pure" products and "clean labels" could provide it.



2. Hidden and healthy: "I want to give my kids healthy food that they will enjoy eating"

Rising childhood obesity rates and changing household structures are leading to renewed focus on children's diet and nutrition. Parents continue to strive to give their children the best start in life, but increasing pressures are making it more difficult for them to freshly prepare healthy food and drink they know their children will like.

Concern among parents that they lack the knowledge and skills to provide a diet for their children that is good for them is growing. But the problem is about more than education. Parents are under increasing pressure that makes it even harder for them to ensure their children eat healthily.

A key challenge facing parents is providing their children with diets high in fruit, vegetables and whole grains in a format they enjoy. There's a clear market for healthy, "child-friendly" foods.

3. Food as fuel: "I want food and drink that help me perform at my best"

Maximising physical performance and endurance is becoming an integral part of managing health. Products that boost energy levels are moving out of the niche sports market and into the mainstream.

There is growing interest in leveraging the performance enhancing benefits of the sports nutrition category and making these appealing and accessible to a broader consumer base.

Having started as a niche category catering only to bodybuilders and fitness enthusiasts, the nutrition bar category has grown into one of the most dynamic segments of the nutraceuticals industry. This can in part be attributed to changing lifestyles where a high premium has been placed on convenience in addition to performance.



4. Ageing well: "I want to act and feel younger for longer"

Advances in science, rising incomes and better diets mean that average life expectancy is rising in most countries. The corollary is that the incidence of cancer, heart disease, diabetes and dementia is increasing, placing additional



For the majority of consumers, foods and ingredients that are natural hold very strong appeal.

burdens on healthcare providers. For consumers there are two main priorities: finding ways to manage health issues as they age and preventing physical & mental decline.

Older consumers have a range of health and wellness needs. For some, maintaining a balanced and nutritious diet can be difficult. Tastes tend to change as we age and appetite tends to decrease. There is a need for tailored nutritionally rich food and drink that appeals to older palates.

5. Healthier by nature: “I want healthier versions of the foods I love that still taste great”

The global increase in obesity rates and diet-related disease is putting food companies under pressure to develop healthy alternatives to popular products without compromising on taste.

Manufacturers are looking for processing methods that deliver additional nutritional benefits while keeping the taste. Nature may hold the key. Natural ingredients in product reformulation can offer alternatives to “nasties” – and, in some cases, additional health benefits. Food and drink companies are under growing pressure from governments and consumers to develop alternative products.



6. New frontiers of digestive health: “I want to get the most out of the food I eat”

Consumer interest in digestive health continues to rise; the market for food and drink with pro- and pre-biotics is well established, and the link between digestion and energy levels better understood. Meanwhile, science is beginning to identify specific substances that play an important role in the selection, ingestion, absorption and metabolism of essential nutrients.

The next opportunity for manufacturers is likely to be products that improve the efficiency of the digestive system, aiding the absorption of nutrients and stimulating the appetite.

Science is revealing the properties of 'tastes' such as umami, a form of glutamate that occurs naturally in some foods, and the role they could play in improving digestion. Increased understanding of the enteric system will help manufacturers develop products that deliver enhanced digestive-health benefits.

7. Brain food: “I want to boost my concentration, focus and mental stamina”

As the complexities of everyday life increase, mental acuity becomes more important. Food and drink (both natural and enhanced) that boosts concentration is becoming more popular across different age groups.

There are currently two main strategies for boosting brain health. Firstly, as science continues to reveal the health boosting properties of natural food and ingredients, naturally brain boosting foods such as oily fish and nuts are becoming an accessible and easily understood solution for consumers to manage their long term brain health.

Secondly, energy shots, brain boosting supplements and fortified drinks containing ingredients such as caffeine, acetyl-L-carnitine and glutamine are growing in popularity as consumers look to boost their short term mental performance.

The desire for mental “fitness” will increase – across a broad spectrum of consumers. Older people will seek ways to keep their brains active and remain mentally alert; parents will want to include “brain foods” in their children’s diets; younger people will look for ways to boost short term mental performance and improve mental capabilities.



8. Dialling up nature: “I’m looking for natural solutions to boost my health”

For the majority of consumers, foods and ingredients that are natural hold very strong appeal. Scientific research is revealing the active compounds in natural ingredients that benefit our health the most.

There’s significant potential for food and drink companies to use natural ingredients and the most nutritionally active compounds found in nature to deliver enhanced health benefits to consumers.



Science, the food industry, retailers and consumers are gradually moving from a “one size fits all” approach to diet, nutrition and health.

9. Mood food: “I want the food I eat to make me feel happier”

Scientists, dieticians and consumers are placing greater emphasis on emotional and mental wellbeing. Many people now choose a self-help approach to psychological health – alongside, or even instead of, prescribed medication and therapies.

As the link between nutrition and mental health becomes more understood, consumers are likely to use food to manage their emotional wellbeing – in both the short and long term.



10. Beauty from within: “I want to eat foods that help me look my best”

Looking good and enhancing appearance continues to be a priority for consumers. Many consumers are recognising that eating and living well is reflected in an outward appearance of vitality.

There is a growing desire to take this a step further, by consuming food and drinks with added ingredients that work to visibly improve the health and outward appearance of skin, hair and eyes. Though still a niche area, there will be

a growing opportunity for food and drink manufacturers to create products that deliver beauty from within.

The nutricosmetics market has shown strong growth. Micro nutrients lycopene, lutein, zeaxanthin and beta-carotene are said to promote healthy vision and protect the skin against the adverse effects of UV radiation.



11. Fill me up: “I want to feel fuller for longer”

Weight continues to be a key concern for consumers. In the developed world, governments constantly remind them of the rise in obesity and diet-related diseases – and the resulting burden on healthcare.

Many diets have focused on the importance of slow-release energy foods in reducing overall calorie intake. And, in recent years, the concept has been commercialised, with “satiety” products sold directly to the weight-conscious consumer.

Understanding the physiological mechanisms that regulate feelings of fullness and satiety is a key area of scientific research for the food and drink industry.

12. Food shelf of the future: “I’m interested in foods and drinks that can help people like me address our common health needs”

Science, the food industry, retailers and consumers are gradually moving from a “one size fits all” approach to diet, nutrition and health.

As consumer awareness of the link between nutrition and health continuously improves, consumer demands are becoming more sophisticated. Individuals want products for people like them – products that address their particular needs and vulnerabilities.

Advances in genetics-based nutrition research will help drive the move towards functional food and drink aimed at different groups of the population. Consumers are increasingly open to foods that allow them to see or feel tangible benefits, including preventative healthcare solutions. Advances in science will allow the development of more targeted food and drink products.

13. Renewal food: “I want my body and mind to be restored whilst I sleep”

The importance of sleep to mental, emotional and physical health is well-known. The role that food and drink can play in aiding sleep is set to increase as consumers look for solutions that help them find respite in their hectic lives.



The challenge for food and drink manufacturers is finding ways to develop broader health and wellness programmes that fit with their product portfolios.

In addition, there will be a significant opportunity for food and drink to not only aid sleep, but to enhance the natural repair processes of the body and mind, allowing consumers to feel healthier and revived on waking.

The market for herbal or natural remedies for insomnia and sleep disturbance is well-established. However, more advanced ingredients such as melatonin (a hormone that regulates sleep patterns) are beginning to appear, increasingly in the form of fortified food and drink.



14. High benefit, low impact: “I want sustainable food that offers good nutrition”

Population growth, climate change and rising resource prices are putting unprecedented pressure on global food markets. In countries such as India, where rates of malnutrition are high, population growth and the rise of an affluent middle class “hungry” for Westernised diets are further increasing the demand for food. As the price of energy rises, affecting the cost of food and raw materials, governments in the developing world are struggling to secure supplies of nutritious food.

Securing the supply of nutritious food for a growing global

population will require a new, concerted approach from governments, scientists and food and drink manufacturers. Emphasis will increasingly be placed on super nutrient- rich crops that deliver enhanced benefit to growing populations.

15. Designed for me: “I want solutions that are tailored to me”

Scientific advances are leading to a much more sophisticated understanding of the link between genes, nutrition and health. Though still in their infancy, nutrigenetics and nutrigenomics are helping scientists and nutritionists build a better picture of the potential for developing “bespoke” supplements, foods, drinks and diets.

As life spans extend, consumer engagement with managing their long term health will continue to rise. These developments could result in the development of supplements, foods and drinks “matched” to an individual’s genetic profile.



FINAL THOUGHTS

While we are unlikely to see the complete demise of mass market health foods, a greater understanding of nutrition and its role in managing personal health risks will change consumer expectations of food and drink manufacturers. Mass-market products will need to work harder to appeal to a more fragmented market where “my needs” are all-important.

Can food and drink manufacturers become credible custodians of health?

As acceptance of the link between physical, mental and emotional health and nutrition grows, people are going to need help to navigate their way through the maze of information and advice. There is a clear gap in the market for trusted advice; and the key to this will be in the development of partnerships – with both consumers and other organisations, in order to establish credibility.

Will healthy living be defined by healthy eating alone?

Good nutrition is part of a broader strategy to manage health and wellbeing. As personal responsibility for health increases, consumers will look for ways to maximise the benefits of eating the right foods. Keeping the mind and body active will become equally important – particularly in the light of demographic change.

The challenge for food and drink manufacturers is finding ways to develop broader health and wellness programmes that fit with their product portfolios.



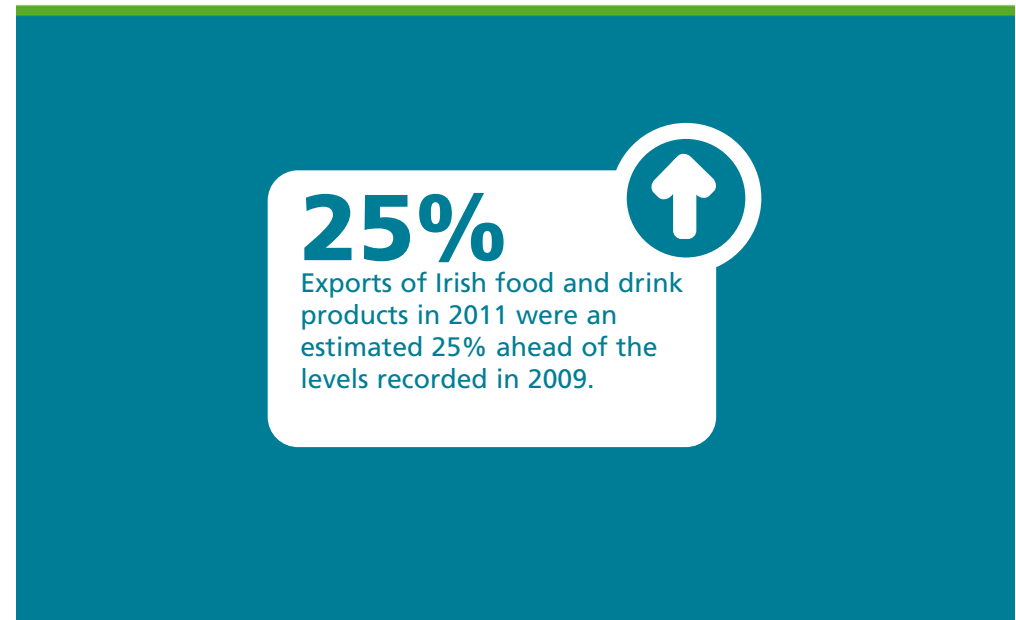
Sustainability and human health are likely to merge as issues as pressure on food and energy resources grow.

Will sustainability and health issues converge?

Sustainability and human health tend to be discussed in isolation – or as part of a general debate on the effects of pollution and climate change.

However, as the pressure on food and energy resources grows, bringing the two issues together will become a key focus. We will see a convergence on a range of issues, but not necessarily all.

Cultivating crops that are not only hardy, environmentally, but are also nutrient-rich and have a positive impact on health could be the future of farming and food production.



SECTORAL **REVIEW AND** OUTLOOK

OVERVIEW

It is estimated that the value of Irish food and drink exports increased by 12% in 2011 to reach €8.85 billion. This amounts to a rise of almost €1bn and follows a similar rise in 2010. Exports in 2011 are running 25% ahead of the levels recorded in 2009.

The impressive nature of the export performance is highlighted by the fact that during the first nine months of 2011, food and drink exports grew at three times the rate of total merchandise exports. As a result, the sector accounted for 25% of the rise in export revenue.



26%



Agricultural commodity prices reached record levels with the FAO food price index recording growth of 26% during the first 11 months of 2011.

KEY DRIVERS OF EXPORT PERFORMANCE

While the consumer search for value continues, the first tentative signs of higher consumer prices emerged in the euro area during 2011. In October 2011, the consumer food price index was almost 3% ahead of a year earlier.

Agricultural commodity prices reached record levels with the FAO food price index recording growth of 26% during the first eleven months of 2011.

A number of key sectors - including dairy, beverages and pigmeat - also recorded higher output. Overall, it is estimated that volume growth accounted for 25% of the rise in export revenues.

PROSPECTS FOR 2012

The prospects for Irish food and drink exports in 2012 remain positive, although lower output availability in some sectors combined with some anticipated softening in global commodity prices from the peaks recorded in 2011 are likely to result in more limited growth potential.

The growth in export returns for primary products has helped boost producer confidence in the sector and we are already seeing the first signs of herd rebuilding in the beef and sheep sectors, which will boost medium term output while dairy producers continues to gear up for quota removal in 2015.

€1 billion

The value of Irish food & drink exports increased by almost €1 billion in 2011.



OVERVIEW

Irish food and drink exports put in another strong performance in 2011, helped by stronger global prices for major commodities, a positive supply/demand balance in some key categories, a tentative return to price inflation across most major European markets and less volatility in exchange rates.

The market environment continues to present challenges in the form of consumer focus on value and the response by retailers and foodservice operators to maintain low prices, despite the strength of commodity prices, which is creating strong pressure within the supply chain.

For the year it is estimated that the value of Irish food and drink exports increased by 12% to reach €8.85bn. This equates to a jump of almost €1 billion in export revenues and leaves exports almost €1.8 billion or 25% ahead of the value recorded in 2009.

All categories recorded an increase with the exception of live animals. The strongest performers were dairy, meat and seafood.

Irish food and drink exports

	2010 €m	2011 (e) €m	2011/2010 % +/-
Dairy products & ingredients*	2,273	2,665	+17
Beef*	1,573	1,805	+15
Prepared Foods	1,375	1,540	+12
Beverages	1,152	1,220	+6
Seafood	371	420	+13
Pigmeat	336	395	+18
Edible Horticulture & Cereals	193	210	+9
Poultry	203	210	+3
Sheepmeat	163	180	+9
Live Animals	245	205	-16
TOTAL FOOD & DRINKS	7,884	8,850	+12

* includes export refunds

Food & drink exports grow at treble rate of total trade

Figures from the CSO for the first nine months of 2011, show that Irish merchandise exports increased by just over 4% to €69.3bn. During the same period, food and drink exports recorded growth of 12.5%.

Food and drink exports grew at three times the rate of total merchandise exports for the first nine months of 2011, leaving the sector accounting for 25% of the rise in export revenue.

Growth in Irish exports, January to September (% change on 2010)



Source: Bord Bia based on CSO

Consolidation of gains expected in 2012

The prospects for Irish food and drink exports in 2012 remain positive, although lower output in some sectors combined with an anticipated softening in global commodity prices are likely to result in more limited export growth potential.

The prospects for dairy exports remain broadly positive as global demand is set to be positive in many emerging regions. Similarly the prospects for beef exports look good given the ongoing tight supply situation both globally and across the EU. Beverage exports look set to improve further, driven by the ongoing strength of whiskey exports while prepared food exporters are now in a better position to compete in what remains a challenging market environment.

€2.2bn

Irish food and drink exports to International markets are estimated to have increased by 20% to reach almost €2.2bn.

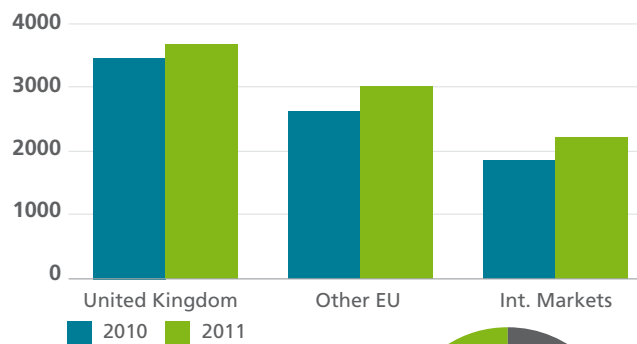


The growth in the export value of primary products has helped boost producer confidence in the sector and we are already seeing the first signs of herd rebuilding in the beef and sheep sectors while dairy producers continue to gear up for quota removal in 2015.

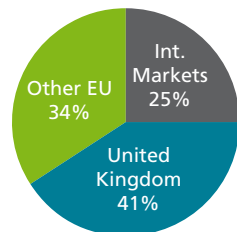
BROADENING MARKET REACH EVIDENT

During 2011, further changes in the market distribution of Irish food and drink exports was evident with a reduced reliance on the UK market as a greater proportion of our exports go to other European countries and international markets.

Trends in Export values by region (€m)



Market distribution of Irish food and drink exports (%)



Source: Bord Bia estimates

United Kingdom

The United Kingdom is estimated to have accounted for just over 41% of total Irish food and drink exports in 2011. Total exports for the year are estimated to have increased by 6% or almost €200m to reach €3.66bn.

The main drivers of export growth to the UK were dairy and beef and to a lesser extent sheepmeat and poultry. A challenging market environment for prepared food exporters meant only a modest increase in trade for the year, although growth returned to the sector as the year progressed.

Other EU

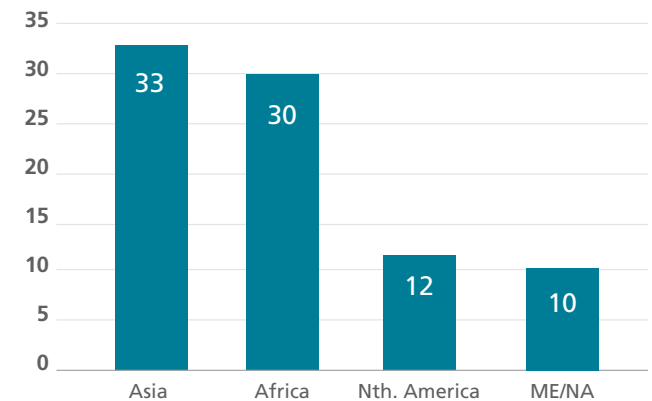
Exports of Irish food and drink products to other European markets are estimated to have increased by 16% or €400m in 2011 to reach €3bn. All major markets recorded strong export growth led by the Netherlands, Germany and France. As a result, the share of exports going to the region increased to 34%.

Dairy exports were the key driver of export growth in 2011, recording a rise of around one third to the region. Other categories, which recorded double digit export growth, include alcoholic beverages, meat and seafood while more modest growth was evident in prepared food exports.

International markets

Irish food and drink exports performed very strongly to International markets in 2011 led by strong growth in dairy, meat and seafood exports. For the year, it is estimated that exports outside of Europe grew by 20% or €350m to reach almost €2.2bn.

Growth in exports by region, 2011 vs. 2010 (%)



Source: Bord Bia estimates

KEY DRIVERS OF EXPORT PERFORMANCE

Some recovery in consumer prices

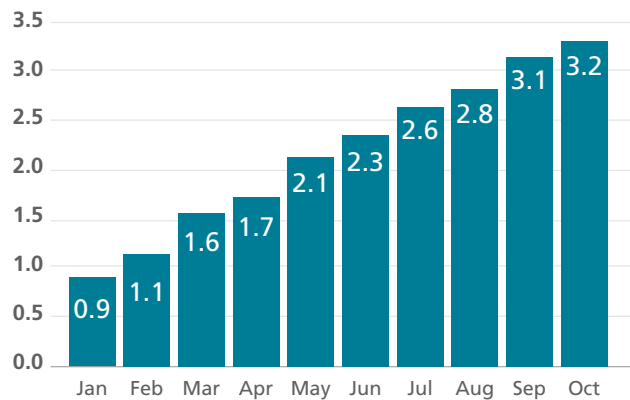
While the consumer search for value continues, the first tentative signs of higher consumer prices emerged across the euro area during 2011. In October 2011, the consumer food price index for the euro area were almost 3% ahead of a year earlier while UK prices were 5% higher.

3%

The euro area consumer price index increased by 3% in 2011, following declines in 2009 & 2010.



Euro area consumer food price index developments (% change on same month in 2010)



Source: Eurostat

Across some of the key member states, the consumer food price index was 3% higher in October compared to a year earlier in Germany and France and around 2% above October 2010 levels in Italy and the Netherlands.

Looking at the index for some of the main product categories in October 2011 compared to a year earlier, the following trends were evident across the euro area:

- **Milk & Eggs +4%**
- **Meat +3%**
- **Bread & Cereals +3%**

It remains to be seen what impact any economic

developments within Europe will have on consumer confidence and in turn spending levels over the coming months. Given the tentative nature of price increases to date, any negative economic developments are likely to put renewed pressure on prices.

Competitiveness of sector

The Irish manufacturing sector has improved its competitiveness over recent years with Ireland's Competitiveness Scorecard for 2011 published by Forfás showing a more productive and cost competitive industry. During the period April 2008 to February 2011, Ireland's harmonised competitiveness index depreciated by more than 12% in real terms, which is helping the sector's competitiveness on export markets.

Strength of global commodity prices

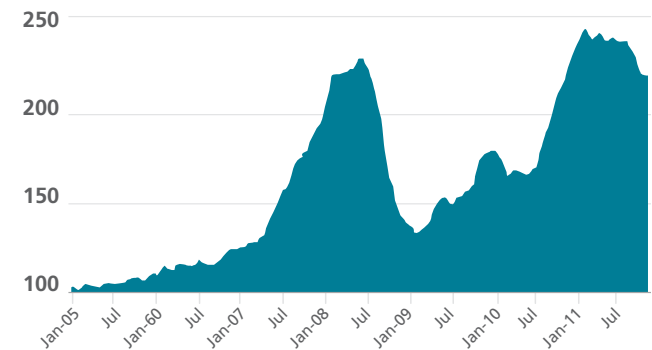
Despite the economic recession, agricultural commodity prices remain at close to record levels as a combination of tighter supplies and growing demand in developing economies boost trade. Following the new all time high recorded in February 2011, the FAO food price index has eased somewhat during the latter months of 2011. Despite this, the index recorded growth of 26% during the 11 months to the end of November compared to the same period in 2010.



Despite some easing from its peak of February 2011, the FAO food price index in November 2011 remained 37% higher than the average level recorded during the 2005 – 2010 period.

All products saw a significant jump in their index value during the year to November, led by cereals, oils and sugar. The meat price index increased by 17% relative to a year earlier while the dairy index recorded growth of 11%.

FAO food price index trends, 2005 to November 2011 (2002 – 2004=100)



Source: FAO

The FAO remain positive for commodity prices in 2012, although some modest easing is anticipated in cereals, dairy and to a lesser extent meat.

Higher output of key products

In addition to the high prices evident for most commodities during 2011, a number of key sectors also recorded higher output. Overall, it is estimated that volume growth across some key categories accounted for 25% of the total growth in export revenues during 2011.

25%



It is estimated that around 25% of the growth in exports was due to increased volumes across some key categories.

Milk deliveries for the 10 months to the end of October were 7% ahead of the same period in 2010 as a combination of exceptionally high grass growth and ongoing strong prices boosted output. Despite a significant slowdown in deliveries during the latter months of 2011 as producers adjusted output in an effort not to exceed quota, output for the year seems set to rise by around 5%. Figures from the CSO suggest that butter and SMP output increased by 11% and 13% respectively during the first 10 months of 2011.

In terms of meat, a 9% increase in pigmeat output combined with a modest rise in poultry and sheepmeat production boosted trade.

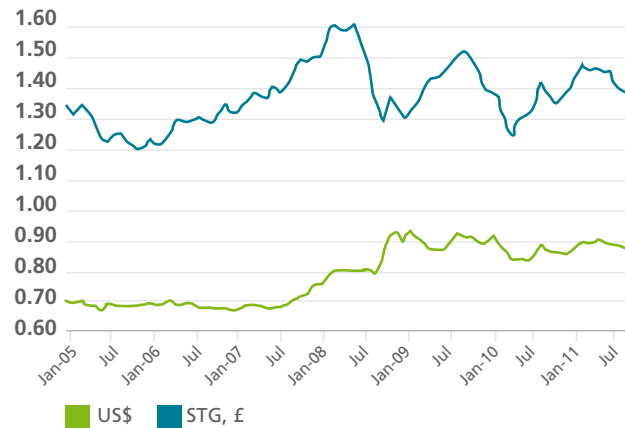
A recovery in cream liqueur volumes and further strong growth in whiskey output helped to boost the value of trade during 2011 while a number of categories within prepared foods also recorded volume growth.

Ongoing exchange rate pressure

While 2011 has seen less exchange rate volatility, the relative strength of the euro against both sterling and the US dollar present ongoing challenges for exporters. During 2011, the euro strengthened by 5% against the US dollar and just 1% against sterling.

However, relative to 2009 the euro has weakened by 9% against the US dollar and 5% against sterling. Given the growing proportion of our exports now destined for non-EU markets any further easing in the strength of the euro would be welcome.

Key euro exchange rate developments (1€=)



Source: Central Bank of Ireland

15%

The value of Irish beef exports increased by 15% in 2011 to exceed €1.8bn.



SECTORAL PERFORMANCE

Meat & Livestock

The meat and livestock sector put in a strong export performance during 2011 as higher prices across most categories helped offset lower beef and live cattle volumes.

For the year, it is estimated that the combined value of meat and livestock exports increased by 11% to reach €2.8bn, which represents more than 30% of total exports.

MEAT & LIVESTOCK EXPORTS

+11%
€2.8bn

An ongoing competitive marketplace limited any potential for poultry price increases during 2011 although strong export volumes helped result in the value of Irish **poultry** exports rising by 3% to reach an estimated €210m.

A stabilisation in export availability and ongoing strong prices for lambs resulted in the value of Irish **sheepmeat** exports rising by 10% in 2011 to reach €180m.

Lower live cattle and sheep exports more than offset strong pig shipments and despite stronger prices prevailing, the value of **livestock** exports is estimated to have declined by 16% to €205m.

Irish Meat & Livestock Exports

	2010 €m	2011 (e) €m	2011/2010 % +/-
Beef	1,573	1,805	+15
Pigmeat	336	395	+18
Poultry	203	210	+3
Sheepmeat	163	180	+10
Live Animals	245	205	-16
TOTAL MEAT & LIVESTOCK	2,520	2,795	+11

Beef

Following a stabilisation in the European beef market during the second half of 2010, the supply/demand balance improved further during 2011 as a combination of increased demand for European beef products on international markets and lower imports from South America

helped offset ongoing sluggish consumer demand.



KEY BEEF EXPORT MARKET DEVELOPMENTS IN 2011

- Little change in EU beef production.
- EU now a net exporter of fresh/frozen beef of 70,000 tonnes.
- EU beef imports more than 40% below 2007.
- Irish beef production down by 3%.
- An increase of 10% in EU male cattle prices.
- Lower availability helped offset ongoing sluggish demand.

A drop of almost 5% in Irish export meat plant cattle supplies to almost 1.57 million head was recorded in 2011 as a reduction of 12% in steer disposals and 6% in heifer supplies was partly offset by a jump of almost 25% in young bull supplies to more than 175,000 head.

The drop in disposals was partly offset by a recovery of 2% in average prime cattle carcass weights to leave total beef production around 3% lower for the year at an estimated 547,000 tonnes, including local abattoir output.

With domestic consumption levels largely unchanged, the volume of beef exports dropped by a similar percentage or 16,000 tonnes to around 490,000 tonnes. This combined with a rise of around 18% in average prime cattle prices led to **the value of Irish beef exports increasing by 15% to an estimated €1.8bn.**



KEY DRIVERS OF EXPORT PERFORMANCE

- Marginal increase in sheepmeat output.
- Better balanced EU market.
- Increased international demand.
- Ongoing issues around consumer spending.
- Higher price across all cattle categories
- Stronger pig and poultry volumes

Summary performance by category

The value of **beef** exports is estimated have jumped by 15% or over €230m during 2011 as lower volumes were offset by a strong increase in cattle prices.

A rise of 9% in export meat plant pig supplies during 2011 combined with a rise of 9% in average pig prices helped to boost the value of Irish **pigmeat** exports by 18% or almost €60m.

BEEF EXPORTS

+15%
€1.8bn

3%



The outlook for the European beef market remains good with a drop of 3% in output anticipated for 2012.

Beef Exports (€m)

2010 €m	2011 (e) €m	2011/2010 % +/-
1,573	1,805	+15

It is estimated that during 2011 around 96% of total Irish beef exports were destined for European markets with in excess of 200,000 tonnes being destined for the higher value standard and premium retail and premium foodservice markets, with a further 80,000 tonnes going to the high quality high volume quick service restaurant sector.

Bord Bia's beef marketing strategy is one of differentiation and premiumisation of Irish beef by assisting industry target the best customers across Europe. Since 2007, we have seen a doubling of the volume of Irish beef going to premium retail and foodservice and a rise of 15% in the volumes destined for standard retail lines. This equates to over 50,000 tonnes going to better paying outlets.

Markets for Irish beef

While volumes destined for the **United Kingdom** eased during 2011, the market continues to account for almost half of total export volumes at an estimated 235,000 tonnes with an estimated value of €810m. This represents a rise of more than €50m on 2010 levels.

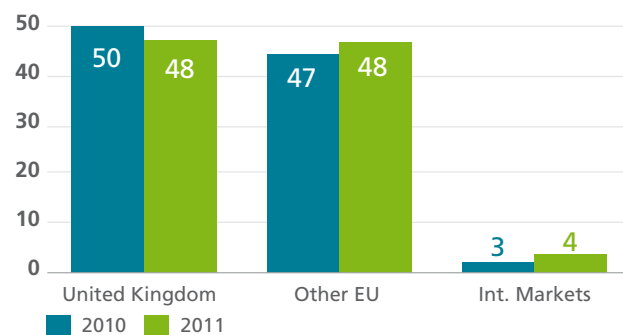
Exports to **Continental European** markets were marginally lower in 2011 at 237,000 tonnes. Trade was valued at around €920m. Stronger shipments to Germany, Spain and to a lesser extent Sweden and the Netherlands helped offset lower exports to France and Italy. Exports to Germany are estimated to have increased by more than 5,000 tonnes to

reach 15,000 tonnes.

Trade was helped by increased export demand for European beef in markets such as Turkey and Russia, which saw shipments increase by more than 110,000 tonnes during the first nine months of the year.

Exports of Irish beef to **International markets** benefited from stronger import demand with shipments rising by around 30% to 20,000 tonnes. This reflected stronger demand in Russia as well as increased trade to Switzerland, South Africa and The Middle East. Total exports are estimated to have been worth around €70m.

Distribution of Irish beef export volumes (%)



Source: Bord Bia estimates

Outlook for 2012

The outlook for the European beef market remains reasonably good for 2012 with a drop of 3% in output anticipated. This allied with little change in beef output among a number of leading global exporters point to an

ongoing relatively tight supply situation on the European market. However, prospects for consumer demand remain unclear with much likely to depend on economic developments.



KEY BEEF MARKET DRIVERS FOR 2012

- 3% drop in EU beef production.
- Slow consumer demand to persist.
- Ongoing tight global beef supplies.
- Strong international demand for EU beef.
- Drop of 4% in Irish beef production.

Little change among major global exporters

A fall of almost 5% in US beef output is expected to offset a modest recovery in Brazilian and Argentinian output during 2012. Export availability from the five major exporters of Argentina, Australia, Brazil, The United States and Uruguay, which together account for almost two thirds of global trade is expected to show little change at around 4.9 million tonnes. India continues to emerge as a major exporter with further double digit growth anticipated to bring shipments to 1.3 million tonnes, most of which goes to other Asian markets and The Middle East/North Africa.

EU beef output to fall by 3%

Beef output in the EU is expected to fall by almost 3% in 2012. This fall is largely attributable to lower output in France, the UK and Ireland. French output is forecast to fall by 4% to 1.51 million tonnes on the back of the drought that occurred earlier this year, which led to some liquidation of the herd. UK output is expected to fall by 6% to 881,000

97%

Irish R3 steer prices averaged 97% of the EU male cattle price in 2011.



tonnes with most of this fall occurring in the first half of the year, which demonstrates the earlier marketing of animals during 2011.

The European beef trade has been helped enormously by the strengthening in demand for beef in Turkey, Russia and other Middle Eastern and North African countries throughout 2011. The prospects for International demand in 2012 remain positive, which will result in the EU remaining a net exporter of beef, although it remains to be seen if Turkey can maintain its current import levels. The increased demand for offals and live cattle is also expected to be maintained.

EU beef consumption under pressure

The impact of ongoing austerity measures across various member states is expected to result in EU-15 consumption falling by 1% to 6.94 million tonnes, with the strongest falls anticipated in the UK and Spain. Any further dampening in demand could negatively impact on price levels, particularly if it results in intensified levels of price promotions across key markets such as the United Kingdom.

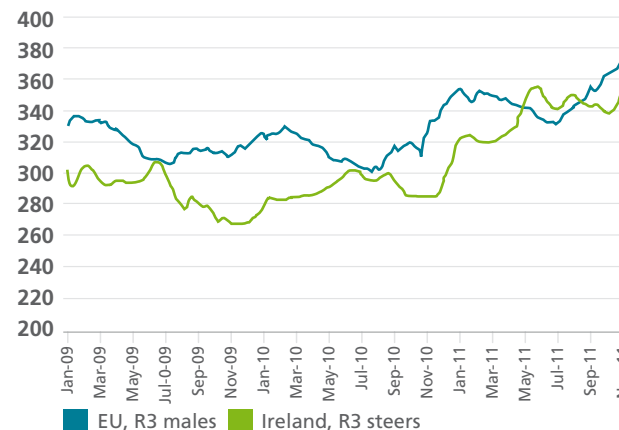
EU beef market in 2012 (% change on 2011)



Source: Bord Bia estimates

The relatively tight supply situation is expected to help maintain European cattle prices during 2012. This follows a rise of almost 10% during 2011 in R3 young bull prices to almost €3.50/kg. The strength of Irish cattle prices during 2011 resulted in Irish R3 steer prices averaging 97% of the EU male cattle price, which compares to an average of 91% in the previous two years. Given the likely supply/demand dynamics in the EU beef market in 2012, it is hoped that the Irish beef sector will be well placed to maintain this momentum.

Irish R3 steer vs. EU R3 male cattle prices, 2009 to date (c/kg dw)



Source: EU Commission

The convergence evident in global and EU cattle prices throughout 2010 continued during 2011, although global prices didn't reach the peaks evident in late 2010. For the year Brazilian steer prices averaged around 75% of the EU male cattle price compared to 72% in 2010. The prospects for 2012 suggest that this level of convergence is set to be maintained.

Further decline in Irish cattle supplies

Figures from the Department of Agriculture, Food and the Marine's AIM database show that on the 1st September 2011 there were 133,000 fewer male animals aged between 12 – 30 months while a drop of almost 15,000 female animals was recorded in this age bracket. This reflects the strength of live exports in 2009/2010 and a slowdown in

18%

Increased output and higher prices left the value of Irish pigmeat exports some 18% higher in 2011 at €395m.



calf registrations over the period. These figures point to a further tightening in finished cattle availability in 2012.



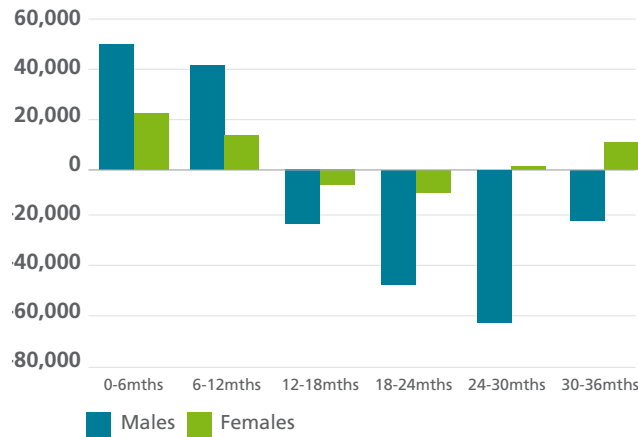
FACTORS AFFECTING 2012 IRISH FINISHED CATTLE SUPPLIES

- Drop of 25,000 in calf births in 2010.
- Jump of 42,000 in calf & weanling exports in 2010.
- Rise in 2011 young bull disposals to reduce steer availability.
- Further growth in young bull supplies.
- Increased retention of breeding heifers.

Based on the assumption that live exports of finished cattle remain unchanged in 2012 and the increased retention of breeding heifers, particularly on dairy farms, will result in higher cull cow disposals, it is expected that total export meat plant cattle supplies in 2012 will decline by 50-80,000 head to 1.49 – 1.52 million head. This would leave beef exports for the year running at almost 5% lower at around 470,000 tonnes.

Trends in cattle numbers by age, Sept 1st 2011

(change in head vs. 2010)



Source: Department of Agriculture, Food and the Marine

Pigmeat

A better International demand for EU pigmeat combined with some slowdown in production as the year progressed helped boost EU pig prices by 9% or 13c/kg during 2011. This created a better market environment for Irish pigmeat, although pressure on producers in the form of ongoing high feed costs persisted throughout the year.

PIGMEAT EXPORTS



KEY PIGMEAT EXPORT MARKET DEVELOPMENTS IN 2011

- Slowdown in EU pigmeat production in 2nd half.
- Rise of more than 20% in EU exports.
- Irish pigmeat production 9% higher.
- EU & Irish pig prices up by 9% or 13c/kg.

Figures from the EU Commission shows that pig production across the EU-27 during the first half of 2011 was 2% than the same period a year earlier. Figures from the EU Commission's pig forecasting working group in early October, suggested that the rate of increase was to slow during the second half with final quarter showing a rise of just 1% on a year earlier resulting in an annual increase just under 2%.

Increased Irish pig disposals

In Ireland, a rise of 9% in export meat plant supplies to 2.84 million head. This equates to a rise of 235,000 head on 2010 levels. This reflects improved productivity and efficiencies within the herd. When combined with a rise of more than 10% or 60,000 head in live exports of finished pigs to Northern Ireland, it left total pig production more than 9% higher for the year at 3.46m head.

With little change in carcase weights recorded, total Irish pigmeat production is estimated to have increased by a similar percentage to 235,000 tonnes.

The domestic market is the main volume outlet for Irish

25%

Irish pigmeat exports to International markets increased by 25% to reach 43,000 tonnes in 2011.



pigmeat production. The focus of Bord Bia activities on the market is to maximise demand for Quality Assured pork and bacon. In terms of exports our main priority is assisting with opening markets and finding customers in these new markets, particularly in Asia that can deliver significant premiums over some of our traditional markets.

Strong retail sales in Ireland

Retail sales of pigmeat performed very strongly on the Irish market in 2011 with figures from Kantar showing sales of fresh pigmeat were almost 8% higher in volume terms. A slower rate of increase in processed pigmeat retail sales and in the foodservice sector resulted in total pigmeat consumption rising by around 7% to 150,000 tonnes.

Higher export volumes

Imports of pigmeat are estimated to have increased by around 10% on 2010 levels.

With some of this pigmeat being further processed in Ireland before being re-exported, total shipments are estimated to have increased by around 13% to 170,000 tonnes in 2011. This combined with higher average export prices left **the value of Irish pigmeat exports some 18% higher in 2011 at €395m.**

Pigmeat Exports (€m)

2010	2011 (e)	2011/2010
€m	€m	% +/-
336	395	+18

Markets for Irish pigmeat

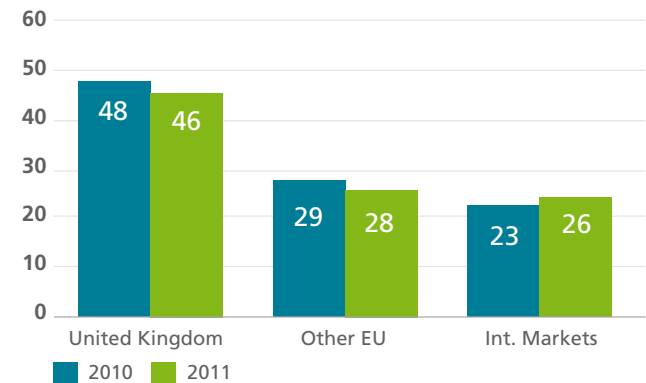
2011 saw some considerable changes in the market distribution of Irish pigmeat exports with a strong increase in shipments outside of Europe more than offsetting a challenging market environment within Europe.

Despite the challenges the **United Kingdom** remained the largest export market for Irish pigmeat. Shipments for the year were impacted by an ongoing competitive UK market combined with better import demand in other markets. For the year shipments are estimated to have been increased marginally to 72,000 tonnes product weight with an estimated value of just over €245m.

Exports to the **Continental EU** markets were impacted by a sluggish import demand in many markets and the stronger market demand for Irish pigmeat in markets such as Asia and Russia. For the year, exports to the Continent are estimated to have been largely unchanged at 43,000 tonnes and were worth an estimated €75m. A slight increase in exports to Germany, Denmark and Eastern Europe were offset by slower sales to France and Italy.

Exports of Irish pigmeat to **International markets** were significantly boosted by better access to key markets in Asia such as China, ongoing strong demand in Russia and a better trade to the United States. For the year exports of Irish pigmeat to markets outside of the EU are estimated to have jumped by more than 25% to 43,000 tonnes product weight with two thirds of the total destined for China and Russia. The value of trade is estimated at €72m.

Distribution of Irish pigmeat volumes (%)



Source: Bord Bia estimates

Outlook for 2012

The prospects of an increase of 2% in global pigmeat output for 2012 and a slower import requirement in key markets such as Russia and South Korea may dampen exports of EU pigmeat. However, lower EU production is expected to help offset this development and lead to a relatively stable EU market.



FACTORS AFFECTING 2012 PIGMEAT PROSPECTS

- Increase of 2% in global output.
- EU pig supplies to tighten as year progresses.
- Irish pig supplies relatively stable.
- Stable EU demand anticipated.

35%

German feed wheat prices increased by 35% in 2011 to reach €215 per tonne.



Stronger global pig supplies

China is expected to drive the growth in global pigmeat production in 2012 with a rise of almost 4% anticipated fuelled by a sharp increase in producer prices and recent government measures such as a productive sow subsidy. However, pig numbers will remain below 2009 levels.

Russia and Japan are both expected to see increased production while US output is forecast to rise by 2% leaving the EU as the only major producer to show a decline in 2012.

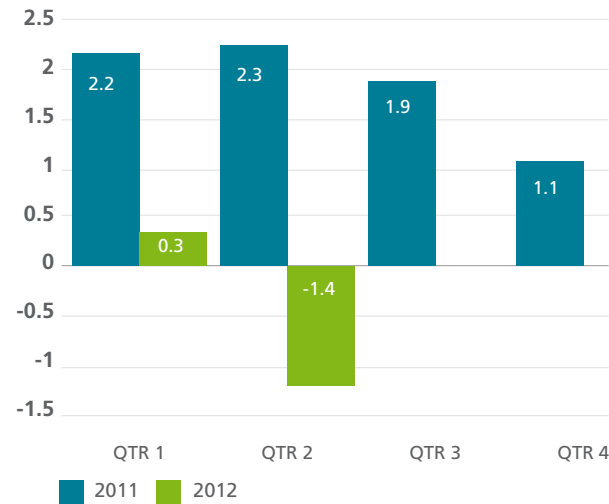
Lower EU output anticipated

The results of the October EU pig forecasting working group suggest that EU pigmeat production will drop by 1.3% in 2012. However, the drop of 4% in sow numbers recorded in the May/June EU pig survey and the impending introduction of a 'partial' stall ban on EU pig production from January 2013 suggest that the rate of decline in output may be greater. The decline is expected to commence in the 2nd quarter.

The decline is expected to be greatest in countries such as Poland and Sweden where reductions of 10-12% were recorded in sow numbers. The UK and Dutch herd were the only main producers to show an increase in June sow numbers at just over 1%.

EU pigmeat production in 2012

(% change on previous year)



Source: EU Commission

Irish pig supplies to show little change

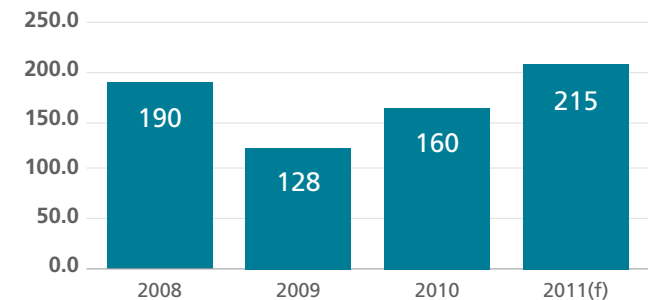
Despite a drop of over 3% in the Irish pig breeding herd in June 2011 higher levels of productivity will lead to a stable or a marginal decline in the pig supply base in 2012. Most of the breeding herd fall was evident in the sows in pig and gilts in pig categories, which suggests a decision by producers to reduce output in the face of ongoing high feed costs. However, the 'partial' sow stall ban coming into force in January 2013 will also impact on producer decisions as the year progresses.

This is expected to result in total export meat plant supplies falling marginally to around 2.8 million head.

Grain prices set to remain strong

The strength of feed prices continues to cause difficulties for producers. During 2011, German feed wheat prices were more than 35% ahead of 2010 levels at €215/tonne having peaked at €245/tonne in April. The prospects for global wheat prices in 2012 remain reasonably strong according to Rabobank with the 4th largest global wheat crop on record being offset by stronger global demand during the 2011/2012 season. In the US, wheat prices are expected to be supported by ongoing strong coarse grain price and overall Rabobank don't expect any major change in price levels in 2012.

German feed wheat prices, 2008 to date (€/tonne)



Source: HGCA

Sheepmeat

The market environment for Irish sheepmeat remained firm throughout 2011 as an ongoing tightness in supplies of New Zealand sheepmeat on the European market combined with a better return for lamb skins for much of the

SHEEPMEAT EXPORTS



€180m

The value of Irish sheepmeat exports increased by 10% in 2011 to reach €180m.



year helped maintain price levels. Stronger UK export volumes and some decline in the French import requirement was offset by a broader market distribution of Irish exports both within and outside of Europe.



KEY SHEEPMEAT EXPORT MARKET DEVELOPMENTS IN 2011

- Fall of around 2% in EU production.
- EU consumption around 2% lower.
- NZ shipments to Europe almost 10% lower.
- Lamb skins prices strong for much of 2011.

Figures from the EU Commission suggest that EU net sheepmeat production fell by around 2% during 2011 to just under 870,000 tonnes. Increased production in the UK, Spain and to a lesser extent Romania was more than offset by reduced output in Greece, Italy and in particular, Bulgaria.

A drop of 5% in New Zealand lamb output for the 2010/2011 marketing year and strong demand in Asia and the Middle East resulted in exports to the EU not filling their quota for the second year in succession with shipments down by around 10% at 150,000 tonnes product weight.

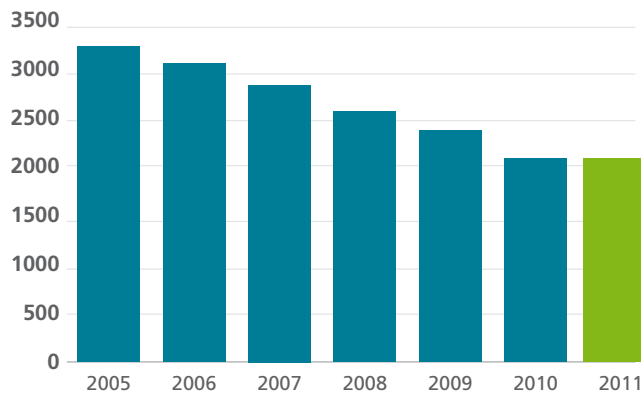
Stabilisation in Irish supplies

Following strong declines over recent years, the Irish sheep flock stabilised in 2011 with the results of the June livestock census showing a rise of 3.5% in total sheep numbers with the breeding flock around 1% higher. These developments helped sheep supplies at export meat plants stabilise in 2011

at just over 2.1 million head. Supplies were also boosted by a drop of 30,000 in the level of live sheep exports, which stood at less than 20,000 and an increase in imports from Northern Ireland.

With average lamb carcase weights rising by 1% during the year, total sheepmeat production is estimated to have reached just under 50,000 tonnes.

Sheep supplies at export meat plants ('000 head)



Source: Bord Bia estimates

Domestic consumption steady

Following a number of difficult years, retail sales of lamb stabilised in 2011 with figures from Kantar for the year ended November 2011 showing little change on a year earlier. For the year total sheepmeat consumption is estimated at 13,000 tonnes.

Slight recovery in exports

Given the slight rise in output and a stable consumption situation it is estimated that Irish sheepmeat exports in 2011 amounted to 41,000 tonnes, a rise of 1,000 tonnes on 2010 levels.

With lamb prices recording a rise of 9% to around €4.77/kg, **the total value of Irish sheepmeat exports is estimated to have increased by 10% in 2011 to reach €180m.**

Sheepmeat Exports (€m)

2010 €m	2011 (e) €m	2011/2010 % +/-
163	180	+10

The domestic market accounts for around a quarter of total sheep output with the focus being on positioning lamb as an attractive option for special occasions. In terms of export markets the focus for Bord Bia remains the joint international promotion of lamb in France, where it's in the interest of all suppliers to the market, to underpin consumption. There is also a focus on promoting lamb with lower volume customers across all markets that pay premium prices, which can help boost overall returns.

Markets for Irish Sheepmeat

France remained the principal destination but catered for a declining share of Irish sheepmeat exports in 2011 at around 45% of the total as other European markets took increased volumes and overall import requirements were lower.

For the year it is estimated that exports to France stood at

2%

Irish sheepmeat output is expected to increase for the first time in almost 10 years in 2012 with a 2% rise forecast.



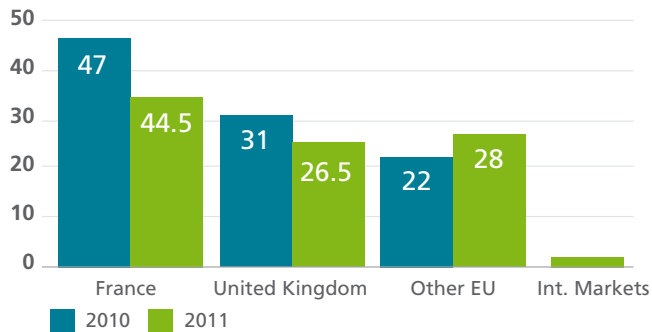
around 18,000 tonnes, a decline of 5% on 2010 levels. Competition on the market remained strong from UK suppliers and while less New Zealand product was evident on the market, this was offset by lower consumption, which is estimated to have declined by 2%.

Exports to the **United Kingdom** also slowed as an increase of 4% in UK production combined with lower consumption led to a more competitive market for Irish lamb. For the year, it is estimated that exports fell by around 7% to 10,500 tonnes.

In terms of **other European markets**, strong increases in shipments were recorded to Belgium, Germany and Sweden as exporters continue to secure new business and grow business with existing customers in these markets. For the year, it is estimated that exports to other European markets, excluding France and the UK increased by more than 30% to 12,000 tonnes.

While still small volumes, 2011 saw exports of Irish sheepmeat exports to **International markets** almost double to 600 tonnes led by Vietnam, Tunisia and Hong Kong.

Distribution of Irish sheepmeat volumes (%)



Source: Bord Bia estimates

Outlook for 2012

Lower European sheepmeat production anticipated in 2012 is expected to help offset any increased volumes of New Zealand lamb available on the market. In terms of prices, much will depend on the balance between supply and consumer demand as well the market for lamb skins throughout the year. In Ireland, a modest increase in sheep output is anticipated.



FACTORS AFFECTING 2012 SHEEPMEAT PROSPECTS

- Drop of 2% in EU sheepmeat production, consumption to remain sluggish.
- Recovery of 5% in NZ output.
- Strong global demand for NZ sheepmeat.
- Irish output to increase by 2%.

Lower EU supplies

Figures from the EU Commission suggest that EU sheepmeat production will show a further fall of 2% in 2012 to less than 850,000 tonnes. In term of demand, the EU Commission figures suggest a modest recovery in consumption levels but much will depend on consumer sentiment and the relative price of sheepmeat.

Little change is anticipated in UK output, although signs of weakening consumer demand may boost export volumes slightly. A drop of 3% in French output and broadly stable consumption is expected to boost import requirements by around 3% to 118,000 tonnes.

Recovery in New Zealand Output

Forecasts from New Zealand suggest a recovery of 5% in their production for the 2011/2012 with the lamb crop estimated to be 7% higher than the weather impacted season of 2010/2011. However, Asian markets, and China in particular continue to take an increasing proportion of New Lamb with shipments for the first nine months of 2011 running 25% higher than a year earlier at almost 45,000 tonnes. The market now accounts for almost one fifth of total shipments.

The increase of more than 40% evident in New Zealand lamb prices in euro terms has also reduced their competitiveness on the EU market and this situation seems set to remain for much of 2012.

Irish supplies to rise

The rise in the breeding flock recorded in the June livestock census combined with a renewed sense of optimism within

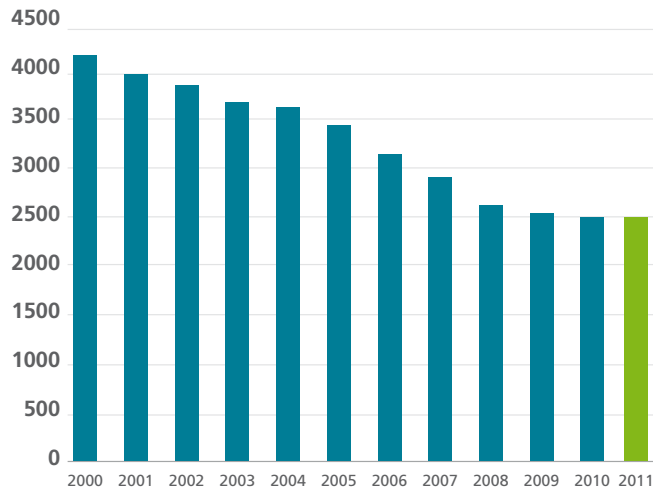
€210m

Irish poultry exports increased by 3% in 2011 to reach €210m.



the sector at farm level are expected to drive an increase of around 2% in supplies at export meat plants in 2012 to just under 2.2 million head. This would deliver export volumes of around 42,000 tonnes.

Irish breeding flock, June 2000 to date ('000 head)



Source: CSO

Poultry

The strong rise in feed costs evident over the last year led to a slowdown in the rate of growth in EU broiler meat production. For the year output is estimated to have increased by less than 1% to 9.26 million tonnes. Consumer demand across Europe has shown little change with higher exports of EU poultrymeat helping to

POULTRY EXPORTS



offset stronger imports on the market. As a result EU broiler prices are estimated to have increased by 7% during 2011.



KEY POULTRY EXPORT MARKET DEVELOPMENTS IN 2011

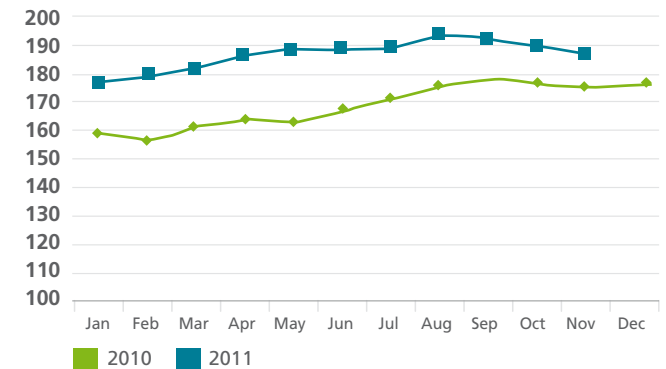
- Slowdown in rate of growth in EU broiler production to less than 1%.
- EU consumption largely unchanged.
- Rise of 15% in EU exports.
- Increase of 5% in EU imports.
- Irish broiler production 4% higher.

The main growth in EU broiler meat production was evident in France and Germany, which more than offset lower output in the UK and Spain.

EU export volumes have increased by 15% to over 1m tonnes to the end of September. Key growth markets were China, Hong Kong and Saudi Arabia, which recorded growth of 40% - 70%. This more than compensated for a drop of 50% in shipments to Russia.

In terms of imports a jump of 7% in volumes from Thailand and 2% from Brazil were recorded for the first nine months of the year. Broiler prices across Europe were stronger throughout the year, averaging €1.86/kg.

EU broiler prices (c/kg)



Source: EU Commission

Higher Irish broiler output

Figures from DAFM show a rise of 4% or 2.3 million birds up to the end of September as output expands despite the strength of feed prices.

Retail sales of fresh chicken declined during slightly during 2011 according to Kantar as promotional competition from other meats and other poultry products impacted on sales.

Up to the end of August higher exports of chilled and frozen poultry were recorded according to CSO data. Processed poultry exports were marginally lower. **For the year it is estimated that the value of Irish poultry exports increased by 3% to reach €210m.**

€210m

Irish poultry exports increased by 3% in 2011 to reach €210m.



Poultry Exports (€m)

2010	2011 (e)	2011/2010
€m	€m	% +/-
203	210	+3

While there was some pick up in exports to the UK during the first eight months of 2011, most of the increase was recorded to other European markets such as France and Asia.

Outlook for 2012

Some further rise is anticipated in EU broiler output in 2012 while global production expected to rise by almost 3% to 83.1 m tonnes driven by strong domestic demand in China and Brazil. However the rate of growth will be slower than the previous two years due to the rising cost of feed and a slowdown in US production. Export demand for EU broiler meat looks set to remain good although increased import restrictions are likely to persist in Russia and when combined with higher local production, are likely to negatively impact on import demand.



FACTORS AFFECTING 2012 POULTRY MEAT PROSPECTS

- Little rise in EU broiler output.
- Growth in global output to slow to 3%.
- Little change in EU consumption.
- Global demand to remain firm.

The US, the largest broiler meat producer is forecasting a decline of 1% in output for 2012 as lower prices and higher feed costs affect profitability. However, both Brazil and

China are forecast to record increases of around 5% driven by greater domestic demand and more disposable income, an expanding middle class and competitive prices over red meat.

Irish poultry production is forecast to remain stable, which will help to maintain export volumes. However, as with pigmeat, feed price developments are likely to be a significant influence on producer decisions as the year progresses.

Live Animals

Despite increased prices prevailing, the value of Irish livestock exports eased as considerably lower cattle and sheep shipments were only partly offset by higher finished pig exports to Northern Ireland.

Overall, the **value of Irish livestock exports fell by 16% in 2011 to an estimated €205m.**

Livestock Exports (€m)

	2010	2011 (e)	2011/2010
	€m	€m	% +/-
TOTAL Of which:	245	205	-16
Cattle	183	135	-24
Pigs	57	68	+19
Sheep	5	2	-62

Live cattle exports

Live cattle exports fell by more than 35% in 2011 to almost 215,000 head. This reflects the strength of Irish cattle prices.

The value of trade was 24% lower at €135 million.

Shipments of all categories of stock were substantially lower. The number of calves exported fell by 45%, while exports of weanlings and stores were collectively 34% lower. Similarly, exports of finished cattle declined by 22%.

Live cattle exporters sold fewer animals to all of the major markets in comparison with last year.

With regard to the major calf markets, exports to the Netherlands fell by 44%, followed by a 22% decline for Belgium. Exports to the main weaning markets, Italy and Spain, were 24% and 59% lower, respectively, for the year. Similarly exports to Northern Ireland were 37% lower. It is worth remembering that these 5 markets collectively account for over 95% of Irish live cattle exports.

The slower live export trade is principally an impact of the higher prices being paid for cattle by domestic beef producers. Finished cattle prices in Ireland rose by more than 18% during 2011, which naturally gave farmers more confidence when it came to restocking. The upward trend in cattle prices was less pronounced in Italy and Spain, where producer prices increased by just 7-10%.

LIVESTOCK EXPORTS

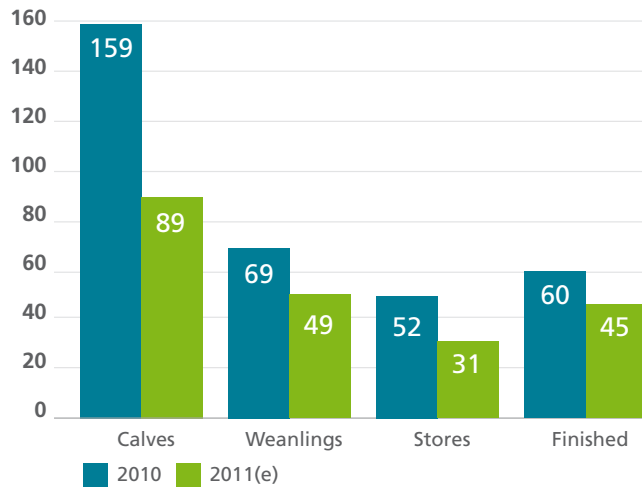


215,000

Live cattle exports fell by more than 35% in 2011 to almost 215,000 head.



Breakdown of Irish live cattle exports ('000 head)



Source: Bord Bia estimates

Other livestock

Shipments of live pigs to Northern Ireland remained strong, reaching an estimated 630,000 head, which represents an increase of 10% on 2010 levels.

Live sheep exports followed the trend that started in 2010 with shipments falling by two thirds to just over 15,000 head as the strong prices prevailing at both export approved meat plants and local abattoirs reduced numbers.

Outlook for 2012

Finished cattle prices in Ireland currently exceed the weighted average for the EU. Under these circumstances, live cattle from Ireland tend to be less competitive than our

competitors, especially when you consider that the transport costs incurred in reaching some of our major markets are quite significant. 2012 is likely to present some opportunities for further live exports to non-EU markets, including Russia for breeding cattle and the Middle East / North Africa for commercial animals.

Apart from price competitiveness, the key issue which continues to impact on the live export market concerns restrictions in relation to animal health. In December 2011, the Dutch regulatory body for the veal sector, SKV, imposed new restrictions on the import of calves from Ireland, citing issues with Bovine TB. The new regulations state that Dutch finishers can only import calves directly from Ireland. i.e. Upon import, the calves must be transported to the premises where they are to be finished. This would prevent Irish calves being fed initially on a rearing/growing farm and traveling on to a separate finishing farm, which is common practice in rose veal production.

The prospects for live pig exports remain strong, although overall availability will dictate shipments.

Given the ongoing strength of lamb prices in Ireland, little recovery is anticipated in live sheep exports for 2012.

DAIRY PRODUCTS & INGREDIENTS

This category encompasses both primary dairy products such as butter, cheese and milk powders and value added dairy ingredients such as infant formula, casein and chocolate crumb.

The strong performance evident in the global dairy market during 2010 was maintained in 2011 with the dairy demand remaining strongly resilient to recovering global supplies and ongoing economic uncertainty in a number of key markets. While prices for most products showed downward movement during the second half of the year, strong import demand in the likes of South East Asia and China helped support prices in many cases ahead of 2010 levels.

DAIRY & INGREDIENT EXPORTS

+17%
€2.66bn



KEY DRIVERS OF DAIRY EXPORT PERFORMANCE IN 2011

- Increased consumption of dairy products globally.
- Strong import demand, particularly in China and South East Asia.
- Increased Southern Hemisphere supplies for 2011/2012 season.
- EU output higher than anticipated.
- Most product prices up by 10% to 15%.

€2.66bn

Irish dairy exports were valued at €2.66bn in 2011, representing a rise of 17%.

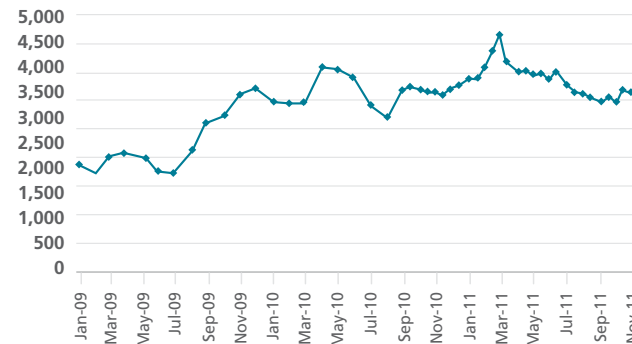


A recent report by Rabobank suggests that while the pace of dairy consumption growth slowed during 2011, it still remains in growth, highlighting the resilience of the sector. While trade slowed during the latter half of 2011, Rabobank suggest that import demand for the third quarter of 2011 remained ahead of 2010 levels with South East Asia and Latin America helping to offset lower purchases by China and Russia, both of which had been very active up to this point.

Global milk supplies during the 2nd half of 2011 increased strongly as the Northern Hemisphere season continued strongly and output in both New Zealand and Australia showed strong growth. For the quarter ending October, output in the EU is estimated by Rabobank to have been 1.5% ahead of a year earlier although output in the month of October was less than 1% higher. New Zealand supply was almost 9% higher than a year earlier during the August to October period while Australian supplies were almost 4% ahead. Some slowdown in the rate of growth is expected over the coming months.

For most products, European prices increased by 10% to 15% during 2011 with the strongest increases evident in powders and butter. Cheese prices recorded increases of just under 10%. Global prices showed similar trends. The Fonterra auction price for WMP increased by 7% in 2011, which followed a rise of 40% in 2010. Prices peaked in March at \$4,619 before gradually easing to \$3,309 in October. However, prices recovered by more than \$300 per tonne between October and December to finish the year at \$3,637 per tonne.

Fonterra Auction prices, Whole Milk Powder, Jan 2009 to date (US\$/tonne)



Source: Fonterra

Milk deliveries in Ireland increased strongly throughout 2011 as a combination of good grass growth and high prices boosted output. For the 10 months to October deliveries were running 6.5% higher. However, deliveries slowed down considerably over the autumn months with October almost 13% lower than a year earlier. For the year, milk deliveries are estimated to have been 5% higher. In terms of production, increased butter and powder production was recorded.

Overall, it is estimated that the value of **exports for the year increased by 17% to €2.66 billion.**

Dairy Products & Ingredients Exports* (€m)

* includes export refunds

2010 €m	2011 (e) €m	2011/2010 % +/-
2,273	2,664	+17

Export markets for Irish dairy products

All export destinations for dairy products showed strong growth during 2011. Exports to the **United Kingdom** are estimated to have increased by more than 10% to reach €850 million or just over 30% of total exports.

Exports to **other European markets** showed the strongest growth, rising by almost a third to €880 million or almost one third of total dairy exports. Trade to the region was driven largely by strong increases to both France and the Netherlands while most other markets also recorded growth.

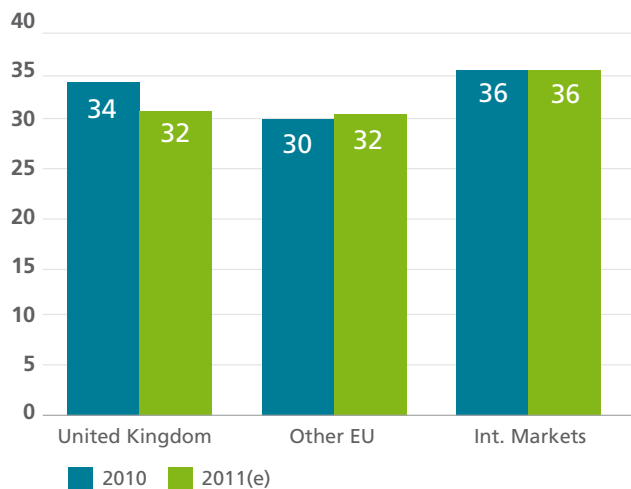
Exports to **International markets** also performed well helped by strong shipments to China, South East Asia, the Middle East, Africa and the United States. Overall exports outside of Europe are estimated to have reached more than €930 million.

6.5%

During the first 10 months of 2011, Irish milk output increased by 6.5% on 2010 levels.



Distribution of Dairy products & Ingredients exports (%)



Source: Bord Bia estimates

Main product trends

The strongest performing categories during the year were **WMP, whey, SMP, and casein**.

Infant formula exports showed some growth during 2011 with increased volumes shipped to Asia, the Middle East and Africa. Trade in infant formula to Asia is facing challenges in the form of regulatory change/ changing market requirements. A challenge facing European exporters in the region is the level of bilateral agreements in place with other suppliers.

The volume of **cheese** exports eased during the year with

volumes to the UK showing some fall. However, the market still accounted for more than two thirds of the total.

Butter volumes increased strongly during the year with the best growth being recorded to the United Kingdom and other European markets. On the Continent, the best performing markets were France and Germany.

Outlook for 2012



DAIRY PRODUCTS & INGREDIENTS EXPORT DRIVERS FOR 2012

- Level of consumer demand for dairy products.
- Supply levels in New Zealand and Europe.
- Grain price developments and impact on US supplies.

The fact that the global dairy market has been able to absorb a strong increase in milk supplies over the last six months gives a positive indication of the level of market demand. However, it remains to be seen what level of stock build up, if any, will emerge during the early part of 2012.

Supplies from New Zealand, Australia and Argentina are expected by Rabobank to have a late surge during the early months of 2012. How the market handles this additional product will largely determine price prospects for much of 2012.

Slower economic growth is expected in many regions during 2012 and this is likely to impact on import requirements. This could result in some stock build up, particularly if US

output increases at a faster rate than anticipated. However, much is likely to depend on the strength of feed prices.

Rabobank suggest that Chinese imports will increase from the levels evident towards the end of 2011, which would boost global trade levels.

The prospects for Irish dairy exports in 2012 remain generally positive with global demand likely to be sustained at levels well above historical averages. If global stocks begin to build, it will put some downward pressure on prices, although overall market fundamentals remain sound in many regions.

Following a strong increase in output during 2011, the early months of 2012 are likely to see reduced Irish milk deliveries as producers seek to stay under quota. For the new quota year commencing in April, little overall change is expected beyond the 1% increase allowed in the run up to quota removal in 2015.

The Irish dairy sector continues to establish and grow a portfolio of markets that offer more options for exporters. This will be increasingly important over the medium term as the ending of dairy quotas approaches and the sector increases the volume of dairy products available to be exported.

€1.54 billion

The value of prepared food exports were 12% higher in 2011 at €1.54 billion.



Prepared Foods

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

The market environment for Prepared Food products remained competitive throughout 2011 as exporters faced the impact of high global agricultural commodity prices, promotional pressures in key markets, the impact of economic uncertainty on consumer spending and ongoing currency pressure.

However, the strong focus within the sector over recent years to reduce costs and boost efficiencies combined with an ever increasing focus on product development and expanding the range of customers and markets served helped the sector deliver a commendable export performance. This reflects the increased ability of the sector to offer a portfolio of products that are in tune with the ever evolving needs of both customers and consumers.

The challenge facing the sector, particularly in the UK, is to be able to compete with other suppliers that focus strongly on price promotional activity and meet the promotional requirements of retail customers.

**PREPARED
FOODS
EXPORTS**



KEY DRIVERS OF PREPARED FOODS EXPORT PERFORMANCE IN 2011

- Impact of commodity price increases on costs.
- Ongoing price promotion pressure.
- Effect of economic uncertainty on consumer spending.
- Strengthening focus on NPD.
- Emergence of new customers and markets.

Overall, exports of products covered under the prepared foods category increased by an estimated 12% to €1.54 billion. If value added meats and poultry are included, exports were in the region of €1.9 billion.

The strongest performing categories during the year were value added dairy products, meat based products and chocolate confectionery. These helped to partly offset a difficult environment for other categories.

Prepared Foods Exports (€m)

2010	2011 (e)	2011/2010
€m	€m	% +/-
1,375	1,540	+12

Export markets for Prepared Foods

The **United Kingdom** remains the principal destination for most manufacturers. However, the proportion of exports destined for the market continues to decline with figures for the January to August 2011 showing 40% of prepared food exports going to the UK compared to 43% in 2010 and

48% in 2009. This largely reflects the competitive market environment facing Irish exporters in the UK, which continues to lead them to focus on other markets and the fact that most markets for valued added dairy ingredients are outside of Europe.

The proportion of prepared food exports going to **other European markets** was largely unchanged at 33% as mixed results were reported depending on the category involved. It also highlights the time involved in establishing business in markets that in many cases operate very differently to the traditional export market of the UK in terms of distribution, business culture etc.

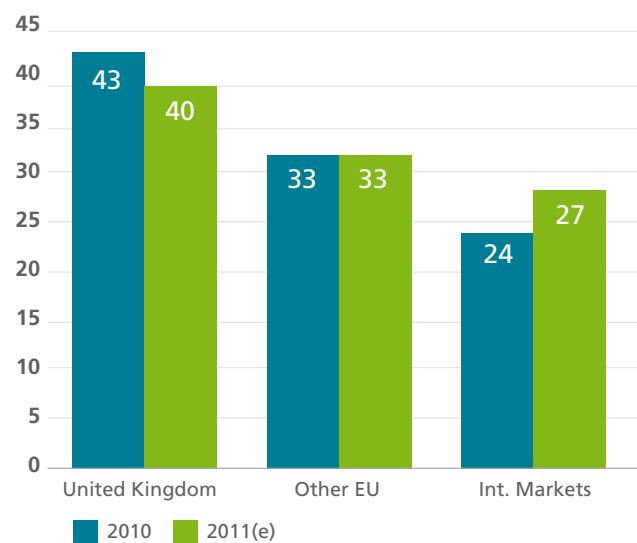
Exports to **International markets** for products covered under the prepared foods heading increased strongly, largely on the back of a strong demand for dairy based products. As a result, the region accounted for 27% of total exports during the first eight months of 2011. Most of the growth is evident to Africa, Asia and The Middle East.

33%

The proportion of Prepared Foods exports destined for other European markets was stable at 33%.



Distribution of prepared food exports (%)



Source: Bord Bia estimates

Main product trends

Overall exports of **chocolate confectionery** improved during 2011 as new product development and increased sales to emerging markets boosted exports.

An increase in the number of markets served by some smaller manufacturers combined with consumers looking to products such as chocolate to provide a treat, has helped exports. The strongest performing area was that of luxury chocolates with increased market diversification evident by a number of manufacturers. Strongest sales growth was evident in the Middle East, Southern Asia and Australia.

Sugar confectionery has proven to be more recession proof than most products with exports overall showing a modest increase as business continues to be developed across Europe and the Middle East.

Bakery products put in another good performance in 2011 with increased exports recorded. The UK continues to be the most important market for this category accounting for the bulk of exports. An increase in the number of European markets served by some of the smaller manufacturers has also helped to increase exports. New opportunities are also being explored by Irish companies in markets further afield including the Middle East and Australia.

One of the major exports to the UK is **ready meals** with a focus on frozen products. While the frozen ready meal sector has benefited from cost-conscious shoppers trading down, the sector remains very cost focused, particularly in the UK. Overall ready meal exports are estimated to have been maintained in 2011.

The **pizza** market continues to be one of the most competitive in the UK with a number of suppliers having a very strong presence in what is a very price competitive market segment.

Exports of **value added meat ingredients** performed well in 2011 as renewed competitiveness allied with a value added service proposition and strong new product development boosted trade.

Outlook for 2012



PREPARED FOODS EXPORT DRIVERS IN 2012

- Ingredients price developments.
- Level of consumer spending.
- Ability to identify & exploit new market opportunities.
- Ongoing NPD orientation.

The improved efficiencies evident among Irish manufacturers leaves them in a better position to compete in key markets. However, ongoing high commodity prices, promotional and currency pressures allied with economic uncertainty and accompanying austerity measures, seem set to create a challenging marketing environment for prepared food manufacturers in 2012.

However, the strong drive by manufacturers to adapt existing products and develop new ones to meet changed consumer shopping requirements and diversification to a broader range of markets should help export values.

While some relief may be evident in terms of ingredient costs as 2012 progresses, the level of downward movement is likely to be modest. This will keep pressure on manufacturers to achieve higher returns from the marketplace, which to date have proven difficult on a consistent basis.

The key to continued export growth for prepared food manufacturers remains product innovation and an ability to identify and secure new business either in existing or new markets.

€1.22 billion

The value of beverage exports jumped by 6% in 2011 to €1.22bn, driven by strong growth in whiskey exports.



BEVERAGES

The global market for Irish beverages improved during 2011, despite ongoing economic uncertainty, pressure on price levels and intense competition across most major categories. A strong focus on new product development and increased volumes to emerging markets helped to boost trade. The growth in the value of exports was led by whiskey, which continued to show strong double digit growth while cream liqueurs, beer and cider showed more modest growth. Exports of non-alcoholic beverages increased in 2011, with water and coffee performing particularly strongly.



KEY DRIVERS OF BEVERAGE EXPORT PERFORMANCE IN 2011

- Strength of global market for Irish whiskey.
- Polarisation in demand dynamics between emerging & developed markets.
- Impact of higher raw material costs.
- Role of NPD in delivering new sales.

The travel retail sector is estimated to have returned to growth in 2011 with wine and spirits now holding a 17% market share of the US\$44bn market. This reflects the fact that consumers from emerging economies are travelling more frequently with these economies being the key centres of growth for the travel retail industry.

Source: Bord Bia estimates

The growth in Irish exports in many cases has been reflected by the polarisation in demand developments between emerging economies and developed markets. For many categories, emerging economies in Asia, Africa and Eastern Europe were the key growth drivers in 2011. Outside of these markets, the United States has proven to be the most resilient, showing increased exports in all major categories.

Across developed markets that continue to experience economic uncertainty, consumers are juggling their ongoing desire for premium and luxury goods with their current economic circumstances. This is putting pressure on prices as the search for value intensifies.

The ongoing strength of raw material prices in the form of cream, grain etc is resulting in higher production costs, which in many cases have been difficult to recoup from the marketplace as the focus on price discounting continued to be evident for much of the year. As with other sectors, beverages also had to deal with ongoing currency pressures.

Overall, exports are estimated to have increased by 6% in 2011 to reach €1.22bn.

Beverage Exports (€m)

2010 €m	2011 (e) €m	2011/2010 % +/-
1,152	1,220	+6

Export markets for Beverages

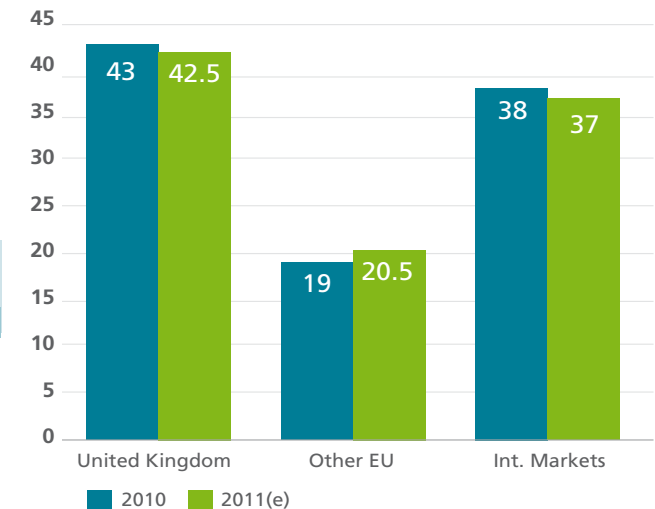
Despite the economic pressures and level of competition, the **United Kingdom** remained the principal market for

Irish beverages exports in 2011 with trade estimated to have increased by around 3% in 2011 to reach €485 million or around 40% of total exports. Trade was led by whiskey, improved cider volumes and as the year progressed an improved trade for cream liqueurs.

Exports to **other European markets** showed double digit growth in 2011, led by a strong whiskey performance. The key markets during the year remained Italy, France and the Netherlands. Overall, exports were valued at €270m.

Shipments to **International markets** were boosted by a strong performance from the US market as well as South Africa, Australia and to a lesser extent Asia and the Middle East. Exports for 2011 to the region are estimated at €460m.

Distribution of beverage exports (%)



40

Double digit growth was recorded in whiskey exports to more than 40 markets.



Main product trends

Whiskey exports continue to be the star performer within the beverage category with double digit growth recorded to more than 40 markets during 2011. Sales were boosted by a strong performance in the United States, South Africa, Russia and Eastern Europe. Trade was boosted by a resilient global whiskey demand and ongoing new product development within the category.

The market environment for **cream liqueurs** showed a pick up during 2011 as increased volumes helped to boost trade while the level of price discounting slowed as the year progressed. The best performing markets were the United States, Latin America and Asia. The focus on new product development within the category is helping to overcome slow consumer demand in traditional markets.

Beer exports faced a very difficult UK market in 2011 as the ongoing shift from the on to the off-trade impacted negatively on sales. Outside of the UK, sales to the United States performed very strongly as did the beverage blending agent markets in Africa. Overall, beer exports showed a modest rise in 2011.

Exports of **Irish cider** built on their 2010 performance and showed further single digit volume and value growth to the UK market. Sales to other markets across Europe, North America and Australia performed strongly during the year. Overall, exports are estimated to have increased by 4% in 2011.

In terms of **non-alcoholic beverages**, exports of mineral water and coffee were the strongest performers. Sales are

being driven by a strong NPD and innovation focus with existing customers including range extensions, and a proactive approach in seeking out new customers and markets.

Exports of coffee have benefited from colder than usual winters as well as a general increase in global consumption. However, the category faces ongoing strong competition from soft drinks as well as a sharp rise in raw material prices. Growth has come from an expansion of both private label and branded business with existing and new customers.

Outlook for 2012



BEVERAGE EXPORT DRIVERS FOR 2012

- Ingredient price developments.
- Consumer confidence levels.
- Focus on emerging market opportunities.
- Role of NPD in delivering new business.

The prospects for Irish beverage exports in 2012 remain largely positive for 2012 with further good growth anticipated in whiskey exports while cream liqueurs, beer and cider are also expected to improve as new markets emerge to replace lower sales to some traditional destinations.

However, much will depend on economic developments, particularly in the euro zone, which will have a strong influence on consumer spending. Raw material costs seems

set to remain high by historical standards meaning any further price pressure in the marketplace would impact negatively on the sector.

Despite the current economic situation, consumers in many parts of the world seem to be still willing to purchase premium and above spirits and this category is expected to grow between 2011 and 2016 according to the IWSR Forecast Report. The US is forecast to remain the leading premium spirits market with sales of 60m cases, a projected increase of 12m cases in the period, followed by China.

The potential abolition of intermediary excise tax relating to wine based cream liqueurs would substantially raise retail prices meaning products could be replaced by lower cost mainland European cream products.

In terms of non alcoholic beverages, exporters are looking to consolidate business with existing customers and target new segments and channels. For example markets outside of the UK are being explored and are expected to deliver new business in 2012.

A number of big events in the United Kingdom, including the Olympics are expected to contribute to improved exports in 2012.

Seafood

The value of Irish seafood exports showed strong growth in value during 2011 despite volumes falling by a fifth. All categories of seafood put in strong export performances as reduced lower

SEAFOOD EXPORTS



€420m

Irish seafood exports grew by an estimated 13% in 2011 to reach €420m.



KEY DRIVERS OF SEAFOOD EXPORT PERFORMANCE IN 2011

- Strong price increases for all species.
- Increased demand for Irish Organic salmon.
- Diversification of shell fish exports.
- Challenging market environment for mussels.
- Strong oyster prices but volumes well back.
- Pelagic volumes lower due to quota restrictions and price resistance.

Overall for the year, **the value of seafood exports is estimated to have increased by 13% to €420m.**

Seafood Exports (€m)

2010	2011 (e)	2011/2010
€m	€m	% +/-
371	420	+13

Export markets for seafood

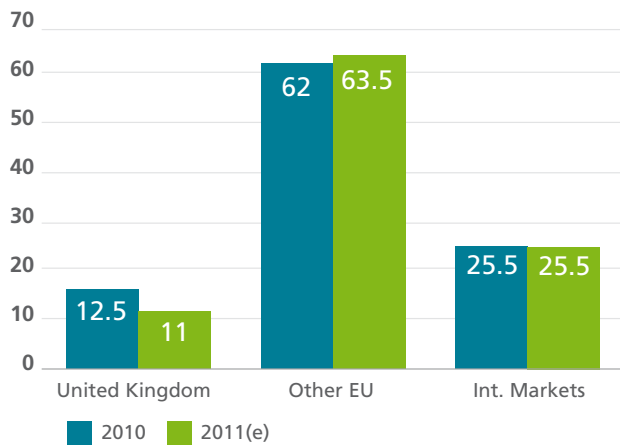
Other European markets remain the key outlet for Irish seafood exports, accounting for around 63% of exports in 2011 with a value of €265m. The key export markets in the region are France, Spain, Italy and Germany, all of which showed strong growth during 2011.

2011 saw strong growth in the value of exports to **International markets**, led by Asia, Russia and Africa. In total, more than a quarter of Irish seafood exports are now

destined for markets outside of Europe. Trade was worth an estimated €110m in 2011.

The **United Kingdom** continues to account for around 10% of exports with trade worth around €45m in 2011.

Distribution of seafood exports (%)



Main product trends

Consumer trends in Europe continue to be positive for organic **salmon** which is positive for the Irish salmon sector as an estimated 86% of our production is now certified as organic. The conventional salmon market has witnessed a sharp decline in price level consequent to the volume of product entering the market from Chile. This will impact on profitability within the farming concerns and may impact the price return for Irish organic products as the differential between conventional and organic increases.

A key concern for Irish Organic salmon will be the move by

Retailers to open their specification on raw material to all origins. Previously the market was segregated by country of origin, with all French and European Retailers carrying SKU's from each of the key producing countries.

An increase of availability of organic raw material from Norway and other production countries may lead retailers to market organic salmon more generically with less emphasis on the geographical origin. This is likely to impact on the price return as the Norwegian organic product will have a lower cost base and will be offered at a lower price point. The key focus for the Irish Industry will be to brand and promote the Irish Organic Salmon origin, however to achieve this it is also necessary to have the critical mass to satisfy demand.

France continues to dominate with in excess of 50% of the overall production sold to this market on both organic and conventional products. The United Kingdom and Germany remain stable however there is a growing trend in the price conscious German market towards purchasing the raw material from Norway at a lower price point and so needs focus and further development in 2012.

Due to limited supply issues, the sector has been unable to develop sales to the BRIC countries, preferring to develop, for now, its existing client base.

Demand for **whitefish** continued to be positive in 2011/2012, driven by a number of factors including continued high salmon prices, good cod supplies from Norway and a shortage of whiting as a result of poor fishing in Scotland and Ireland. According to the FAO Whitefish supply is expected to improve slightly by around 4% in

2011/2012 as stocks remain healthy.

Shellfish processors in the fresh and frozen sectors reported good growth in 2011 particularly in the main markets of France and Italy. Gains have also been secured by some companies in Asian markets where some of the main shellfish exporters have concentrated their efforts in 2011. Poor fishing in the last quarter has led to a shortage of many products for the important Christmas market.

Exports of live shellfish to the traditional export markets of France, and Portugal have been difficult in 2011, particularly for bulk live crab with consumer demand in these markets falling for live crab. However, Irish live shellfish exporters are making significant gains in developing new export markets, particularly with the export of Live Brown Crab by airfreight to China and Hong Kong. Some success has also been secured in developing a live market in the US & Canada for brown crab.

The **mussel** sector experienced a challenging year in 2011 with both volumes and value down considerably. Severe competition from Chile is having a negative impact on the sector with many Irish suppliers now seeking to differentiate their offer with an organic proposition in an effort to secure a more premium price in the market, particularly in markets such as Germany and France. Irish organic mussels for example have been successfully listed in a number of French multiple retailers in Q4 2011. Companies are also looking to expand into new markets such as Eastern Europe and China.

Irish **oyster** sales increased by 20% during the first eight months of 2011, despite volumes falling by 22% over the

period. Key markets were France, accounting for an estimated 82% of sales followed by Hong Kong and the Netherlands. Exports to Spain increased strongly from a small base while other notable growth markets included Singapore, Japan and China. The main issue for Irish oyster producers is access to raw material. Also, the sector runs the risk that the high prices currently prevailing will deter consumers and encourage switching to alternative species.

Within the **pelagic** sector, overall seafood exports in value terms increased by 23% in first eight months of 2011 but volumes are down an estimated 18% due to market resistance to inflated prices and the impact of quota restrictions. Generally demand remains strong for pelagic fish. However, there is apprehension in the main markets as speculation of a price correction due to the high levels currently evident. These high prices have led to substitution to alternative species in some of the main markets such as Russia and Nigeria.

Outlook for 2012



SEAFOOD EXPORT DRIVERS FOR 2012

- Supply levels across main species.
- Exchange rate developments.
- Consumer reaction to current high prices.
- Potential to expand sales to emerging markets.

The prospects for Irish seafood exports in 2012 remain positive. However, much will depend on supply levels from competing sources across a number of species and the level

of consumer demand given the high prices currently prevailing. Other issues facing the sector include the ongoing exchange rate uncertainty and export credit insurance.

The outlook for salmon in 2012 is reasonably good, although uncertainty remains over supplies from Chile and Norway. Any weakening of the euro should improve competitiveness in the US for Irish producers selling into this market.

It is anticipated that available organic volumes will be up slightly on 2011 levels. However, price may come under pressure as increased production from Chile comes on stream. Producers will focus on existing market development, particularly Germany, as well as driving sales in other important markets such as Switzerland and further developing sales into the US market. There is also a growing focus by the sector on further growth in value added products.

The on-going challenge for the sector is its inability to maintain supply to the market which has allowed other origins most notable Norwegian Organic to enter the market. This has resulted in retailers putting less emphasis on country of origin and may impact negatively on the long term price return achievable for Irish organic products. To counteract this, increased critical mass accompanied with strong marketing support is necessary to emphasise the different quality attributes of Irish organic salmon. The development of new production sites to allow the industry to expand and increase output is primordial.

€210m

Total exports of edible horticulture and cereal products increased by 9% in 2011 to reach €210m.



Some increase in global whitefish supplies may lead to some price pressure as the year progresses, particularly if global salmon production increases.

The prospects for shellfish exports remain good as new market development and product variations boost the sector. However, this growth is dependent on access to quotas and stability in the key prawn markets of Italy and Spain. In terms of oysters inadequate supply is likely to remain an issue in 2012.

The output for the pelagic sector is largely dependent on the Norwegian industry who is generally the key price maker in pelagic fish. As output in the sector is regulated by quotas, exports are not likely to be greater by volume. The sector should benefit from the restoration of the blue whiting quota in 2012, which shows a sixfold increase on 2011 levels when it was reduced considerably. This will contribute to the volume and value of exports from the pelagic sector. The sector will also be boosted by the increase in the boarfish quota to an estimated 56,000 tonnes during 2012.

EDIBLE HORTICULTURE & CEREALS

The strength of cereal prices combined with stronger exports of mushrooms to the UK boosted the value of edible horticulture and cereal exports in 2011.

**EDIBLE
HORTICULTURE
& CEREALS
EXPORTS**

**+9%
€210m**



KEY DRIVERS OF HORTICULTURE & CEREAL EXPORT PERFORMANCE IN 2011

- Strong international cereal prices in 2011.
- Value & volume growth in UK mushroom market.
- Start of three year supported promotional programme
- Better balance in Irish mushroom production.

For the year, overall **exports of edible horticulture and cereals increased by 9% to reach €210m.**

Edible Horticulture & Cereals Exports (€m)

2010 €m	2011 (e) €m	2011/2010 % +/-
193	210	+9

Irish mushroom exports increased by 2% in 2011 on the back of better demand in the UK. This left the value of exports at just over €100m.

The UK retail **mushroom** market showed reasonable growth in 2011 with a 4% increase in value and a 2% increase in volume recorded. While most of the lines are fairly static, flat mushrooms and brown mushrooms in particular, showed strong growth, rising by 27% in volume terms, albeit off a low base. Prices for value mushrooms increased by 10 % year on year. The 400gm pack size is now dominating the value sector.

A positive influence on the mushroom market has been the increase in the production of mushrooms for the canning market on the Continent. This means that compost availability and mushroom supply are better in balance for fresh mushroom production.

The first year of a three year EU & Industry supported mushroom campaign started activities in 2011, and has helped to keep sales strong in summer, traditionally a slow season for mushroom sales. Price promotion across key retailers in the market has increased sales but reduced prices. In the last two years there has been continued investment in mushroom production in Ireland. There have been several installations of state of the art Dutch shelving units for mushroom production, as well as continued expansion in production capacity for Phase III compost by compost producers.

During 2010 and early 2011, Ireland exported some 75,000 tonnes of **potatoes** to Russia, the Ukraine and other Eastern European states. This unique trade reflected the reduced availability of domestically grown potatoes in these markets due to severe drought conditions.

Outlook for 2012



HORTICULTURE & CEREAL EXPORT DRIVERS FOR 2012

- Mushroom availability across Europe.
- Impact of EU & Industry sponsored promotional programme in the UK.
- Relative strength of euro.
- Ability of Irish producers to expand production.

The prospects for edible horticulture and cereal exports remain broadly positive for 2012 as an anticipated tightening in mushroom supplies across Europe is likely to boost demand for Irish mushrooms. While some easing in grain prices is anticipated, they seem set to remain well ahead of historical levels.

The second of the three year EU & Mushroom Industry joint programme will be rolled out in 2012. This campaign is expected to continue to boost sales and build on the momentum created in 2011.

Predictions by the mushroom industry are for tightening in mushroom supplies across Europe in 2012. This should lead to increased demand for Irish mushrooms in the UK as other European supplies decline. The key for the Irish mushroom sector is the ability to boost production in response to this, if and when it happens.

An ongoing challenge facing the sector is the relative

strength of the euro against sterling. 2011 saw a more stable picture emerge and it remains to be seen what will happen during the early months of 2012 given the renewed uncertainty surrounding the euro.

AMENITY EXPORTS

2011 exports of amenity horticulture crops & products were valued at approx €12.25 million. This represents an increase on 2010 exports and this is mostly accounted for by increases in exports of nursery stock.

Exports consist of cut foliage used in floristry which is valued at €2.5 million, daffodil bulbs and cut daffodil flowers valued at €1 million, nursery stock (trees and shrubs) valued at €5 million and Christmas trees valued at €3.75 million.

Most export sales were achieved in the UK with small quantities sold across Continental Europe. Only micro propagated plants were sold further afield. The development of new plant varieties through micro propagation also generates an export income through the licensing of the intellectual property to overseas growers, which is not reflected in these figures.

The crop losses sustained due to adverse weather conditions during 2010 and again in early 2011 impacted most particularly on cut foliage, flower bulbs and garden plants. However, the introduction of additional crop protection measures for nursery stock and a renewed focus on the use of hardy varieties of cut foliage combined with careful site selection, is expected to lead to a continued rise in exports of these categories over the next 3 years.

Subject to the availability of adequate finance, producers will continue to develop export markets. Christmas trees, which have the longest lead time i.e. 7 years before becoming ready for sale, are being planted in good numbers which will ensure a strong supply for the coming years.

SUCCESS STORY:

Jameson Irish Whiskey



Success to date

The key contribution of Jameson Irish whiskey to Irish food and drink exports was recognised when it won the Bord Bia Food and Drink Export Award in 2011.

Jameson is the fastest growing international whiskey brand globally in the period 2000-2009 (IWSR) and is approaching its 23rd consecutive year of growth.

Jameson is a global brand operating in 120+ markets and in all retail and on trade channels. In terms of sales, it passed the three million case global milestone in 2010 with 500,000 case incremental growth forecast for 2010-2011 alone.

In terms of key markets for Jameson Irish Whiskey, the United States broke the one million case milestone in 2010. The market is growing at 30% annually with all 50 states in double digit growth. In addition, Jameson is now the 2nd biggest international whiskey brand in Russia and South Africa.

Jameson has been awarded the 'Hot Brand Award' for an unprecedented 10th year in a row by IMPACT magazine. Market Watch magazine in the USA, named Jameson 'Spirits Brand of the Year 2010.

Importance to Irish economy

Irish Distillers employs over 500 across Ireland and also plays a key role in the tourism sector with its visitor centres in Smithfield, Dublin (Old Jameson Distillery) and Midleton, Co Cork. These two venues attract approximately 300,000 visitors each year. The benefits of Jameson to the Irish economy are numerous including:

Farming: Irish Distillers production plant in Midleton consumes 33,000 tonnes of Irish barley annually. This figure is forecast to grow by 30% over the next 4 years.

Jobs: A further 225 direct jobs will be created over the next four years at Midleton. The expenditure on the expansion of the distillation facilities will exceed €100m over the period.

Building on its success

Jameson has risen to No. 29 in the World's Top Spirit Brands. The brand has moved up from No. 68 in the year 2000 and aims to be No. 20 by 2014 and No. 10 in 2020.

In addition to an ambitious programme of over €100m in Ireland over the coming three years to expand distillation capacity in Midleton, Pernod Ricard also plans an annual investment of €100m in its brand marketing and global distribution programme. The aim of this investment is deliver on its strategic target to make Jameson one of the elite Top 10 Premium Spirits brands worldwide by 2020.

SUCCESS STORY: Premium branded Irish beef in the Netherlands



Success to date

In 2011 it is estimated that exports of Irish beef to the Dutch market will exceed €155m, which is almost double the level recorded in 2000. Over this period, the Irish beef industry has gained considerable ground in winning new business within the Dutch retail and foodservice sectors. Today, Irish beef is the preferred choice of beef amongst Dutch retailers, having secured listings with over fifteen independent retail chains in the Netherlands.

Over the last 3-4 years there has been a proliferation of Irish branded beef offerings launched in the Dutch retail market. The positioning of Irish branded beef has shifted towards the high value cuts in a darfresh packaging, which meets a growing need for consumers who wish to enjoy the 'restaurant steak' at home.

Key drivers of success

The key success factors behind this branded darfresh Irish beef offering include;

Emphasis on quality: Dutch buyers have always shown a preference for our extensive, grass based system of beef farming. These green credentials are becoming all the more important given the focus the market is placing on sustainability and animal welfare.

Emergence of brands: Branding provides an opportunity to create a point of distinction and differentiation for our beef. In the last five years a number of retailers and Cash & Carries have successfully launched their own brands; O'Sullivan – A Taste of Ireland (Sligro), and Superior Hereford (Super de Boer).

Educated consumers: Dutch consumers are becoming more discerning and informed about their food and are aware of the importance of beef breeds, the impact of maturation and influence of marbling on taste. A number of retailers have capitalised on this emerging trend and have developed an Irish offering to suit the needs of consumers.

Extension to shelf life: on account that the steak cut is packaged in an air-tight (darfresh) environment, the retailer can extend the shelf life by an extra 5 days, reduces waste

Eating in is the new eating out: with less consumers eating out and more opting to dine at home, there is a growing demand to have more luxury/indulgence products for the special occasions/dinner parties. The range of darfresh steak cuts range fills this requirement perfectly.

Building on success to date

While impressive progress has been recorded to date, it is imperative that momentum is maintained in order to optimise the branded presence of Irish beef in the Dutch market. A range of Bord Bia initiatives have been designed to assist the Irish beef sector in this regard, including;

- Assistance in brand development & design
- Bespoke promotions tailored to the product offering of steak cut
- In-store tastings
- Butcher training programmes/visits to Ireland

SUCCESS STORY: **Kerrygold expansion into Algeria**



Success to date

The Kerrygold range of Irish dairy products has grown consistently since its launch in Algeria three years ago. Previous to this the Irish Dairy Board had a long trading relationship with the country, comprising 35 million consumers. Algeria is the IDB's second largest market for cheese.

The IDB's Consumer Foods division established an in-market distribution network in 2010 and the opening of the representative office and in-market packaging facilities in 2011 further strengthens its presence in the region by enhancing its in-market presence in Algeria as well as a critical base from which to develop and extend the IDB's footprint in North Africa - a market of almost 200 million consumers.

Key success factors

The key factors behind the strong development of Kerrygold brand in Algeria can be summarised as follows:

- Strong in market knowledge,
- Employing local people,
- Control over the value chain,
- Premium product quality, and
- The strong brand equity of Kerrygold.

Building on its success

The new packing facilities in Algeria allows the IDB further develop its in-market presence and grow sales in the region. The new facility has the capacity to pack 4,000 tonnes of Kerrygold product per annum, with plans to further develop this in the coming years as the IDB develops its market presence and Irish milk production grows.

The plant will add further value to a range of Irish milk powder products which will be marketed under the Kerrygold brand. The plant complements the IDB's existing in-market distribution team and further strengthens its position in the market. It will provide increased flexibility and expands the range of Kerrygold product available to Algerian consumers.

SUCCESS STORY: **Glenilen Farm**



Success to date

Glenilen Farm was founded in 1997 and from an artisanal and “local” beginning; it has grown to become the largest premium dairy dessert and yoghurt producer in Ireland supplying all major Irish retailers. Glenilen Farm produces delicious dairy desserts, yoghurts, creams and butter from the milk of their own dairy herd on the Kingston family farm in West Cork.

The company currently employs 35 staff with plans to extend this number strongly over the coming years as export revenue continues to grow strongly. Since 2010, the growth strategy for Glenilen Farm has focussed on creating and growing sales in the UK. Strong success has been delivered over the last 18 months with listings being achieved with the following outlets:

- Tesco UK
- Waitrose
- E H Booths
- Ocado
- 200+ independent retailers via 3 distributors (based in London, the Midlands and Scotland)

Key business drivers

Glenilen farm has built its success on a number of key factors. Principal among these is the unique selling point that they offer, namely Authentic Farmhouse Taste, which fits perfectly into consumer needs in relation to provenance and their desire to know how their food is being produced. In addition, they have developed a range of products that deliver strongly in terms of taste and allow consumers a ‘little treat’.

Other drivers of success for Glenilen farm include the investment of sufficient resources – both financial and personnel – to develop their presence in what is a competitive UK market. They have also worked proactively with state agencies to utilise resources available to help them grow their presence in the market.

Another factor, which has helped Glenilen Farm is that it was able to leverage relationships that it had built up with Irish retailers that were also operating in the UK. This provided them with a clear starting point in developing its presence in the UK market.

Building on its success

Glenilen Farm has ambitious plans to deliver further growth in 2012. These include a continued focus on listings with key and appropriate retailers in the UK to help them expand product distribution and improved flexibility in the market. They also plan to increase awareness of Glenilen Farm at both trade and consumer level in the UK. This will involve the appointment of UK PR agency and an increased presence at consumer and trade shows.

