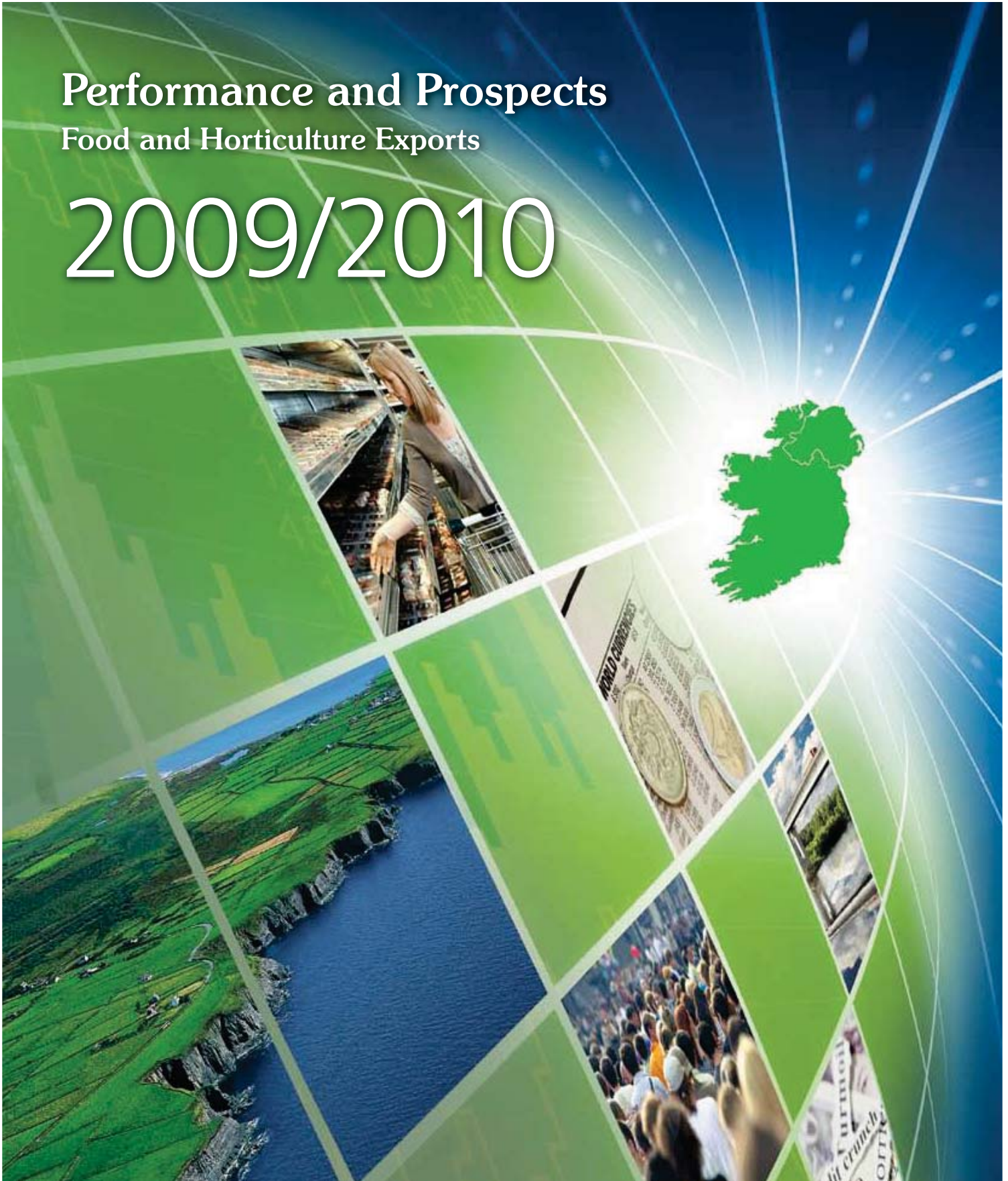


Growing the success of Irish food & horticulture

Bord Bia
Irish Food Board

Performance and Prospects
Food and Horticulture Exports

2009/2010



Performance and Prospects

Food and Horticulture Exports

2009/2010



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Executive Summary

Review and Outlook

Overview

- A further double digit decline in the value of Sterling combined with the deepest recession in living memory and weaker commodity prices combined to create unprecedented challenges for Irish food and drink exporters in 2009.
- For the year, it is estimated that the value of Irish food and drink exports declined by 12% or just under €1 billion to stand at €7.12 billion, leaving the value of trade at 2005 levels. This is in line with overall developments in the Irish economy.
- The prospects for 2010 point to a return to growth as the year progresses. The potential for stronger export revenues from key indigenous sectors such as dairy and meat and the expectation that investments by prepared food companies to broaden their market presence on the Continent will help exports as 2010 progresses. However, developments in Sterling and consumer sentiment will remain critical.
- In 2009, it is estimated that Sterling reduced the value of Irish exports to the UK by some €400 million. This impact was increasingly obvious as the year progressed with exports in October 2009 more than 20% lower than a year earlier compared to a drop of less than 5% in January. In addition, it made UK exporters increasingly competitive in other euro markets.
- The volume of dairy products available to export fell during the year due to a combination of lower milk output and increased use of intervention storage. It is estimated that these developments reduced the value of dairy exports by more than €150 million.
- Similarly, beef output declined due to a combination of lower availability and stronger exports of finished cattle to Northern Ireland. It is estimated that the volume of Irish beef exports fell by 4% in 2009, which reduced the value of exports by some €70 million.
- Lower volumes exported in some other categories, most notably beverages reduced the value of exports by around €150 million during 2009. The impact of slower consumer spending negatively affected average export returns by around €200 million.

Destinations for Irish Food & Drink

- The United Kingdom remained the principal export destination with sales of just over €3.1 billion, down some 15% on 2008 levels. Despite this, it still accounted for 44% of food and drink exports although its share of trade came under pressure as the year progressed, dropping from 48% in January to around 43% by late 2009.

- The share of exports destined for other EU markets increased to almost 34% in 2009, helped by a higher share of beef exports destined for the Continent together with a stronger focus on the region by prepared foods manufacturers. The strongest performing markets on the Continent during the year were France, Scandinavia and Italy. However, total exports were around 8% lower in 2009.
- The value of trade to International markets was adversely affected for much of the year by the weaker global dairy market while exports of alcoholic beverages to many regions were also lower, leading to a drop in exports of 14%.

Meat & Livestock

MORE INFO
ON PAGES 17, 31 & 36

- The combined value of meat and livestock exports is estimated at just €2.25 billion in 2009. This represents a drop of around 9% on 2008 levels. Most of the decline was evident in beef exports where a combination of reduced volumes and lower prices impacted on export returns.
- For the year beef exports were valued at €1.4 billion, down 13% on 2008 levels as a 4% drop in exports to 461,000 tonnes combined with a 9% fall in prices.
- The weakness of Sterling led to lower market returns for Irish exporters from the UK market, resulting in a two percentage point decline in the proportion of exports destined for that market at 52%. Higher shipments to markets such as Italy, the Netherlands and Spain helped increase the proportion of beef exports destined for the Continent to 47%.
- Pigmeat exports recorded a 15% drop to €290 million as a combination of lower supplies and reduced prices affected trade. However, most Irish pigmeat markets and customers have returned to relatively normal patterns of trade following the pigmeat recall in late 2008.
- Poultry exports were affected by lower returns for processed products despite volumes holding well with the value of exports for the year estimated to have declined by 11% to leave exports worth €180m.
- For the year, it is estimated that the value of sheepmeat exports was largely maintained at €166 million. A slowdown in domestic consumption helped offset lower supplies while prices were marginally higher.
- The value of livestock exports jumped by more than 40% in 2009 to €213 million, helped mainly by the strong rise in live cattle exports which saw numbers almost double during the year.

12%

It is estimated that the value of Irish food and drink exports in 2009 declined by 12% or just under €1 billion to stand at €7.12 billion.

- The prospects for the meat & livestock sector in 2010 will be affected by ongoing price pressure in response to slower consumer spending and currency issues. However, a reasonably tight EU meat supply situation should provide a stable market environment while some increase in Irish output will boost volumes.

Dairy Products & Ingredients

MORE INFO
ON PAGES 17 & 36

- Overall, it is estimated that the value of dairy exports fell by 13% to €2 billion in 2009. However, an additional €90-€95 million worth of SMP and butter was sold into intervention and will be available to export from 2010. The strongest performing categories during the year were infant formula and to a lesser extent cheese and chocolate crumb.
- In line with overall market developments, Irish dairy exports during the first part of 2009 were faced with significant difficulties in relation to market returns across most major product categories. However, from late summer there was an improvement in market demand with trade over the final months of 2009 firming as volumes tightened and prices recovered.
- The prospects for Irish dairy exports in 2010 are generally more positive given the recent recovery in product prices. It is hoped that this improvement can be maintained and further boost export revenues. However, the management of the release of product from storage will be critical. Irish milk output is expected to recover from the decline recorded during 2009, which will boost overall availability with the strongest increases in production likely in cheese and whole milk powder.

Prepared Foods

MORE INFO
ON PAGE 38

- Exports of prepared foods faced a very challenging market environment during 2009. Given the backdrop, exports, particularly those from indigenous manufacturers, performed reasonably well. Overall, export values of product covered under the prepared foods category fell by an estimated 15% to €1.28 billion. However, when "miscellaneous" prepared foods, which largely consist of extracts and supplements from multinational companies are removed, indigenous exports were just 9% lower than 2008 levels.
- Export values were helped by a relatively positive performance by both chocolate & sugar confectionery and bakery, which helped to partly offset a very challenging environment for ready meals and pizza manufacturers.
- The market environment for Irish prepared food exports in 2010 is expected to remain difficult, particularly if Sterling remains weak over the coming months.

Manufacturers are seeking to adapt products to the changed consumer shopping requirements while also seeking to diversify to a broader range of markets.

Beverages

MORE INFO
ON PAGE 39

- Exports of beverages remained under pressure during 2009 as the impact of slower consumer spending and a fall off in the Travel Retail sector and supply chain destocking impacted on export revenues. All markets have also witnessed a noticeable shift toward value propositions.
- As with all other sectors beverages had to deal with the weakness of Sterling but were also proportionately more exposed to the volatility in the US dollar than most categories. Overall, exports are estimated to have declined by 13 per cent to almost €1.07 billion, a level last seen in 2005. The strongest performing category continued to be whiskey, which has dealt with the economic crisis better than most.
- Some exporters are reporting tentative signs of recovery in a number of key markets towards the end of 2009. All manufacturers seem set to further develop their market portfolio in order to capitalise on any opportunities that exist.

Seafood

MORE INFO
ON PAGE 39

- The export market for Irish seafood was challenging in 2009 as weaker Sterling led to reduced exports to the UK and led to strong competition in other key markets. Poorer weather in the final quarter of 2009 affected supplies but also helped unit prices. Overall, the value of seafood exports is estimated to have declined by 9% to €303 million. The prospects for 2010 seem more promising as the stronger demand evident in late 2009 is expected to be maintained.

Edible Horticulture & Cereals

MORE INFO
ON PAGES 17 & 40

- The value of edible horticulture and cereal exports fell by 18% in 2009 to an estimated €218m. Most of the decline was evident in cereal exports, which are estimated to have dropped by some 60% in response to lower prices and reduced volumes. Mushroom exports showed a marginal decrease as trade was increasingly affected as the year progressed by the weakness of Sterling.
- The outlook for mushroom exports looks firm once Sterling stabilises. Substantial recent investments made by the Irish industry in compost production and mushroom production facilities would indicate that the industry shares this confidence.

Executive Summary

Industry Issues

- A Bord Bia industry survey completed in late December 2009 confirmed the market related challenges being faced by food and drink manufacturers across both export markets and the Irish market.
- In relation to the UK, the following are the principal challenges outlined by respondents:
 - 86% pointed to the increase in the value of the euro against Sterling as a major issue. This compares to 78% in 2008.
 - 76% listed the difficulties faced in securing a price increase, which compares with 83% in the 2008 survey.
 - Some 66% listed changing consumer purchasing behaviour with a focus on value for money, which is broadly similar to the 2008 survey results.
 - Other issues to be listed included competition between retailers, sustainability and retailer buying policies.
- The survey also revealed the challenges being faced on the Irish market. Principal among these was the pressure to reduce prices, which was cited by 75% of respondents. This was followed by the impact of changing consumer purchasing behaviour with a focus on value for money at 65% and increasing competition between retailers at 64%.
- To date, the response of manufacturers to these pressures has focused strongly on enhanced efficiencies to reduce production costs and a review of their customer portfolio with a view to identifying those that are no longer profitable.
- There also continues to be policy issues that have the potential to shape the future direction of the Irish Agri-food sector. Principal among these is the WTO. While still on the table negotiations have shown little or no movement over the last 12 months with little indication as of now of a strong attempt to kick start discussions between the major trading blocks. In the absence of an agreement, bilateral discussions between trading partners are growing in importance.
- In relation to the CAP, work in advance of the 2013 review continues. It is critical for Irish agriculture that any review takes fully into account the requirements of Irish producers and the broader food sector, particularly in relation to maintaining our supply base.

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International Economy Prospects

- Irish food exporters are facing a challenging environment, with subdued economic growth in the developed world over the medium term, exacerbated by historically high euro exchange rates against Sterling and the US dollar. Notwithstanding the end of recession, the risks to consumer sentiment and demand remain - due to persisting high unemployment, withdrawal of government stimulus packages and potential interest rate rises.
- That said, there are some positives in the outlook as the global economy begins to recover. Improvements in demand are expected to see world commodity prices rise gradually – this will help primary producers, although the effect on processors will be mixed – and consumer prices are also expected to improve somewhat.
- Many banking commentators suggest that Sterling and the US Dollar will strengthen against the euro during 2010. These factors should combine to improve the environment for Irish exporters over the next year or so, particularly in developed world markets.
- Quantitative easing has seen a fall in the value of Sterling, but this does not appear to have translated into increasing general inflation, probably reflecting poor consumer sentiment. Notwithstanding this, GDP is expected to grow by 1.4% in the UK during 2010. However, unemployment will continue to rise, and consumer demand is expected to be subdued, recording little or no improvement on 2009 levels.
- As with the UK, the US economy is emerging from recession, and growth of 1.5% is expected in 2010, strengthening to 2.5 to 3% in the medium term. However, serious difficulties remain, not least the unwinding of the various monetary and fiscal policies implemented to tackle the recession.
- Most Eurozone countries are expected to return to modest growth in 2010, with recovery strengthening somewhat in subsequent years. Despite this, unemployment is expected to grow in 2010. From the point of view of Irish exporters, the Eurozone has the advantage of proximity and no currency risk. However, growth in the zone will be moderate for the medium term, and markets are likely to be highly competitive, with produce from the UK enjoying a currency advantage.
- In general, the food sector is more resilient to economic downturns than other sectors. However, the fall in global demand has had a negative impact on prices – in terms of global commodity markets and consumer prices for goods. The IMF global commodity price indices have shown falls across all commodities. Some recovery of prices occurred during 2009 and the IMF suggests that this should continue gradually into 2010.
- After very strong growth in UK food prices during 2008 across meat, dairy, bread and cereals, consumer prices began to decelerate and prices of some foods have fallen. Declines have also been evident across the Eurozone. However, in general, consumer prices are expected to rise moderately in the coming years, and one would expect food prices to rise in tandem.
- While still on the table, the WTO trade negotiations have shown little or no movement over the last 12 months and as of now there doesn't appear to be any impetus to kick start discussions between the major trading blocks. In the absence of an agreement, bilateral discussions between trading partners are growing in importance.
- In relation to the CAP, work in advance of the review planned for 2013 continues. It is critical for Irish agriculture that any review takes fully into account the requirements of Irish producers and the broader food sector, particularly in relation to maintaining our supply base.

'In general, the food sector is more resilient to economic downturns than other sectors. However, the fall in global demand has had a negative impact on prices – in terms of global commodity markets and consumer prices for goods.'

Executive Summary

Consumer Trends

- Knowing and understanding our consumers or end users allows us to better predict and prepare for consumers' future needs and wants. Today's volatile environment means that understanding the consumer has never been more important. It is essential to distinguish between what is just a function of today's economic crisis and what represents a fundamental shift in the way consumers engage with the marketplace.
- Navigating the challenges of today, and at the same time preparing for the longer term are the two critical challenges facing organisations. Ever more important is getting smart innovations into the market quickly that meet consumers' needs today. But we must also plan for the longer term. A critical challenge for all businesses is building genuine lasting value that is relevant for their consumers and customers.
- Bord Bia has identified six Consumer Lifestyles Trends in partnership with The Futures Company. These trends come from an understanding of the macro forces shaping the lives of consumers around the world and from an understanding of the 'on the ground' consumer and brand behaviour that occurs in response to these drivers.
- The six trends identified are:

Consumers in control

1. **Consumers in control:**
"I like to pursue better value, to help maintain my lifestyle and to get the most from the money I have"

Fluid lives

2. **Fluid lives:**
"I want to stay in control of my busy life and make sure that I am at my best for whatever the day presents"

Making the most of life

3. **Making the most of life:**
"I need to balance the stresses in my everyday life with experiences that are fun and fulfilling"

Sustainable lives

4. **Sustainable lives:**
"I would like products that create less negative impact on the world; I want choices that make me feel good without harming my wallet"

Quest for health and wellness

5. **Quest for health and wellness:**
"I want to be in control of my health and wellness, to manage or improve it through making better choices"

Keeping it real

6. **Keeping it real:**
"I am looking for products and brands that are real and authentic, because they have stood the test of time and remained true to their heritage; they provide me with comfort and reassurance"

Bord Bia Initiatives

In 2009 Bord Bia set out, notwithstanding the formidable challenges of today's marketplace, a target for building Irish food and drink exports to €10 billion. We set out six strategic priorities in support of this target and which would inform and dictate the allocation of resources in the period ahead. Among those priorities is the need to broaden the industry's export reach, to drive consumer-focussed innovation based on emerging global trends, and to promote and position Ireland as the sustainable food island. The following points highlight some of the initiatives planned under these strategic priorities for 2010.

- **MarketPlace 2010:**

Our international network plays a critical role in what we do. It enables us to sustain relationships with existing and potential customers and a network of contacts that are a key asset we can leverage. In February 2010 as part of an initiative to intensify support to industry in the current difficult environment, MarketPlace 2010 will bring 250 international food and drink buyers to Dublin to meet with 150 Irish companies seeking to build and expand their business overseas.

- **Bord Bia Marketing Fellowship programme:**

The Irish food and drink sector faces the challenge of not having enough resources to explore all potential opportunities. In response, we have launched the Bord Bia Marketing Fellowship programme to put 25 recent graduates, already with upwards of three years work experience, into twelve overseas markets, covering the UK, Continental Europe, Russia, the United States, and Asia. They are working on 165 commercial assignments for 113 Irish exporters while also meeting the rigorous disciplines of the UCD Smurfit School of Business from which they will at the end of the programme receive a Masters degree.

- **Market Mentoring:**

Irish companies have responded to the pressures created by weaker Sterling through cost reduction initiatives, reformulating offers, sharing distribution and other costs, seeking price increases where available, and prioritising strategically important businesses while exiting low margin ones. Bord Bia through our London office is facilitating these choices by providing companies with access to local market mentors, experienced former or current retail and foodservice buyers who provide advice on optimal business development strategies. Bord Bia also provides "Route to Market" experts who can help companies identify, select and contract cost-efficient, best in class logistics, sales and marketing service providers.

- **Brand Forum:**

The forum continues to focus on developing the branded route to market for Irish companies and has taken on new importance given the current pressures in the market place. The forum will meet three times in Dublin during 2010 and twice at regional locations helping manufacturers, particularly on the Irish market, work on brand engagement through the recession and how to be ready for the upturn. A key part of Brand Forum will be ongoing 1:1 mentoring for members while there will also be an event focussing specifically on the small business sector.

- **foresight4food:**

Bord Bia's innovation programme continues to develop and evolve to reflect the needs of food and horticulture manufacturers. Central to this is the foresight4food initiative. Under our Innovation Partnership programme we aim to combine our strategic priorities of Broadening Export Reach and Facilitating Consumer Led Innovation. Bord Bia partners with companies at the initial stages of market and consumer investigation through to commercial launch. To date there are 5 collaborate programmes in place each with long term sustainable commercial potential.

- **Repositioning & differentiation of Irish beef:**

The implementation of a five year marketing strategy for Irish beef moves into its third year in 2010. To date considerable progress has been made with an additional 16,000 tonnes sold into the premium segments of the European retail and foodservice sectors, despite a 12% drop in export volumes and slower consumer demand.

- **Small Business Vantage Programme:**

A dynamic and growth oriented small business sector represents an integral part of a vibrant, entrepreneurial and innovative food, drink and horticulture industry. Bord Bia continues to service the sector through its Vantage suite of services as part of a Vantage Programme for Small Business.

- **Ireland; The Sustainable Food Island:**

Farming and food is Ireland's strength, and a recent independent study of eighteen of Europe's leading retailers, undertaken on our behalf, recognised our natural advantages and heritage as a high quality food producer. Bord Bia is currently developing a framework that ensures we can credibly build on this reputation and position ourselves as a leading source of environmentally friendly food products. Work to be completed in the first half of 2010 ranges from a life cycle analysis of Irish beef production to environmental audit of a number Quality Assured farms to assess the potential to include environmental assurance within the scheme.

The Economic Environment



Key Figures

3.1%

All major economies are expected to experience positive economic growth in 2010 with the IMF anticipating growth of 3.1% in the global economy.

30%

Sterling at the end of 2009 was running some 30% weaker against the euro than at the start of 2007.

21%

The FAO Food Price Index shows that prices for dairy, cereals and oils peaked in mid 2008 before dropping in response to falling world demand. Over the latter part of 2009 some recovery was recorded although the index remains 21% below its peak.

Overview

Irish food exporters face a challenging environment at the moment, with subdued economic growth in the developed world over the medium term, exacerbated by historically high euro exchange rates against Sterling and the US dollar. While considerable challenges remain, there are some positive indications of recovery as the global economic outlook starts to improve. Improvements in demand are expected to see world commodity prices rise gradually with some lift in consumer prices also anticipated.

Prospects for 2010

- Both the UK and US economies are expected to return to growth in 2010. However, unemployment will continue to rise, and consumer demand is expected to be subdued, particularly in the first half of the year.
- Most Eurozone countries are expected to return to modest growth in 2010, with recovery strengthening somewhat in subsequent years. From the point of view of Irish exporters, the Eurozone has the advantage of proximity and no currency risk. However, growth in the zone will be moderate for the medium term, and markets are likely to be highly competitive, with produce from the UK enjoying a currency advantage.

Impact on the Food Sector

- In general, the food sector is more resilient to economic downturns than other sectors. However, the fall in global demand has had a negative impact on prices – in terms of global commodity markets and consumer prices for goods. The IMF global commodity price indices have shown falls across all commodities. Some recovery of prices occurred in the second half of 2009 and the IMF suggests that this should continue gradually into 2010.
- After very strong growth in UK food prices in 2008 across meat, dairy, bread and cereals, consumer prices began to decelerate and prices of some foods have fallen. Declines have also been evident across the Eurozone. Data on future trends in consumer food prices is difficult to locate. However, in general, consumer prices are expected to rise moderately in the coming years, and one would expect food prices to rise in tandem.

The Economic Environment

12.1%

GNP in the first three quarters of 2009 was 12.1% below the same period in 2008.

€8.1bn

The value of Irish exports of food and beverages has grown steadily from around €5 billion in 2000 to €8.1 billion in 2008.

Background

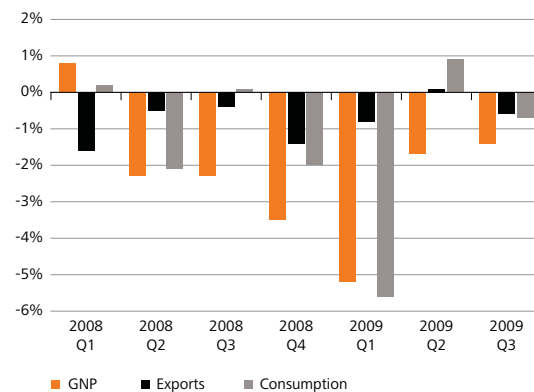
Conditions in the food industry worsened considerably in 2009 due to a sharp contraction in consumer demand in domestic and key export markets. The Irish economy entered recession in the second quarter of 2008, marking two successive quarters of negative economic growth. The recession officially ended in Quarter 3 2009, with preliminary estimates indicating a return to positive GDP growth, although GNP growth remained negative.

GNP in the first three quarters of 2009 was 12.1% below the same period in 2008. The graph opposite shows quarter on quarter changes in GNP, exports and private consumption in Ireland over 2008 and up to the third quarter of 2009. Falls in exports and private consumption have both contributed to the contraction in GNP. Quarter 1 2009 was particularly negative, with some improvement in Quarter 2, particularly in consumption expenditure, although data for Quarter 3 indicate that the macroeconomy remains weak.

The food and drinks industry is forecast to experience a 4% drop in domestic sales revenue in 2009, and domestic sales are not expected to return to 2008 levels until 2013¹.

The value of Irish exports of food and beverages has grown steadily from around €5 billion in 2000 to €8.1 billion in 2008. During the same period, Ireland's share of world exports of food stayed relatively constant, while shares of world exports of pharmaceuticals and office and data processing equipment declined.

Quarter on Quarter changes in GNP, Exports and Consumption (at current market prices, seasonally adjusted) 2008-2009



Source: CSO.

While most of the developed world fell into recession in 2008/2009, the contraction has been more pronounced in Ireland than in almost any other developed economy. Furthermore, it is expected that most developed economies will recover more quickly than Ireland. This relatively stronger overseas demand in 2010 and 2011 highlights the importance of exports for driving Ireland's recovery.

To that end, the food sector is well placed to make a strong contribution to Ireland's recovery. Food processing utilises around 75% domestic inputs vs. 40% in the manufacturing sector as a whole; and the sector accounts for almost two thirds of manufacturing exports by indigenous companies.

1. Business Monitor International.

Signs of recovery in the international economy began to appear in the second quarter of 2009, and growth in the world economy turned positive in the third quarter.

International Economic Prospects

The financial crisis which began in the US and quickly spread around the world led to a sharp contraction in global economic activity throughout 2008 and 2009. Ireland was one of the first countries (along with Denmark, Estonia and Latvia) to enter a technical recession in the second quarter of 2008 (with two successive periods of negative growth in GDP). Germany and Italy followed in Q3 2008, as did the Eurozone as a whole; and the US and UK both entered recession in the final quarter of 2008.

Recovery became evident in the Asia Pacific region in mid-2009, with European countries including France and Germany returning to positive growth in the second quarter of 2009. The table below outlines IMF forecasts for GDP growth in the world's major economies and Ireland in 2009 and 2010. All major economies are expected to experience positive economic growth in 2010, although Ireland's recovery will lag behind.

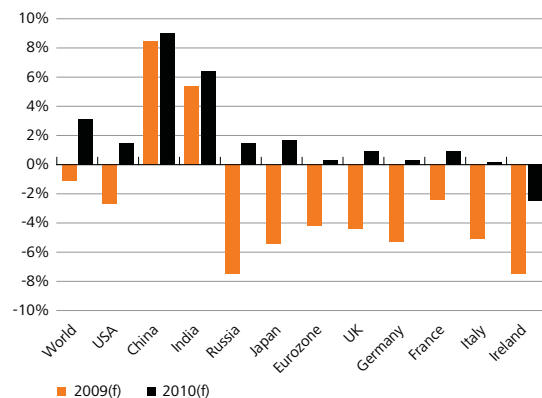
GDP Growth in Major Economies and Ireland, 2007-2010

	2008 %	2009f %	2010f %
World	3.0	-1.1	3.1
USA	0.4	-2.7	1.5
China	9.0	8.5	9.0
India	7.3	5.4	6.4
Russia	5.6	-7.5	1.5
Japan	-0.7	-5.4	1.7
Eurozone	0.6	-4.2	0.3
UK	0.7	-4.4	0.9
Germany	1.2	-5.3	0.3
France	0.3	-2.4	0.9
Italy	-1.0	-5.1	0.2
Ireland	-3.0	-7.5	-2.5

f = forecast.

Source: IMF World Economic Outlook October 2009 Update.

GDP growth in selected major economies and Ireland



Source: IMF World Economic Outlook October 2009 Update.

The hardest hit regions included the US – where the crisis began and where consumption had become increasingly dependent on credit – and Europe, with its strong economic ties to the US. For a number of countries in Europe, including Ireland and the UK, the financial crisis coincided with a property market crash and accelerating deterioration of public finances, which exacerbated the contraction.

Signs of recovery in the international economy began to appear in the second quarter of 2009, and growth in the world economy turned positive in the third quarter. Much of the recovery in developed countries has been dependent on government stimulus packages, however, which are yet to be withdrawn. The IMF outlined this, along with the continued impairment in financial systems and the impacts of asset price losses on household spending, as downside risks to the recovery in its October 2009 update of the World Economic Outlook.

Emerging from the crisis, the IMF believes that global growth will shift toward dependence on a more balanced source of demand, in particular from China. However, this continues to be impeded by the undervalued Chinese currency, the Yuan, and the difference in purchasing power between Chinese and US consumers.

The Economic Environment

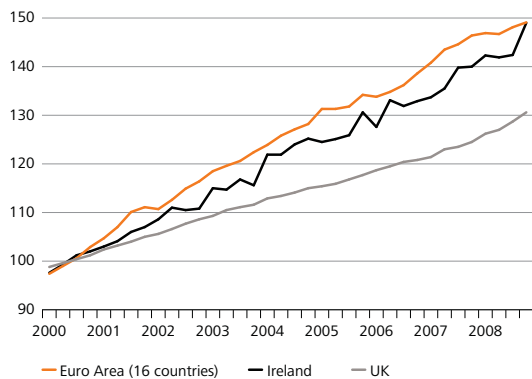
Preliminary CSO data for the first half of 2009 has indicated falling industrial labour costs – average hourly earnings rose 3.8% during the first quarter but fell 4.8% in the second quarter.

Irish Competitiveness

The National Competitiveness Council’s “Benchmarking Irish Competitiveness” noted a 35% deterioration in Irish competitiveness over the period January 2000 to April 2009 – two-thirds of the loss due to a stronger euro exchange rate and the remainder due to higher growth in Irish price levels vs. our trading partners.

Labour costs have risen more quickly in Ireland over the period 2000 to 2008 than in the Eurozone and UK, although faster growth in the UK toward the end of 2008 resulted in convergence with Ireland’s labour costs in the fourth quarter.

Eurostat Labour Cost Index for Industry, Ireland, Eurozone and UK (Index 2000=100)

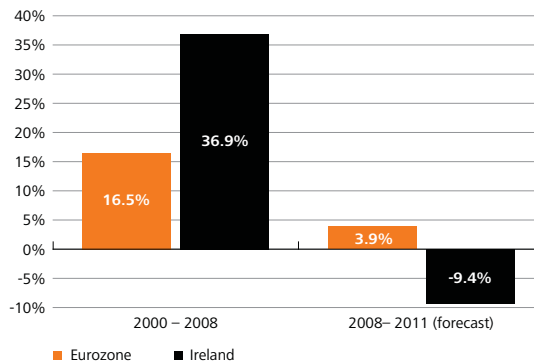


Source: Eurostat.

Preliminary CSO data for the first half of 2009 has indicated falling industrial labour costs – average hourly earnings rose 3.8% during the first quarter but fell 4.8% in the second quarter.

Labour costs are likely to experience slower growth than in previous years. Forecasters², expect unemployment will remain high into 2010 and 2011 and low levels of job creation, which will exert downward pressure on earnings growth. The European Commission projects a 9.4% reduction in unit labour costs in Ireland over 2008-2011, after a 36.9% rise between 2000 and 2008. This is in contrast to an expected rise in the Eurozone of 3.9%, and will lead to an improvement in Irish competitiveness.

% Changes in Nominal Unit Labour Costs, Ireland and Eurozone 2000-2008 & 2008-2011 (European Commission Forecasts)



Source: European Commission.

Energy Costs

While the prices Ireland and other small countries pay for energy are heavily influenced by global commodity markets, the prices paid by producers differ due to supply arrangements and government policies. Ireland had the second highest industrial electricity and third highest industrial gas prices in the EU in the first half of 2009.

2. These include the IMF and European Commission as well as the Irish Economic and Social Research Institute.

30%

Agricultural input prices dropped sharply in 2009 after peaking during 2008 at almost 30% higher than the 2006 level – the cost driver over this period was fertilisers.

4.5%

The UK economy is expected to shrink by 4.5% in 2009. Manufacturing output is expected to fall 12% in 2009 compared to 2008, and unemployment had risen to 7.8% by Q3 2009.

Price Levels

Food, drink and tobacco industrial prices stayed relatively steady during 2009, despite falling inflation in the wider economy. Agricultural input prices dropped sharply in 2009 after peaking during 2008 at almost 30% higher than the 2006 level – the cost driver over this period was fertilisers.

The European Commission has forecast that consumer prices in Ireland will fall over the period 2008-2011, while those in the Eurozone and UK will rise (by 3% and 5%, respectively). In addition, other non-pay costs for producers have fallen – notably purchase and rental prices for industrial property. This will further boost the international competitiveness of Irish exports.

Developments in Key Markets

Challenges for the Irish food sector in the highly competitive international market come from two main sources:

1. Consumer demand has contracted in key markets, reducing sales in value terms, eroding markets for high-end products and increasing price competition on other products; and
2. A strong euro, in particular against Sterling and the US dollar, has eroded Irish competitiveness – in US and UK markets and in other markets where Irish exports compete with products from those countries.

The UK, the Eurozone and the US represent the key markets for Irish food and drink exports, while Asia is becoming increasingly important. The following discussion outlines the recent performance of these economies, the distance to recovery and highlights the prospects for Irish exporters over the coming 12-18 months.

United Kingdom

Having entered recession in Q4 2008, the UK economy contracted in each of the first three quarters of 2009. The economy is expected to shrink by 4.5% in 2009. Manufacturing output is expected to fall 12% in 2009 compared to 2008, and unemployment had risen to 7.8% by Q3 2009.

Macroeconomic Forecasts, United Kingdom

	2008	2009	2010	2011	2012	2013	2014
GDP Growth	0.7%	-4.5%	0.9%	2.5%	2.9%	2.9%	2.9%
Unemployment rate	5.5%	7.6%	9.3%				
General Govt. Balance	-5.1%	-11.6%	-13.2%	-11.3%	-9.4%	-7.8%	-6.8%
Consumer Prices	3.6%	1.9%	1.5%	1.4%	1.8%	2.0%	2.0%

Source: UK Treasury; International Monetary Fund, World Economic Outlook Database, October 2009.

The UK Government's policy response has consisted primarily of cutting interest rates, quantitative easing and stimulus measures such as the reduction in VAT rates from 17.5% to 15%. These have succeeded in bolstering retail sales, with volumes holding up in 2009 compared to 2008, as well as giving the housing market a boost in recent months.

Quantitative easing has seen a fall in the value of Sterling, but this does not appear to have translated into increasing general inflation, probably reflecting poor consumer sentiment.

These policy measures have come at a price however: the Government deficit in the UK is as high as Ireland's and is expected to worsen in 2010. The recent UK Budget reversed the reduction in VAT rates which will hit the consumer. Prices are not expected to increase significantly, however, indicating continued poor consumer sentiment.

Notwithstanding this, GDP is expected to grow by 1.4% in 2010, as the world economy exits recession. However, unemployment will continue to rise, and consumer demand is expected to be subdued, recording little or no improvement on 2009 levels. Continued high Government deficits will hang over the UK economy for the medium term and will act as a dampener on economic confidence, as a correction at some point is inevitable.

The Economic Environment

+1.5%

As with the UK, the US economy is emerging from recession, and growth of 1.5% is expected in 2010, strengthening to 2.5 to 3% in the medium term.

4.2%

Overall, the Eurozone is estimated to have contracted by 4.2% in 2009, while the German economy has shrunk by 5.3%.

United States

Recent US experience has mirrored the UK's, with a sharp economic downturn met by policy responses of very low interest rates, "credit easing" and a number of stimulus packages. These have boosted the motor and the housing sectors in particular; however, as in the UK, general inflation has not re-emerged, and overall consumer prices actually fell slightly in 2009, reflecting a lack of confidence on the part of the consumer.

Macroeconomic Forecasts, USA

	2008	2009	2010	2011	2012	2013	2014
GDP Growth	0.4%	-2.7%	1.5%	2.8%	2.6%	2.5%	2.1%
Inflation	3.8%	-0.4%	1.7%	1.8%	2.2%	2.3%	2.2%
Unemployment rate	5.8%	9.3%	10.1%				
General Govt. balance	-5.9%	-12.5%	-10.0%	-7.6%	-6.2%	-6.6%	-6.7%
Current account balance	-4.9%	-2.6%	-2.2%	-2.6%	-2.9%	-2.7%	-2.7%

Source: International Monetary Fund, World Economic Outlook Database, October 2009.

As with the UK, the US economy is emerging from recession, and growth of 1.5% is expected in 2010, strengthening to 2.5 to 3% in the medium term. However, serious difficulties remain, not least the unwinding of the various monetary and fiscal policies implemented to tackle the recession. The general Government balance in 2009 is on par with Ireland's and the UK's, but is expected to ease back thereafter, albeit to levels that are still high on a long term basis.

Inflation is expected to return in 2010, albeit at a modest rate, remaining below 2% until 2012 at least. More worrying, the unemployment rate will increase further in 2010, which will restrain consumer expenditure.

From an Irish exporter's point of view, while the general economic recovery and a reversal of price deflation are welcome, continuing high unemployment points to a difficult market, particularly given the US market's importance for the beverages sector, many of which products might be considered something of a luxury. The expected strengthening of the US Dollar (discussed later) will however be of benefit.

Eurozone

Every economy in the Eurozone is estimated to have shrunk in 2009, and the major Eurozone economies have been particularly hit. Overall, the Eurozone is estimated to have contracted by 4.2% in 2009, while the German economy has shrunk by 5.3%. Only Ireland and Finland have been worse hit.

Macroeconomic Forecasts, Eurozone

	2008	2009	2010	2011	2012	2013	2014
GDP Growth	0.7%	-4.2%	0.3%	1.3%	1.7%	2.0%	2.1%
Inflation	3.3%	0.3%	0.8%	0.8%	1.1%	1.3%	1.5%
Unemployment rate	7.6%	9.9%	11.7%				
General Govt. balance	-1.8%	-6.2%	-6.6%	-5.9%	-5.1%	-4.4%	-3.5%

Source: International Monetary Fund, World Economic Outlook Database, October 2009.

Most countries are expected to return to modest growth in 2010, with recovery strengthening somewhat in subsequent years. Despite this, unemployment is expected to grow in 2010, breaching 10% in the Eurozone as a whole.

In response to the recession, the European Central Bank (ECB) has applied similar measures to those used in the US and UK, albeit to a lesser degree. In addition, Eurozone Governments have in general been running smaller (albeit still substantial) budget deficits, constrained to some degree at least by the terms of the euro Growth & Stability Pact. Only Spain and Greece along with Ireland are running deficits comparable to the levels seen in the US and UK.

The ECB signalled in December 2009 that it would begin to withdraw liquidity measures – in particular, that 12-month low interest loans to the banking system would be offered for the final time on December 16, 2009. Banks that have relied on these (including Irish banks) are likely to face much higher interest rates on the open market. There is no sign yet, however, that the ECB will raise interest rates.

Latest estimates are that the Eurozone grew 0.4% in the third quarter of 2009; however personal consumption fell by 0.2% in the same period, indicating weak consumer sentiment, unsurprising given unemployment levels. The Eurozone as a whole and the French and German economies are expected to grow at a modest 2% per annum over the coming years.

From the point of view of Irish exporters, the Eurozone has the advantage of proximity and no currency risk. However, growth in the zone will be moderate for the medium term, and markets are likely to be highly competitive, with produce from the UK enjoying an advantage as long as Sterling remains weak.

In China, the government is coming under increasing international pressure to relax its policy of undervaluing its currency, the Yuan. If this were to occur, it would improve the competitiveness of Irish exports or improve returns.

Major Asian Economies

While Japan has suffered in line with other developed economies, growth has been robust in the major developing Asian economies of China and India throughout the global downturn. The Chinese in particular have succeeded in insulating their economy, by stimulating domestic demand while keeping inflation under control. India has also maintained strong economic growth, but at the expense of high inflation.

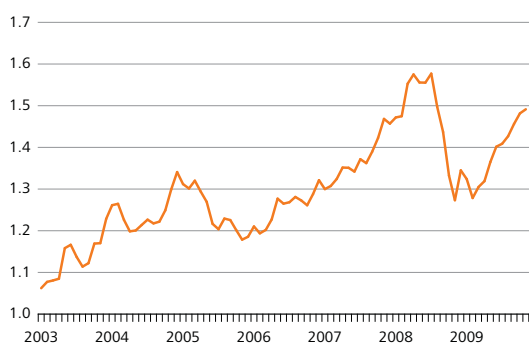
In the context of lower demand in the developed world, the rapid expansion of demand in these markets – coming from large and growing populations and strong economic growth – represents considerable scope for identifying and exploiting new food export opportunities for Ireland. Furthermore, in China, the government is coming under increasing international pressure to relax its policy of undervaluing its currency, the Yuan. If this were to occur, it would improve the competitiveness of Irish exports or improve returns.

Currency Movements

The strength of the euro has proved a significant impediment to the competitiveness of Irish exports throughout 2009. The impact is in export markets both inside and outside the Eurozone. While exports within the Eurozone compete with local goods denominated in the same currency, they must also compete with goods from outside the Eurozone (notably the UK). The two key exchange rates are USD/EUR and GBP/EUR.

The euro was strong against the dollar over the beginning of 2008, but declined sharply over the period August-November 2008 as markets became aware of the exposure of Europe to toxic US assets, and European economies began to slow down. Since May 2009, however, the euro has climbed steadily against the dollar, sitting around the \$1.45 mark currently.

US dollar / euro, 2008 & 2009



Source: European Central Bank.

The table below summarises forecasts for the euro / US Dollar exchange rate in 2010 from three Irish sources. All see the euro depreciating against the dollar over the course of the year to around €1.40, due to the expectation of tightening monetary policy and higher interest rates in the US.

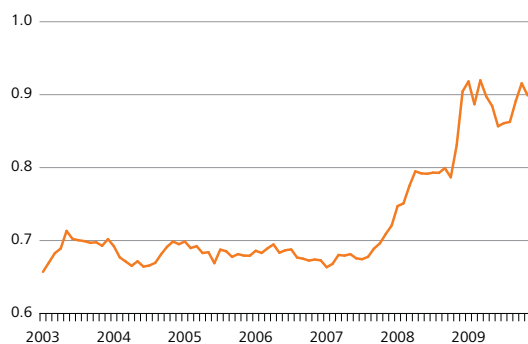
Forecasts for EUR/USD from selected Irish sources

	FORECAST DATE	EUR/USD FORECAST VALUE (AT END PERIOD)					
		Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	
AIB	24/11/2009	1.46-1.52	1.45-1.5	1.43-1.48	1.4-1.45		
Ulster Bank	18/11/2009	1.52	1.55	1.46	1.40	1.38	
Bank of Ireland	11/2009	1.45	1.45	1.40			
Davy	29/09/2009	1.50			1.40		

Sources: AIB Summary of Exchange Rate Forecasts; Ulster Bank Focus on Markets; BOI Monthly Bulletin; Davy on the Irish Economy.

Sterling (GBP) has been at a historically low value against the euro throughout 2009, as shown in Figure 8. This has largely been a reflection of the Bank of England's policy of quantitative easing – the injection of money into the banking system – the total amount of which stood at £200 billion following the decision for a further £25 billion injection at the November 2009 Bank meeting.

Sterling (GBP) / euro, 2008 & 2009



Source: European Central Bank.

As the UK economy recovers and the Bank of England scales back its policy of quantitative easing, it is expected that Sterling will begin to appreciate against the euro – forecasters believe this will happen by halfway through 2010. A rise in interest rates would give a further push to the value of Sterling, however the timing of this will depend upon the recovery of the UK economy.

The Economic Environment

The IMF global commodity price index shows price fall across all commodities since 2008. Some recovery in prices occurred in 2009 and this should continue gradually in 2010.

Forecasts for EUR/GB Pound from selected Irish sources

FORECAST DATE	EUR/GBP FORECAST VALUE (AT END PERIOD)				
	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10
AIB 24/11/2009	0.88-0.92	0.88-0.92	0.87-0.91	0.85-0.89	
Ulster Bank 18/11/2009	0.87	0.85	0.8	0.8	0.82
Bank of Ireland 11/2009	0.88	0.85	0.83		
Davy 29/09/2009	0.90				0.80

Sources: AIB Summary of Exchange Rate Forecasts; Ulster Bank Focus on Markets; BOI Monthly Bulletin; Davy on the Irish Economy.

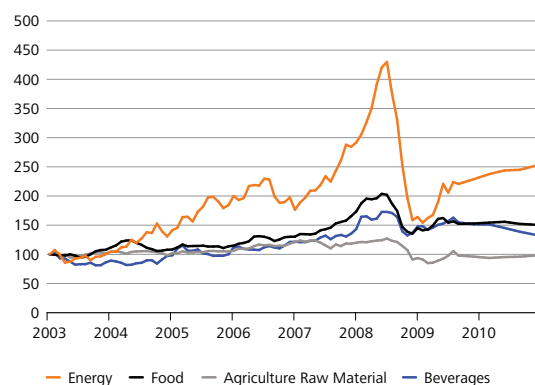
International Food Prices

In general, the food sector is more resilient to economic downturns than other sectors. However, the fall in global demand has had a negative impact on prices – in terms of global commodity markets and consumer prices for goods.

Commodity Prices

The graph below shows IMF global commodity price indices over the period 2003-2010 (forecasts for the final quarter of 2009 and 2010). The drop in global demand since 2008 has resulted in price falls across all commodities, including food and beverages. However, input costs including energy and agricultural raw materials have also fallen sharply. Some recovery of prices occurred during 2009 and should continue gradually into 2010, although all prices are expected to remain below the peaks of mid-2008.

IMF Global commodity price indexes, 2003-2010 (forecast)

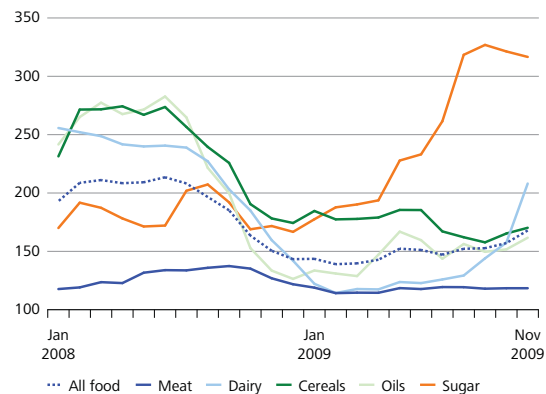


Source: IMF World Economic Outlook October 2009.

The United Nations Food and Agriculture Organisation (FAO) Food Price Indexes reflect further detail on world prices for meat, dairy, cereals, oilseeds, and sugar. It shows that prices for dairy, cereals and oils peaked in mid-2008 before dropping in response to falling world demand. Commodity meat prices have not fluctuated greatly over the period.

Over the course of 2009, dairy and oils prices recovered somewhat. The price of sugar rose sharply in 2009, due to rains in Brazil, the largest exporter, tightening supply. This is a concern for a number of processed food producers in Ireland – including production of bread & cakes, confectionery and alcohol. Overall, the price index remains 21% below its peak level in June 2008.

FAO Food Price Indexes, 2008-2009, 2005=100



Source: FAO.

Price volatility on all food commodities has also increased significantly – the IMF index of food price volatility rose to 22% for the period 2008 to June 2009, from 8% for the decade to 2007. IMF analysis suggested four factors increased food commodity price volatility:

- (i) US inflation volatility;
- (ii) variability in global economic activity;
- (iii) US dollar volatility; and
- (iv) volume of trading on futures markets.

As such, it may be surmised that recent instability in the global economy has contributed to food price volatility.

After bottoming in February 2009, world dairy prices have recovered somewhat, although remaining well below their peak in 2008.

12.7%

IMF meat price indexes, poultry prices stayed around peak levels, while pork prices are estimated to have fallen by 12.7% between 2008 and 2009.

Dairy

After bottoming in February 2009, world dairy prices have recovered somewhat, although remaining below the peak in 2008. Factors contributing to improved market conditions over the course of 2009 included:

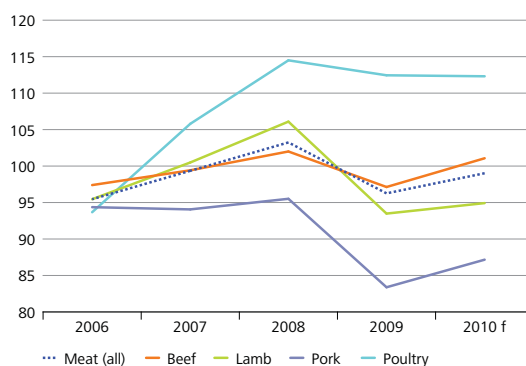
- on the supply side, stock retention and reduced milk output in the EU and US, and lower than expected growth in Oceania's milk output; and
- renewed demand from Asian countries experiencing economic recovery.

Meat

The volume of meat traded globally fell by 6% in 2009 with falling per capita consumption as a result of the economic downturn. Although overall commodity meat prices remained relatively stable during 2008-09, this masks variable performance for different meats. According to IMF meat price indexes, poultry prices stayed around peak levels, while pork prices are estimated to have fallen by 12.7% between 2008 and 2009. Beef and Lamb prices are also estimated to have fallen between 2008 and 2009 – by 4.8% and 11.9%, respectively.

The FAO suggest that stronger economic growth in 2010 should improve demand conditions for meat – the medium term outlook is for an improvement in all meat commodity prices³.

World Average Annual Meat Price Index 2006-2010 (forecasts), 2005=100



Source: IMF World Economic Outlook Databases, October 2009.

Cereals

World production of cereals remained very high throughout 2008 and 2009 as a result of strong demand and high prices. The peak in prices in 2008 – caused in part by the substitution of food crops for biofuels and high energy prices – was essentially reversed in 2009 with dropping energy prices and lower world demand. Medium term prospects are for steady, gradual growth in prices during 2010.

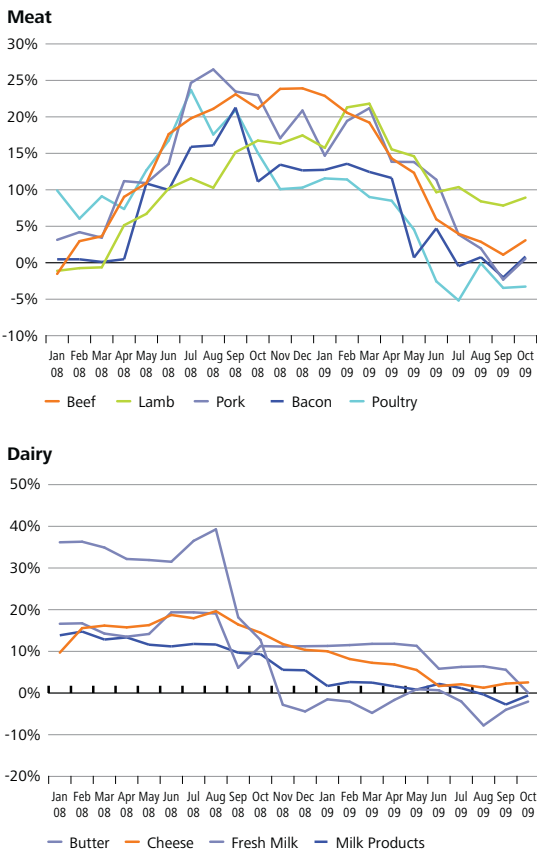
The Economic Environment

After very strong growth in UK food prices in 2008 across meat, dairy, bread and cereals, consumer prices began to decelerate from mid 2009.

Consumer Prices

The graph below gives recent percentage changes for UK consumer prices in key export sectors for Ireland. After very strong growth in food prices in 2008 across meat, dairy, bread and cereals, consumer prices began to decelerate and prices of some foods have fallen⁵. This reflects changes in global commodity prices, as discussed in the previous section, as well as falling demand and increasing price consciousness among UK consumers.

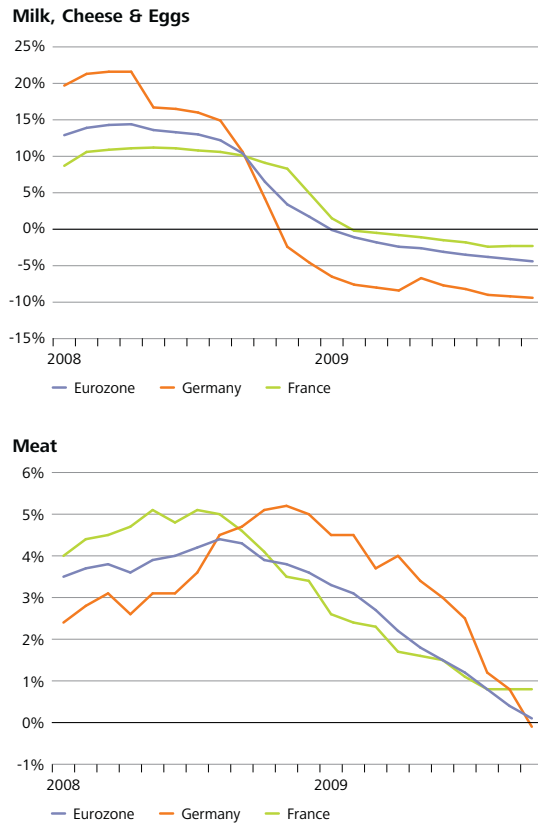
UK consumer prices, annual % change



Data source: UK Office for National Statistics.

Consumer price changes for broad sector groups relevant to Irish exports to the Eurozone, including France and Germany, are given in the following graphs. There is evidence of price falls across all goods other than spirits over 2008 and 2009, for similar reasons to the UK.

Consumer prices in the Eurozone, annual % change



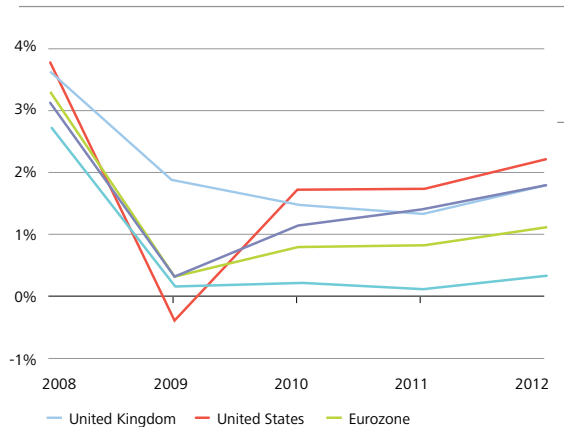
Data source: European Central Bank.

5. We note that most food products are exempt from VAT in the UK, and would not have been affected by the reduction in the Value Added Tax (VAT) in November 2008 (alcohol prices were also unaffected, as excise duties were increased to offset VAT cuts).

Irish food exporters face a challenging environment at the moment, with subdued economic growth in the developed world over the medium term, exacerbated by historically high euro exchange rates against Sterling and the US dollar.

Data on future trends in consumer food prices is difficult to locate. However, the chart below provides forecasts for general consumer price inflation for these markets and the US, which is a major destination for Irish beverages exports and influences global prices. In general, consumer prices are expected to rise moderately in the coming years, and one would expect food prices to rise in tandem.

Consumer price inflation, 2008-2011 (forecasts) for key export markets



Source: IMF World Economic Outlook October 2009.

Strategies for Overcoming the Challenges

Irish food exporters face a challenging environment at the moment, with subdued economic growth in the developed world over the medium term, exacerbated by historically high euro exchange rates against Sterling and the US dollar. Notwithstanding the end of recession, the risks to consumer sentiment and demand remain - due to persisting high unemployment, withdrawal of government stimulus packages and potential interest rate rises.

That said, there are some positives in the outlook as the global economy begins to recover. Improvements in demand are expected to see world commodity prices rise gradually – this will help primary producers, although the effect on processors will be mixed – and consumer prices are also expected to improve somewhat. Sterling and the US Dollar are also expected to strengthen against the euro during 2010. These factors should combine to improve the environment for Irish exporters over the next year or so, particularly in developed world markets.

A further option is to look to alternative markets – in particular, significant opportunities appear to exist for Irish food exporters in the major emerging Asian economies of China and India. These economies have seen strong economic growth in recent years (including throughout the global recession) and have large and growing populations. Furthermore, it is likely that production capacity in these economies will not be able to keep pace with the rapid expansion of demand.

It must also be acknowledged that input costs for producers in Ireland have fallen over the course of 2009 relative to our trading partners, and that forecasts indicate further improvements in competitiveness. Pricing is significantly more competitive in a number of domestic sectors (notably construction) and the labour market has eased. These developments have reduced the cost of doing business in Ireland vis à vis other countries, and will further boost the international competitiveness of export goods.

Marketing Environment



Key Figures

40

Bord Bia has identified six Consumer Lifestyle Trends in partnership with The Futures Company. These trends come from an understanding of the macro forces shaping consumers lives supported by empirical evidence across 18 markets and 40 cities in every continent.

13 minutes

The average time spent by consumers preparing dinner now stands at just 13 minutes compared with one hour in 1983.

30

For every UK allotment plot there are 30 people waiting to get their hands on one.

Overview

Knowing and understanding our consumers or end users allows us to better predict and prepare for consumers' future needs and wants. Today's volatile environment means that understanding the consumer has never been more important.

Navigating the challenges of today, and at the same time preparing for the longer term are the two critical challenges facing organisations. Ever more important is getting smart innovations into the market quickly that meet consumers' needs today. But it is equally important to plan for the longer term.

Prospects for 2010

- Bord Bia has identified six Consumer Lifestyles Trends in partnership with The Futures Company. These trends come from an understanding of the macro forces shaping the lives of consumers around the world and from an understanding of the 'on the ground' consumer and brand behaviour that occurs in response to these drivers.

Consumer Trends Identified

- **Consumers in control:**
"I like to pursue better value, to help maintain my lifestyle and to get the most from the money I have"
- **Fluid lives:**
"I want to stay in control of my busy life and make sure that I am at my best for whatever the day presents"
- **Making the most of life:**
"I need to balance the stresses in my everyday life with experiences that are fun and fulfilling"
- **Sustainable lives:**
"I would like products that create less negative impact on the world; I want choices that make me feel good without harming my wallet"
- **Quest for health and wellness:**
"I want to be in control of my health and wellness, to manage or improve it through making better choices"
- **Keeping it real:**
"I am looking for products and brands that are real and authentic, because they have stood the test of time and remained true to their heritage; they provide me with comfort and reassurance"

Marketing Environment



Consumer lifestyle trends

The Consumer Today

Knowing and understanding our consumers or end users allows us to better predict and prepare for consumers' future needs and wants. Consumer trends help companies be more outward-looking, future-focused and act as a catalyst for new thoughts and ideas. Today's volatile environment means that understanding the consumer has never been more important. Much has changed over the past 18 months around the world. But it is important to distinguish between what is just a function of today's economic crisis and what represents a fundamental shift in the way consumers will engage with the marketplace in the future.

The recent experience of frugality will lead to a period of penny-pinching and thrift that will define the character and mindset of the marketplace for some time to come. Today, consumers are more considered and constrained in their purchasing behaviour; the emphasis is more on coping. But frugality is not an aspiration. People do not wish or desire to be constrained by money.

Tomorrow we can expect a more positive environment. Growth will return. Consumer confidence will pick up and a frugal mindset will wane. More premium opportunities for growth will re-emerge as consumers focus on higher order needs again. Many of the pre-recession challenges will come to the fore again.

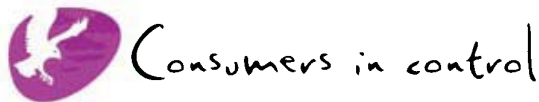
Navigating the issues of today, and at the same time preparing for the longer term are the two critical challenges facing organisations. Today it is about getting the right message to the consumer regarding your value proposition and avoiding devaluing one's brand through fighting just on price and/or cutting quality. Ever more important is getting smart innovation quickly into the market that meets consumers' needs today. But we must also plan for the longer term. A critical challenge for all businesses is building genuine lasting value that is relevant for consumers and customers. Businesses must ensure they are well placed for growth when it returns and bring new innovation to the market rather than offer incremental improvements.

The Trends

Bord Bia has identified six Consumer Lifestyles Trends in partnership with The Futures Company. These trends come from an understanding of the macro forces shaping the lives of consumers around the world such as social, technological, economic, environmental and political factors, and from an understanding of the 'on the ground' consumer and brand behaviour that occurs in response to these drivers. They are supported by empirical evidence including a quantitative study covering 18 markets and 80% of global GDP together with on the ground views from over 40 cities in every continent of the world.

They take in the key drivers shaping consumer lives around the world, such as the rise of new media and communications technology, and the declining trust in government and big business.

Consumers in Control



Consumer Trend:

"I like to pursue better value, to help maintain my lifestyle and to get the most from the money I have"

The proliferation of choice and information has empowered consumers, allowing them to be more selective in their purchase decisions. Rising economic anxieties and financial constraints have led to greater scrutiny of the market place, driving a stronger focus on value and a need to make smarter choices.

Deciding what is good value has become more complex. The relationship of quality to price remains. However; trust, familiarity, provenance and even wider environmental and social concerns can now form how a consumer sees value.

There is more shopping around and trading off convenience for a better price. Sales at discount retailer Aldi climbed by 15% in the UK during 2008. M&S's shift in focus from ready meals and convenience foods to offering a greater range of basic ingredients reflects the increasing shopper desire to do more for themselves and forego convenience and higher prices.

A changing sense of what represents value means that buying own brand is an increasingly popular consumer strategy for saving money. Many retailers offered dining in solutions - restaurant quality meals for one low price with great wines by the bottle to complement.

Given the pace of life, work and leisure time are blurring and people constantly struggle to meet the demands of the many roles and activities in their daily lives. Economic anxieties have now been added to the challenges of a complex world and busy day.

Room for luxury and indulgence remains. Cheaper does not necessarily mean better. Big splurges have been replaced by more considered choices; a desire for discernment is still strong and rarely now expressed by buying the most expensive option. L'Oreal recently reported growth of 5% in like-for-like sales of its lipstick lines. The 'Lipstick effect' shows that in a recession sales of lipstick do well, as consumers opt for accessible luxuries whilst cutting out bigger ticket items.

The pursuit of value is likely to remain even after the recession and what represents value will always be more than low price. People will want to deepen their knowledge of production, and even be prepared to get involved in the processes, to get better value and build their expertise. Products that offer a luxury experience will increase in appeal again as prosperity returns. Innovation should focus on adding genuine value and experience to product ranges through the full user experience.

Fluid Lives



Fluid lives

Consumer Trend:

"I want to stay in control of my busy life and make sure that I am at my best for whatever the day presents"

Given the pace of life, work and leisure time are blurring and people constantly struggle to meet the demands of the many roles and activities in their daily lives. Economic anxieties have now been added to the challenges of a complex world and busy day. People are increasingly looking for ways to simplify their lives; in today's world it can be a way to get back in control and free head space for other issues. Consequently, the desire for convenience and simplicity remain, but, solutions are limited by the money people have in their pockets. A need to perform to our best, especially in the workplace, remains.

People are looking to show they can survive under the pressure. Taking time for ourselves has become a necessary strategy to keep a sense of balance in life; down time needs to be planned if only for a small moment in the day. Consumers now take an average of just 13 minutes to prepare a meal at home, a significant difference from the 1983 average of an hour.

Time out to re-charging energy levels is increasingly important - a recent study concluded that day time naps produce significant advantages to brain concentration. A short afternoon catnap of 20 minutes will be enough to boost alertness, mood and motor skills.

Convenience is no longer king, where money can be saved people will find a practical solution. According to the Italian farmers' union Coldiretti, sales of dough to make bread and pizza bases at home are soaring in Italy, as people try to cut down expenses on eating out and convenience foods. Frozen meals gained a 6% value growth in the UK in 2008, as consumers looked for cheaper alternatives that allowed them to maintain convenience.

Beyond the recession, the desire for greater convenience will re-emerge as more prosperous times return. However, people will have a better sense of what they can do for themselves quickly and cost effectively. A new form of convenience may emerge where people will be prepared to do some of the work themselves. Consumers will want high quality produce available when they need it, and to be able to access it with a minimum amount of effort. Existing technology will play a greater role in saving time: highlighting when temporary stores are in place such as the farmers market; and notifying people when fresh produce is available. Packaging will continue to evolve to support a life spent more on-the-go and help navigate choice quickly.

Making the Most of Life



Making the most of life

Consumer Trend:

"I need to balance the stresses in my everyday life with experiences that are fun and fulfilling"

Making the most of life is about consumers needing to balance the stresses in their everyday lives with experiences that are fun and fulfilling. As people lead busy and stressful lives, they are increasingly look for solutions that provide an antidote to the pressures of modern living. Free time continues to be a precious commodity that needs to be used wisely. As the financial crisis continues, people are seeking strategies that change the focus of life back to them, and help them to feel better about the world.

Marketing Environment

-7.5%

Remy-Cointreau has reported a 7.5% fall in turnover in the second quarter of 2009, reflecting the fall in global champagne sales which have dipped by nearly €10m.

Whilst people are still seeking to enrich their lives with experiences that excite, push the boundaries and stimulate their senses, the tone has shifted more toward the need for respite, distraction and a little fun in life. Experiences are still highly valued, but, must easily fit into daily life and crucially, be low cost.

There is less money for conspicuous consumption. Remy-Cointreau has reported a 7.5% fall in turnover in the second quarter of 2009, reflecting the fall in global champagne sales which have dipped by nearly €10m. But people still need a way to release pressure and bring some fun back into life.

Food continues to be a great outlet for creativity, exploration, and play. A new magazine, Eat In, capitalises on the growing UK obsession with home cooking and exploration. Jamie Oliver has also recently published his own Jamie Magazine to encourage experimenting with cooking at home. The recession may have awakened people to the fact that many of life's great experiences are often free. Today the home can be a great place to connect with the people that matter in life, and a cost effective place to have fun. Eating out may have to offer more than just the usual restaurant experience.

There are some interesting global examples of this trend in the marketplace - Kellogg's launched a competition where families were invited to submit photos of them baking something with Kellogg's cereals. The winning families were decided on those who appeared to be having the most fun. In the US, they call them supper clubs; in GB they are underground restaurants; in Cuba, paladares. They are a cross between a restaurant and a dinner party - like a restaurant, in the sense that you pay; like a dinner party, in the sense that you are in someone's house.

Manufacturers are likely to need to take greater ownership of their waste. Ensuring waste can be recycled or recycling for customers is likely to become more common place.

Companies and brands supporting good causes or with more environmentally friendly approaches remain aspirational and a desired choice for many were the cost still makes sense. Many people are increasingly shifting their attention toward the issues that impact their local community, pushing the bigger and trickier environmental issues back to the manufacturers and retailers to solve. In some instances, as prices rise, some greener choices have become smart choices; choices that ultimately save money in the long run.

A focus on value has meant some positive choices have had to be put on hold. According to data from TNS World Panel, sales of organic produce have fallen by up to a third since the start of the recession. Organic producers are also seeing their share of the grocery market shrink. Charity now has more of a 'homely' feel. Buying local is gaining support across the world.

What might the next 2-5 years entail? People will continue to scrutinise companies for the impacts they make, but, will not expect the costs of improvement to be passed on. Less impact will be more important than offsetting impacts. Bringing alternative energy into the production process such as factories running on wind power and alternative methods to distribute products are likely to emerge.

Manufacturers are likely to need to take greater ownership of their waste. Ensuring waste can be recycled or recycling for customers is likely to become more common place. Packaging that is bio-degradable or reducing packaging could be more common solutions. Developing schemes to re-use food wastage, for example as fertiliser could emerge. Supporting local may become a stronger shorthand for sustainability and supporting worthwhile causes.

Sustainable Lives



Sustainable lives

Consumer Trend:

"I would like products that create less negative impact on the world; I want choices that make me feel good without harming my wallet"

Whilst people are increasingly aware of the negative impacts of consumer culture, the welfare of the wider world has become less of an immediate concern. The short-term priority has shifted to addressing the challenges created by economic crisis and issues closer to home.

Quest for Health & Wellness



Quest for health and wellness

Consumer Trend:

"I want to be in control of my health and wellness, to manage or improve it through making better choices"

The Quest for health and wellness remains a key consumer trend around the world but is perhaps somewhat different today to what it was five years ago.

As modern lifestyles create new health challenges, maintaining or improving health and wellness has become a well established priority in many people's lives. As health infrastructures feel the strain of rising demand and falling

Staying healthy and avoiding illness are the current priorities where the cost of care is high and time out from the workplace may represent a risk.

+4%

There was a 4% increase in the sales of Artic Rolls last year and a 5% rise is predicted this year. Cadbury's reported sales growth of 5%, which the company attributed to Wispa's renaissance in 2008.

support, the responsibility for people to find their own path to good health has become more important.

The economic crisis has shifted the focus of health and wellness toward managing the basics. Staying healthy and avoiding illness are the current priorities where the cost of care is high and time out from the workplace may represent a risk. Higher order health needs have been put on hold for a while. An increasingly balanced lifestyle approach is emerging as people seek to take control of their own health. Change4Life is a society-wide movement that aims to prevent people from becoming overweight by encouraging them to eat better and move more.

Navigating the choices on offer remains complex, many people are seeking more simplistic and cost effective approaches. Basic nutrition and more traditional & natural solutions continue to grow in popularity. For the three months that ended December 2008 nationwide retail sales of vitamins and supplements were up almost 10 percent from the same period in 2007. That included nearly a 6% increase in sales of Chinese herbal supplements alone.

Beyond the recession, natural and pure will continue to represent a healthier choice. Haagen-Dazs has a new line of ice cream called 'five', and each flavour has only five ingredients and no additives or preservatives. As another bonus, they have 30% less fat than the traditional variants.

Keeping it Real



Keeping it real

Consumer Trend:

"I am looking for products and brands that are real and authentic, because they have stood the test of time and remained true to their heritage; they provide me with comfort and reassurance"

As the recession continues, people are looking to the past for stability and reassurance. Uncertainty and harshening times have created a heightened need for brands and products that are trustworthy, open and honest.

A more traditional and down to earth form of authenticity has emerged. The tried and tested are becoming more essential anchor points for consumers, comfort comes from products that have continuity with the past and that have stood the test of time. Old ways offer the real experience and a means to a simpler and more self-sufficient lifestyle.

The past offers us something real and a simpler time absent from the superficial excesses of today. There was a 4% increase in the sales of Artic Rolls last year and a 5% rise is predicted this year. Cadbury's reported sales growth of 5%, which the company attributed to Wispa's renaissance in 2008.

A deepening connection with our food offers both the 'real' experience and a means to be more self-sufficient. For every UK allotment plot there are 30 people waiting to get their hands on one – providing evidence of our recession-fuelled enthusiasm for home-grown produce and the desire of many city dwellers to embrace "the good life" by getting back to the land. A patch of the South Lawn at White House has been turned into a vegetable garden, the first at the White House since Eleanor Roosevelt's victory garden in World War II.

Our appreciation of artisan skills has deepened and there is a desire to re-learn what the past taught us. Darina Allen has championed Grandmothers' Day - a day dedicated to remembering and recording lost skills and wisdom of previous generations.

Beyond the recession, new forms of growing your own emerge - meaning that local and seasonal become greater features of life. The growth in more collective forms of 'locally grown' emerge to make food more affordable and change the use of common land; the home becomes more of a 'farm' house where experts help people find the right solution for the spaces they have.

Consumers may look to secure their supply by sponsoring or seeking ownership of the authentic source and innovative methods of producing emerge, allowing consumers to practice traditional techniques and stay closer to the original and natural produce.

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Key Figures

€7.12bn

The value of Irish food and drink exports is estimated to have declined by 12% in 2009 to stand at €7.12 billion.

15%

The UK remains the principal destination for Irish food and drink exports, accounting for 44% of the total. However, the weakness of sterling resulted in the value of exports falling by 15% in 2009.

34%

Exports to Continental European market fared better in 2009 recording a drop of 8%, leaving the region accounting for 34% of total exports.

Overview

A further double digit decline in the value of Sterling combined with the deepest recession in living memory and weaker commodity prices combined to create unprecedented challenges for Irish food and drink exporters in 2009.

For the year, it is estimated that the value of Irish food and drink exports declined by 12% or just under €1 billion to stand at €7.12 billion, leaving the value of trade at 2005 levels. This is in line with overall developments in the Irish economy.

Key Factors Affecting Export Performance

- It is estimated that Sterling reduced the value of exports to the UK by some €400 million. This impact was increasingly obvious as the year progressed with exports in September some 20% lower. It also made UK exporters increasingly competitive in other Euro markets.
- The volume of dairy products available to export fell during the year due to a combination of lower milk output and increased use of intervention storage. It is estimated that these developments reduced the value of dairy exports by more than €150 million.
- Similarly, beef output declined due to a combination of lower availability and stronger exports of finished cattle to Northern Ireland. It is estimated that the volume of Irish beef exports fell by 4% in 2009, which reduced the value of exports by some €70 million.
- Lower export volumes in some other categories, most notably beverages, reduced the value of exports by around €150 million during 2009.
- The impact of slower consumer spending negatively affected export returns by around €200 million in 2009.

Prospects for 2010

The prospects for 2010 point to a return to growth as the year progresses. The potential for stronger export revenues from key indigenous sectors such as dairy and meat and the expectation that investments by prepared food companies to broaden their market presence on the Continent will help exports as 2010 progresses all point to a better export performance. However, developments in Sterling and consumer sentiment will remain critical.

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-12%

For the year it is estimated that the value of Irish food and drink exports declined by 12% or just over €960 million to stand at €7.12 billion.

34%

The share of exports destined for other EU markets increased to almost 34% in 2009 helped by a higher share of beef exports destined for the Continent together with a stronger focus on the region by prepared foods manufacturers.

Background

The market environment for Irish food and drink manufacturers came under significantly increased pressure during 2009 as a number of factors across all major product categories impacted on export returns. Principal among the issues faced were the further weakening of sterling, the impact of slower consumer spending in response to the recession and lower commodity prices. In addition, credit issues and the relative cost of Irish production combined to make 2009 an extremely challenging year for the sector.

For the year it is estimated that the value of Irish food and drink exports declined by 12% or just over €960 million to stand at €7.12 billion. This brings the value of Irish food and drink exports back to the levels recorded in 2005.

All major categories faced significant pressure with all recording lower export revenues. The largest declines were evident in prepared foods, dairy, beverages and meat.

Irish food and drink exports

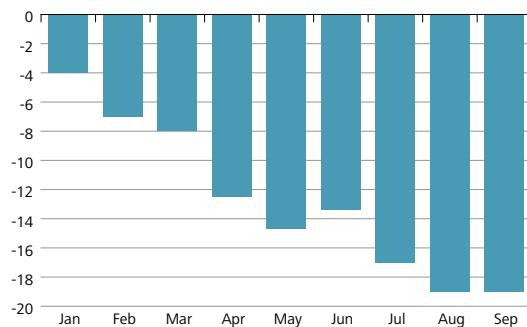
	2008 €M	2009 (E) €M	2009/2008 % +/-
Dairy Products & Ingredients	2,290	2,000	-13
Beef	1,607	1,400	-13
Prepared Foods	1,499	1,282	-15
Beverages	1,229	1,071	-13
Pigmeat	343	290	-15
Seafood	335	303	-9
Edible Horticulture & Cereals	265	218	-18
Poultry	203	180	-11
Sheepmeat	167	166	-1
Live Animals	148	213	+44
TOTAL FOOD & DRINKS	8,086	7,123	-12

The prospects for 2010 point to a return to growth as the year progresses, helped by stronger export revenues from both dairy and meat. Notwithstanding the considerable pressure being faced in the prepared foods sector, the investment being made by companies to broaden their market presence on the Continent over the last year may help boost exports as 2010 progresses. In terms of beverages, developments are likely to be driven by consumer sentiment and developments in the Travel Retail sector.

Destinations of Food and Drink Exports

In terms of the destination of Irish food and drink exports in 2009, the United Kingdom remained the principal destination with sales of just over €3.1 billion, which represented a drop of 15%. The impact of the weaker Sterling was increasingly obvious as the year progressed with exports in October 2009 more than 20% lower than a year earlier compared to a drop of less than 5% in January. For the year, it is estimated that Sterling reduced the value of Irish exports to the UK by some €400 million while also increasing the competitiveness of UK exports within the Eurozone.

Monthly trend in food & drink exports to the UK (% Change on 2008)



Source: CSO.

Despite this decline, the UK still accounted for 44% of food and drink exports in 2009. However, its share of total exports dropped from 48% in January to around 43% by late 2009.

All major categories showed a decline to the UK with prepared foods, beef, dairy and beverages most strongly affected. Mushroom exports held up well, thanks to stronger prices in the first half of 2009.

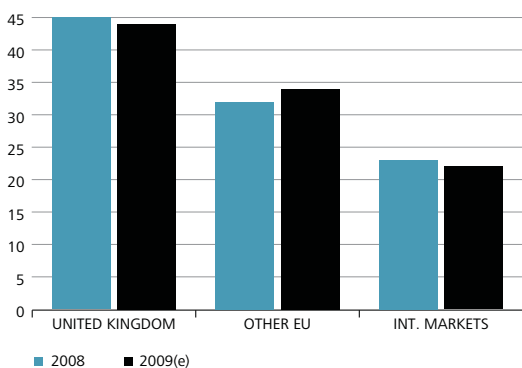
The share of exports destined for other EU markets increased to almost 34% in 2009 helped by a higher share of beef exports destined for the Continent together with a stronger focus on the region by prepared foods manufacturers. An ongoing positive performance of Irish whiskey across most markets also helped export revenues. The strongest performing markets on the Continent were France, Scandinavia and Italy with overall trade to the region 8% lower for the year.

The ongoing weakness of Sterling continues to cause particular difficulties for Irish exporters both in terms of maintaining competitiveness in the UK and being able to compete with UK exports in other key markets

This greater focus on the Continent is expected to continue in 2010 as more intensive market development initiatives have been undertaken by prepared food manufacturers in particular during 2009 that are expected to lead to increased business over the next 12 – 18 months.

In terms of exports to International markets, it is estimated that they accounted for 22% of total exports in 2009. The value of trade to these markets was adversely affected for much of the year by the weaker global dairy market while exports of alcoholic beverages to many regions were also lower. However, the US market held up well for beverages, helped by further inroads being made by Irish whiskey while exports of chocolate confectionery were also helped by the entry of Irish manufacturers into the chocolate café market.

Market distribution of Irish food & drink exports (%)



Source: Bord Bia estimates.

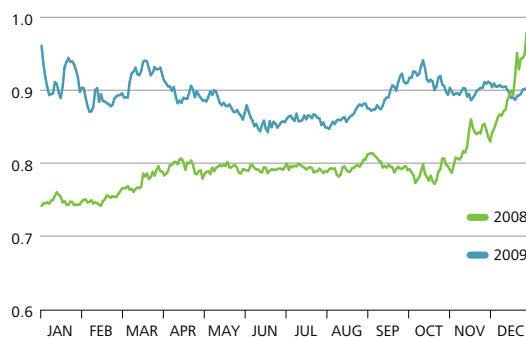
Issues Being Faced by Exporters

Weakness of Sterling

The ongoing weakness of Sterling relative to the euro continues to cause particular difficulties for Irish exporters both in terms of maintaining competitiveness in the UK but also being able to compete with UK exporters in other key markets for Irish food and drink suppliers.

During the January to mid December 2009 period, Sterling was on average 13% weaker against the euro than the same period in 2008.

Sterling/euro Exchange Rates (1€ =)



In terms of competition from UK exports in other markets, the Irish market remains the principal destination for UK food and non alcoholic beverages with trade of more than £2 billion in 2008, accounting for some 27% of exports. Competition from UK food products on the Irish market has further intensified in 2009 due to the weakness of Sterling and changing sourcing policies among retailers, which is putting significant pressure on Irish suppliers. However, the rate of growth to Ireland during the first half of 2009 was less than that in total UK food exports.

Outside of this, the top five export destinations, namely France, the Netherlands, Germany, Spain and Italy account from more than 40% of exports. These markets are also increasingly important for Irish exports, representing almost one quarter of total revenues in 2008.

Competition from UK exports

UK TOP 5 EXPORT MARKETS, EXCL. IRELAND	IRELAND TOP 5 EXPORT MARKETS EXCL. UK
France	France
Netherlands	United States
Germany	Netherlands
Spain	Italy
Italy	Germany

The key products supplied by the UK to these markets range from meat, dairy products, prepared foods and seafood – all areas of strong importance to Irish exporters.

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€70m

It is estimated that the volume of Irish beef exports fell by 4% in 2009, which reduced the value of exports by some €70 million.

3%

Since their peak consumer prices in the UK have fallen by more than 3% with some signs that the rate of decline is beginning to accelerate.

Lower Output of Key Products

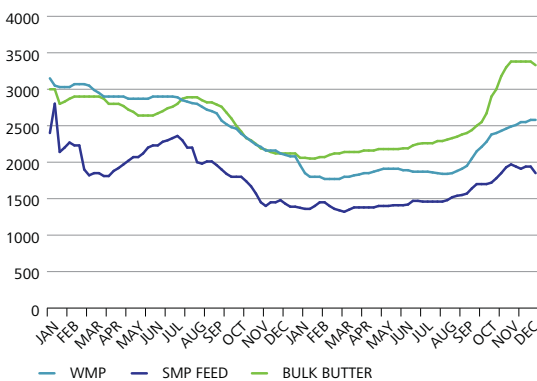
2009 saw a fall off in the level of output in a number of the major commodities produced in Ireland, principally dairy and beef. The volume of dairy products available to export fell during the year due to a combination of lower milk output in Ireland and the increased use of intervention storage for butter and skimmed milk powder. It is estimated that the combined impact of these reduced the value of dairy exports by more than €150 million.

Similarly, beef output declined in 2009 due to a combination of lower availability and stronger exports of finished cattle to Northern Ireland. It is estimated that the volume of Irish beef exports fell by 4% in 2009, which reduced the value of exports by some €70 million.

Reduced Global Commodity Prices

Another factor influencing the value of Irish food and drink exports in 2009 was the pressure on global commodity prices for much of the year. Principal among these was the decline in world dairy prices from the second half of 2008, which continued during the first half of 2009 before recovering well during the latter months of the year. By mid December, European prices for butter, whole milk and skimmed milk powders had increased by 20-70% from their low point in early to mid 2009. However, for the year, global prices for butter and powders are estimated to have declined by around 40% in US dollar terms.

Dutch dairy prices (€/tonne)



Source: Marketinfo Milch.

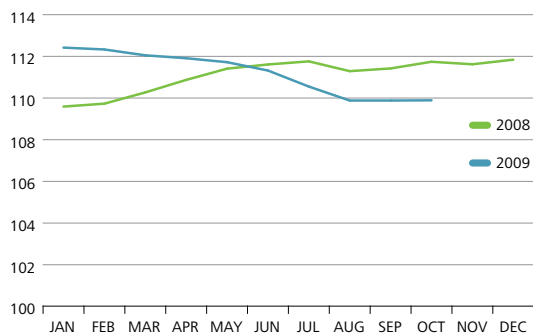
Similarly, international cattle prices came under pressure during 2009 due to a combination of slower market demand and price pressure caused by stronger disposals in response to drought conditions in a number of key South American producers. Male cattle prices in South America fell by 7-21% in euro terms, which in turn put competitive pressure on Irish beef in some European markets.

Slower Consumer Spending

The consumer price index for key European markets declined as the year progressed with the overall price index for the euro area in October 2009 more than 2% lower than January with countries such as Germany and Spain falling by around 4%. The data suggest that prices have stabilised over recent months following a sharper decline up to late summer. However, this may understate the pressure felt by food manufacturers as retailers across Europe have aggressively promoted food products during the year, which has impacted on average returns.

In term of main food products, the largest declines have been seen in dairy products and to a lesser extent, meat products.

Euro Area Food Consumer Price Index



Source: Eurostat.

Following a period of strong price inflation, UK consumer prices have eased following an average rise for food products from the start of 2007 to early 2009. Since their peak consumer prices in the UK have fallen by more than 3% with some signs that the rate of decline is beginning to accelerate.

+40%

The value of livestock exports jumped by more than 40% in 2009 helped mainly by the strong rise in live cattle exports which saw numbers almost double during the year.

-4%

Irish finished cattle supplies at meat plants are estimated to have fallen by almost 4% in 2009 to just over 1.53 million head.

In the meat sector, there has been a noticeable shift to lower value cuts across key markets, which has helped to maintain volumes but had the effect of reducing the value of sales. This trend has been seen across most food categories where the drive to live within a budget has featured strongly. Reduced levels of eating out also put pressure on market returns for Irish exporters.

Meat & Livestock

The combined value of meat and livestock exports is estimated at almost €2.25 billion in 2009. This represents a drop of around 9% on 2008 levels. Most of the decline was evident in beef exports where a combination of reduced volumes and lower prices impacted on export returns. For the year beef exports were valued at €1.4 billion.

Pigmeat exports recorded a 15% drop during the year as a combination of lower supplies following the removal of 10,000 sows arising from the product recall in late 2008 and reduced prices affected trade. Poultry exports were affected by lower returns for processed products despite volumes holding well with the value of exports for the year estimated to have declined by 11%.

The value of sheepmeat exports was largely maintained as reduced domestic consumption helped maintain volumes while prices showed a modest recovery. The value of livestock exports jumped by more than 40% in 2009 helped mainly by the strong rise in live cattle exports which saw numbers almost double during the year.

Irish Meat & Livestock Exports

SPECIES	2008 €M	2009(e) €M	2009/2008 % +/-
Beef	1,607	1,400	-13
Pigmeat	343	290	-15
Poultry	203	180	-11
Sheepmeat	167	166	-1
Live Animals	148	213	+44
Total	2,468	2,249	-9

Beef

The European beef market witnessed a slowing market demand for beef in 2009 as reduced consumer spending had some effect on overall volumes, particularly at foodservice level. There was also a pronounced move towards lower value cuts such as mince and stewing, which had an adverse impact on returns for steak cuts in particular.

Retail sales data for a number of key markets would suggest that overall beef sales fell by in the region of 4% during 2009. No similar data are available for the foodservice sector but anecdotal reports would suggest that beef sales were more badly affected at restaurant level while fast food sales held up well.

Cattle prices across Europe showed mixed trends during the year. UK prices performed strongly in Sterling terms although when converted to euro equivalents, R4 steer prices were around 5% below 2008 levels. On the Continent, both France and Germany recorded lower prices while young bull prices in Italy and Spain increased by 2% and 5% respectively.

Returns for Irish beef were affected by the competitive nature of most major markets, although a marginal decline in EU production helped to offset higher imports from Oceania and North America, which saw total EU beef imports increase by 12% up to the end of August.

Irish finished cattle supplies at meat plants are estimated to have fallen by almost 4% in 2009 to just over 1.53 million head. Part of this decline was due to a jump of 30,000 head in the number of finished cattle exported live to Northern Ireland during the year. In addition, poor grazing conditions and a reduced level of meal feeding led to a slowdown in cattle marketings for much of the year. Most of the decline was evident in steers, which fell by more than 9% to around 640,000 head.

Average carcass weights are estimated to have eased marginally in 2009 with the largest decline evident in the first half of the year. When added to lower cattle supplies, it led to the volume of Irish beef exports falling by more than 4% to around 461,000 tonnes. The drop in export volumes combined with a fall of 9% in Irish cattle prices led to the value of Irish beef exports dropping by 13% to €1.4 billion.

Beef Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
1,607	1,400	-13

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Across Europe Irish beef is stocked in 3 or more of the top 10 retailers in each market, meaning that Irish beef is stocked in more of the top 10 retailers in their respective markets than beef of any other origin.

Virtually all of our beef continues to be destined for EU markets, although there was some change in its market distribution during the year. The weakness of sterling led to lower market returns for Irish exporters from the UK market resulting in a two percentage point decline in the proportion of exports in volume terms destined for that market at 52%. Higher shipments to markets such as Italy, the Netherlands and Spain helped increase the proportion of beef exports destined for the Continent to 47% compared with 45% in 2008.

The implementation of a five year marketing strategy for Irish beef was in its second year in 2009. Progress continued in moving more Irish beef into the premium segments of the European retail and foodservice sectors. Since the beginning of the strategy implementation, an additional 16,000 tonnes of Irish beef has been sold to these segments despite a drop of 12% in export volumes. This represents almost one third of the five year target set out in the marketing strategy and has taken place against a backdrop of slower sales, particularly at foodservice level.

Across Europe Irish beef is stocked in 3 or more of the top 10 retailers in each market, meaning that Irish beef is stocked in more of the top 10 retailers in their respective markets than beef of any other origin. Over 200,000 tonnes of Irish beef are now destined for the higher value standard/premium retail and premium foodservice markets.

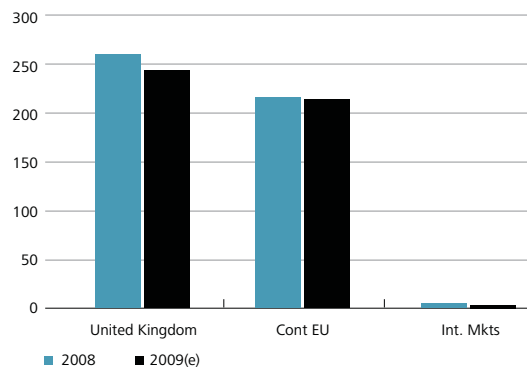
Markets for Irish Beef

Irish exports to the United Kingdom came under pressure in 2009 due to currency developments, a slower demand for higher value cuts and somewhat higher than expected UK supplies. As a result, export volumes fell by an estimated 6% to 245,000 tonnes with trade valued at €660 million. Progress continues to be made in developing the market position of Irish beef, particularly in the multiple retail and higher value foodservice market segments.

Export volumes to Continental EU markets were broadly similar at 214,000 tonnes with trade valued at €735 million. This occurred despite the drop in overall availability as stronger imports from key markets such as Italy, the Netherlands and Spain boosted volumes. However, like the UK, market returns remained difficult for much of the year, reflecting slower sales levels due to weaker consumer spending.

Exports of Irish beef to International markets stood at just 2,000 tonnes in 2009. Lower market prices, slower import demand and difficulties in relation to availability of credit affected trade.

Market Distribution of Irish beef ('000 tonnes cwe)



Outlook for 2010

The critical factors dictating the Irish beef trade in 2010 will be the relative strength of Sterling against the euro, consumer demand across both retail and foodservice and the level of competition faced by Irish beef in key markets. All things being equal, the European beef market seems set to remain broadly stable in 2010, albeit with competitive pressures remaining.

Consumers across most markets continue to favour lower value cuts, which is putting strong pressure on returns for higher value cuts and this trend looks set to continue into 2010. In the UK for example, mince now accounts for more than 50% of retail beef sales. However, some decline in EU beef production will help reduce this pressure, provided import volumes don't increase strongly.

UK beef production has been stable in 2009, helped by higher than anticipated heifer disposals and increasing young bull supplies as the year progressed. Little change is expected in 2010 with production forecast to reach just over 855,000 tonnes. On the Continent both French and German beef production is expected to decline in 2010 on the back of increased live exports, with a drop of up to 3% anticipated over the next 12 months.

Imports of fresh and frozen beef from Brazil into the EU continue to run at one fifth of 2007 levels. The number of Brazilian farms approved to supply the EU continues to rise gradually and currently stands at almost 1,800. No significant increase in shipments is anticipated from Brazil in 2010 while availability from Argentina seems set to decline strongly. This will be partly offset by further increases from North America as the new 20,000 tonnes quota comes into effect.

In Ireland, the drop in live cattle exports in 2008 would suggest that some increase in finished cattle availability is likely in 2010. Since mid November increased steer and heifer

Given this difficult market environment, Irish pigmeat exports performed reasonably well. Most Irish pigmeat markets and customers have returned to relatively normal patterns of trade following the pigmeat recall in late 2008.

supplies have been evident, which indicates later finishing of cattle by producers. However, the strength of live exports of weanlings and store cattle in 2009 is expected to impact on finished cattle availability as the year progresses.

Assuming a continuation of finished cattle export levels to Northern Ireland, meat plant cattle supplies are likely to be somewhat higher in 2010. However, some uncertainty surrounds producer intentions, particularly in relation to cows with anecdotal reports suggesting increased cow disposals in 2010.

Pigmeat

Despite a fall in European production in 2009 by 2-3%, the European pigmeat market was relatively weak due to lower exports outside of the EU and weaker demand in some European markets. Major world pork importers such as Japan, Russia and South Korea all imported less pigmeat due to depressed consumer demand. This combination of reduced exports and a weaker European market have dampened the local market with pig prices down by 7% for the year.

Given this difficult market environment, Irish pigmeat exports performed reasonably well. Most Irish pigmeat markets and customers have returned to relatively normal patterns of trade following the pigmeat recall in late 2008.

The loss of 10,000 breeding sows following the recall impacted strongly on Irish pig supplies throughout 2009. For the year, it is estimated that overall pig supplies were some 6% lower at almost 2.8 million head. Within this, meat plant disposals dropped by 7% while live exports to Northern Ireland were marginally higher at 470,000 head.

Lower pig supplies combined with a drop of almost 9% in Irish pig prices led to the value of Irish pigmeat exports in 2009 falling by more than 15% to reach €290 million.

Pigmeat Exports (€m)

2008	2009(e)	2009/2008
€M	€M	% +/-
343	290	-15

Markets for Irish Pigmeat

In the United Kingdom, the negative impact of the pigmeat recall on the trading status and reputation of Irish pigmeat product was slight and temporary. By February 2009, many key customers in the market had recommenced purchasing Irish product. In certain cases where Irish processors had difficulties rebuilding business with former customers post the recall, this was largely due to displacement by other suppliers during the interim trading period rather than any loss of trust.

Other market issues such as the comparative weakness of Sterling versus the euro led to a competitive market environment. Trade statistics up to the end of August show a rise of 9% in exports of Irish pigmeat to the UK. For the year, exports are estimated to have reached 75,000 tonnes product weight with a value of some €215 million.

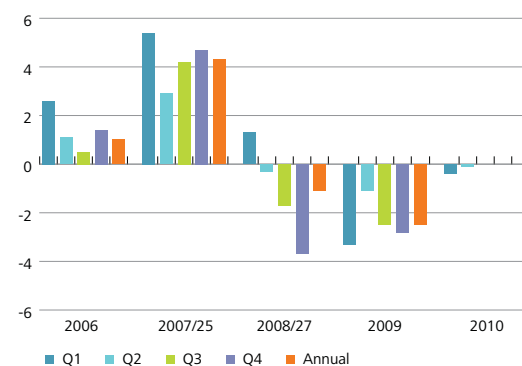
On the Continent trade was largely maintained in 2009 with an estimated 34,000 tonnes exported, which was valued at €51 million. Trade to Germany, Italy, France and the Netherlands were at normal levels for most of the year.

In terms of International markets, most countries that placed suspensions on Irish pigmeat have been lifted with the exception of China and Russia with progress expected to be made towards lifting suspensions in early 2010. Exports of pigmeat to International markets are estimated to have reached almost 10,000 tonnes in 2009 with trade worth €24 million. The principal markets were the United States and Japan. Trade to Japan was adversely affected by a lower import requirement in response to slow market demand with shipments expected to stand at 1,500 tonnes for the year.

Outlook for 2010

The results of the latest EU pigmeat working group suggest that for the first half of 2010, pig supplies across Europe are expected to be marginally lower at 124 million head. Stable to marginally higher output is anticipated in Denmark, the Netherlands and Germany. However, this is expected to be offset by lower supplies in Poland.

Quarterly finished pig supplies, EU25/27 (% Change on previous year)



Source: EU Pig Forecasting Working Group.

One of the key issues influencing market prices for European pigmeat in 2009 was lower International demand combined with competitive supplies from North America.

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+5%

Some strengthening in import requirements is anticipated in Japan and South Korea during 2010 while US imports seem set to rise by 5%.

50%

The French market continues to take more than 50% of Irish sheepmeat exports with shipments at least maintained in 2009 at 21,000 tonnes.

The prospects for 2010 suggest that North American pigmeat output will decline, although US exports seem set to remain strong. However, some strengthening in import requirements is anticipated in Japan and South Korea while US imports seem set to rise by 5%. These developments should help create a stronger global demand for pigmeat.

In Ireland, the return into production of herds destocked following the product recall in late 2008 is expected to boost pig supplies by 5,000 head per week by March 2010. On an annual basis this is expected to boost finished pig supplies by around 10%. Also, some additional units are expected to be in production in 2010, which would further boost finished pig supplies.

In terms of market demand, increased consumer purchases of bacon and sausages, particularly in the UK is likely to help demand for pigmeat. TNS figures for the UK show that in the four weeks to 4th October, purchases of fresh pork increased by 5% while bacon and sausages grew by 8% and 2% respectively compared to the same period in 2008. This trend is expected to continue over the coming months.

The prospects for EU pig prices remain difficult to assess given the importance of key international markets in setting the tone for the EU market. However, with EU pig supplies expected to be somewhat tighter for the first half of 2010 and pigmeat sales expected to hold up well, it is hoped that there will be a more stable price situation across the EU.

Sheepmeat

A further fall of almost 6% was recorded in Irish sheepmeat production in 2009 as the breeding flock continued the decline of recent years. A sharp slowdown in domestic consumption, which has seen Irish retail sales of lamb drop by 10% in the year to November helped offset some of the drop in disposals. As a result, the volume of Irish sheepmeat exports is estimated to have fallen by less than 3% to 40,500 tonnes. Lamb prices showed a modest lift during the year, rising by just over 1% to reach €3.74/kg.

The industry has continued to expand the proportion of exports that are in cut form with figures from the CSO suggesting that 37% of shipments were in boneless form up to the end of August. Likewise the market distribution of exports continues to diversify with almost a quarter of exports destined for markets other than France and the UK compared to a fifth in 2008. These developments have helped boost overall market returns.

For the year, it is estimated that the value of sheepmeat exports was largely maintained at €166 million.

Sheepmeat Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
167	166	-1

Markets for Irish Sheepmeat

The French market continues to take more than 50% of Irish sheepmeat exports with shipments at least maintained in 2009 at 21,000 tonnes. The competitive nature of UK sheepmeat on the market due to the weakness of sterling created difficulties for Irish exporters for much of the year. In addition, New Zealand continues to grow its presence on the market.

The primary focus of Bord Bia's marketing efforts in 2009 was to maximise returns from the generic Agneau Presto Lamb campaign, by attracting new consumers into the category.

Exports to the UK came under pressure during the year as exporters struggle to remain competitive, particularly as UK demand eased. For the year, it is estimated that exports reached around 10,000 tonnes, consisting of a mix of lamb and mutton.

Shipments to Scandinavia came under pressure as sheepmeat struggled to compete in a slower meat market. However, shipments to markets such as Belgium, the Netherlands and the Mediterranean performed reasonably well. Shipments of light lamb to Mediterranean markets improved towards the end of the year due to a better demand from Portugal and Spain.

In addition, markets such as Tunisia, Algeria and Turkey are emerging while the halal market is growing in importance for both meat and live animals.

New Zealand continues to build its presence of chilled lamb on the EU market with chilled volumes estimated to have increased by a further 3% in 2009 to more than 60,000 tonnes cwe.

Outlook for 2010

Some further decline in EU sheepmeat production is forecast for 2010, reflecting the continuing fall in the breeding flock across major producers. In France, sheepmeat output is expected to drop by around 1% while a fall of 3% is anticipated in the UK. However, UK consumption levels are forecast to ease in line with production leading to stable export volumes of around 90,000 tonnes.

+6%

A further decline in Irish sheep availability is anticipated for 2010 given the drop of 6% recorded in the breeding flock in the CSO June 2009 livestock survey.

Supplies from non-EU suppliers are expected to be marginally higher as New Zealand seems set to fill its quota although Australia continues to focus strongly on the US market.

A further decline in Irish sheep availability is anticipated for 2010 given the drop of 6% recorded in the breeding flock in the CSO June 2009 livestock survey. However, more positive prices at the autumn 2009 breeding sales may suggest some levelling off in breeding numbers. Supplies of early lamb seem set to decline further given the extra time and cost involved. In addition, the stronger prices evident throughout the autumn suggest a limited carryover of lambs is likely from 2009.

For the year, a further decline of around 4-5% is anticipated in Irish sheep supplies. This would bring export volumes below 40,000 tonnes, assuming sales on the domestic market stabilise.

The lower supplies of lamb expected from key players across Europe in 2010 should help provide a reasonable market environment for Irish lamb, provided Sterling doesn't weaken any further against the euro. The relative stability in lamb prices in 2009 despite the difficult economic environment gives some cause for optimism that price levels could improve.

Poultry

The Irish poultry industry continued to face significant challenges in 2009, no more so than the ongoing weakness of Sterling as the UK market accounts for 80% of exports. This in addition to price pressure brought about by lower consumer spending combined to create a difficult market environment, especially for processed poultry manufacturers.

European broiler prices started the year reasonably well before dipping below 2008 levels from February and remained lower for the rest of 2009. For the year, EU broiler prices are estimated to have declined by 6%. Reported broiler prices for Ireland show a more stable price situation. The drop in feed prices also helped producers as the year progressed.

Overall demand across Europe was reasonable during the year, although poultry didn't gain as much as expected from the slowdown in consumer spending. Estimates from the EU Commission suggest that EU-27 consumption fell marginally in 2009 to 11.5 million tonnes or just over 23kg per capita. Overall poultry production was marginally lower across Europe while imports were down by 3% up to the end of August reflecting lower supplies from both Brazil and Thailand. Most of the fall in EU imports occurred in the frozen poultry categories with supplies of prepared and salted products holding up well.

Irish broiler production is estimated to have increased marginally in 2009 while turkey output dropped considerably reflecting considerable pressure in the sector.

+10%

Up to the end of August Irish poultrymeat exports were running more than 10% higher due largely to higher processed poultry exports although both chilled and frozen volumes also recorded some increase.

Up to the end of August Irish poultrymeat exports were running more than 10% higher due largely to higher processed poultry exports although both chilled and frozen volumes also recorded some increase. However, the value of exports, particularly processed poultry declined leaving the export value some 12% lower for the first eight months of the year.

For the year as a whole, the value of Irish poultrymeat exports is estimated to have fallen by 11% to €180m.

Poultrymeat Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
203	180	-11

Exports continue to focus on value added products and chilled cuts. Exports of processed poultry account for around two thirds of export volumes and more than 70% of revenues. The UK continues to be the key market for Irish poultry, accounting for almost 80% of total exports with the trade particularly competitive during 2009 due to the weakness of Sterling.

Outlook for 2010

Little change is anticipated in EU poultry production during 2010 while consumption levels are forecast to rise marginally across a number of markets. However, the competitive nature of the sector seems set to continue with import volumes expected to strengthen.

Irish poultry production is forecast to remain stable for broilers, turkeys and ducks, which will help to maintain export volumes. However, the pressure on processed poultry returns seem set to remain.

The more stable feed price situation combined with reasonable market demand for poultry seem set to create a more stable market environment for poultry producers during 2010.

Live Animals

The value of Irish livestock exports were boosted during 2009 by a strong lift in the level of live cattle and sheep exports while pig shipments to Northern Ireland also increased marginally. Overall, the value of Irish livestock exports increased by 44% in 2009 to an estimated €213m.

Livestock Exports (€m)

	2008 €M	2009(e) €M	2009/2008 % +/-
TOTAL	148	213	+44
Cattle	93	157	+69
Pigs	51	48	-6
Sheep	4	8	+100

Sectoral Review & Outlook

Live cattle exports reached an estimated 290,000 head in 2009, which was almost double the level recorded in 2008.

The value of this trade increased by nearly 70% to €157 million.

Live Cattle Exports

Live cattle exports reached an estimated 290,000 head in 2009, which was almost double the level recorded in 2008. The value of this trade increased by nearly 70% to €157 million. The principal factors driving increased exports during the year were a resurgence in calf exports to the Netherlands, stronger feedlot demand in Spain and Italy and a significant rise in the level of finished cattle exports to Northern Ireland.

Lower supplies on the Dutch market from Germany and France combined with the absence of UK calves due to TB issues created a strong demand for Irish dairy calves on the Dutch market throughout the year. In addition, there was a strong lift in the number of calves going to the Spanish market with calves now accounting for more than half of total shipments to the market. For the year, calf exports are estimated to have more than doubled to around 125,000 head with the Netherlands taking more than half of the total.

Exports of weanlings and store cattle also performed strongly, rising by almost 60% to around 110,000 head. Shipments of weanlings and stores to Italy increased by around 15% to 53,000 head despite a recovery in the volume of French cattle on the market. Following a very difficult year in 2008, renewed confidence in the Spanish feedlot sector helped boost shipments of weanlings from Ireland. For the year shipments more than doubled to reach around 25,000 head.

Exports to the UK increased by around 55,000 head to reach 90,000 head for the year with around 80,000 of the total destined for Northern Ireland. Exports of finished cattle to Northern Ireland more than doubled to reach around 46,000 head while shipments of finished cattle to Great Britain reached 4,000 head.

Other Livestock

Shipments of live pigs to Northern Ireland continued strongly during the year, reaching an estimated 470,000 head, which represents an increase of 3% on 2008 levels.

Live sheep exports witnessed a further strong lift in export levels during the year reaching around 100,000 head, double 2008 levels. While the UK remains the key destination, Continental EU markets such as France and Belgium have also emerged.

Outlook for 2010

The outlook for Irish live cattle exports remains broadly positive for 2010 with the calf trade and weanling/stores trade to the Continent finishing 2009 on a strong note.

The veal market has held up well considering the economic downturn evident across Europe. The continued absence of UK calves and a reduce presence of French and German calves is expected to continue for the early part of 2010, which is the period of peak calf exports from Ireland.

In terms of the trade for weanlings and stores, reduced feed costs are helping profitability levels of feedlot operators in the key markets of Italy and Spain. Trade for Irish cattle to both markets is expected to remain reasonably strong in 2010, although any increase in supplies of French cattle could impact on trade.

In terms of the UK, and particularly Northern Ireland, an ongoing strong trade for both finished cattle and weanling/stores is anticipated.

Live exports of finished pigs to Northern Ireland also seem set to continue strongly, particularly given the rise in availability expected.

The rise in live sheep exports over the last two years seems set to be maintained in 2010 with numbers likely to be broadly similar to 2009 levels.

Dairy Products & Ingredients

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

Following a slowdown in the global dairy market from the middle of 2008, the rate of decline in product prices accelerated in the early part of 2009 leaving world prices for many products up to 60% below their peak. The pressure on prices resulted in the recommencement of intervention buying across the EU by late spring with a total of 83,000 tonnes of butter and almost 260,000 tonnes of SMP bought into intervention storage. Ireland placed 15,000 tonnes of butter and 37,000 of SMP into intervention.

There was significant pressure on prices of all products, which adversely affected market returns, although the availability of export refunds helped to partly offset some of the decline.

However, global prices started to recover from August onwards as indicated by the fact that the Fonterra auction price for WMP has increased for five consecutive months leaving the average price in the December auction almost double the July 2009 level at US\$ 3,560 per tonne. However, prices in the January auction fell by 7% to US\$3,309.

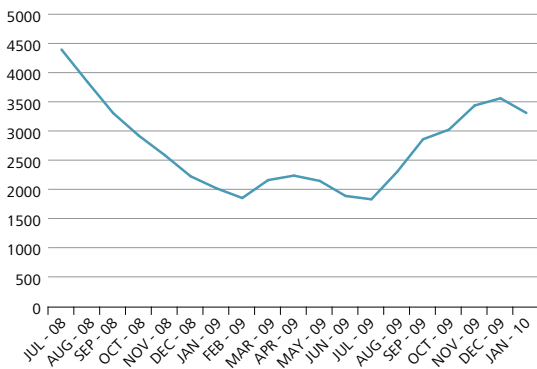
60%

Following a slowdown in the global dairy market from the middle of 2008, the rate of decline in product prices accelerated in the early part of 2009 leaving world prices for many products up to 60% below their peak.

+19%

Irish SMP production was 19% higher up to the end of October. Infant formula output remained strong for much of the year, helped by a good demand from Asia for much of the year.

**Fonterra average auction price,
Whole Milk Powder (US\$/tonne)**



Source: Fonterra.

Despite lower prices, milk deliveries across the EU were largely stable up to the end of September with increases in countries such as Germany helping to offset declines elsewhere. EU production of cheese was marginally lower over the period while butter output dropped by almost 2%. On the other hand SMP output was 13% higher.

Milk output in Ireland declined as the year progressed following a reasonably strong start to the year as poor grazing conditions and weaker prices impacted on production. For the year as a whole, milk output is expected to decline by around 2% on 2008 levels.

In terms of production, there was a shift towards intervention products during the spring with butter and SMP output increasing. However, figures from the CSO suggest that up to the end of October butter production was down by 4% due to a strong fall away in output from late summer. SMP production was 19% higher over the period. Infant formula output remained strong for much of the year, helped by a good demand from Asia for much of the year.

Overall, it is estimated that the value of exports for the year eased by 13% to stand at €2 billion. However, an additional €90- €95 million worth of SMP and butter was sold into intervention and will be available to export from 2010.

Dairy & Ingredient Exports (€m)

2008	2009(e)*	2009/2008
€M	€M	% +/-
2,290	2,000	-13

* includes export refunds.

In line with overall market developments, Irish dairy exports during the first part of 2009 were faced with significant difficulties in relation to market returns across most major product categories. From late summer there was an improvement in market demand with trade over the final months of 2009 firming as volumes tightened and prices recovered.

The strongest performing categories during the year were infant formula and to a lesser extent, cheese and chocolate crumb. The volume of infant formula exported showed some decline although unit prices performed strongly for much of the year helped by a strong demand from Asia.

The volume of cheese exports performed well although average prices declined. The UK remains the key destination, accounting for two thirds of exports while exports to other EU destinations and outside of Europe continue to make progress. The UK cheese market has been reasonably resilient to the economic downturn with TNS data showing a rise of around 4% in the volume of cheese sold at retail with cheddar sales some 5% ahead of year earlier while average prices have held up well.

Butter exports eased during 2009 in response to a significant volume being placed into intervention and lower production as the year progressed. For the year, it is estimated that the value of butter exports fell by around 20%.

Outlook for 2010

A recent Rabobank report looking at the likely future developments in the global dairy market suggested that the fundamentals of the dairy sector will continue to gradually improve during 2010. They expect to see a modest improvement in global demand, a small decline in exportable supplies and a gradual release of intervention stocks. All these factors are expected by Rabobank to help sustain the price gains made global dairy prices during the latter months of 2009.

The report does however highlight the fact that global stocks of milk powder remain high and they suggest that an orderly disposal of these products will have a considerable bearing on market prices over the next few years.

Rabobank suggest that the medium to long-term outlook remains robust for the dairy sector helped by income growth in many parts of the world, urbanisation and favourable demographic and cultural trends that will continue to boost global dairy demand. They suggest that the ability of the worlds lower cost exporters to increase supply to meet this growing demand still looks constrained, which means that these markets are likely to look to the EU and the United States to meet their requirements.

Sectoral Review & Outlook

+5%

The UK cheese market has been reasonably resilient to the economic downturn with TNS data showing a rise of around 4% in the volume of cheese sold at retail.

The Irish dairy sector continues to develop a wider portfolio of products and markets, which should provide the industry with a solid platform from which to enhance the value of Irish dairy exports.

The prospects for Irish dairy exports in 2010 are generally more positive given the recovery in product prices over the final months of 2009 in response to recovering demand and tighter supplies on the market. It is hoped that this improvement can be maintained during 2010 and further boost export revenues.

Irish milk output is expected to recover from the decline recorded during 2009, which will boost overall availability with the strongest increases in production likely in cheese and whole milk powder.

The Irish dairy sector continues to develop a wider portfolio of products and markets, which should provide the industry with a solid platform from which to enhance the value of Irish dairy exports over the medium term.

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.

Exports of the prepared foods faced a very challenging market environment during 2009 as considerable pressure on prices due to increased promotional requirements, the weakness of sterling, slower consumer spending and increasing competition from other suppliers impacted on trade.

While product development continues to play a strong role in guiding Irish prepared foods exports, reduced consumer spending and their increasing search for value means that product developments are having to focus on offering the consumer more for less.

Given the backdrop, prepared food exports, particularly those from indigenous manufacturers, performed reasonably well. Overall, export values of products covered under the prepared foods category fell by an estimated 15% to €1.28 billion.

However, when "miscellaneous" prepared foods are removed, exports were just 9% lower than 2008 levels. Exports values were helped by a relatively positive performance by both chocolate and sugar confectionery and bakery, which helped to partly offset a very challenging environment for ready meals and pizza manufacturers.

Prepared Food Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
1,499	1,282	-15

The UK market remains critical for most manufacturers accounting for more than 55% of exports when 'other' prepared foods are excluded. However, the ongoing volatility in Sterling has led many companies to explore opportunities in Continental Europe. During 2009 considerable investments have been made in exploring potential market opportunities on the Continent.

In France for example new business was delivered for frozen burgers, chilled soups and cereal snacks with several French multiples. Similarly, new business has been secured by a number of manufacturers in Scandinavia, the Netherlands and Germany. Further growth is expected on the Continent in 2010 as it is hoped that much of the work undertaken in 2009 will be translated into new business.

One of the major exports to the UK is ready meals. The split in the ready meals market in value terms is 27% frozen and 73% for chilled. Frozen ready meals have benefited from the general renaissance in the frozen sector. In part this is due to cost-conscious shoppers down trading but also a concerted effort by manufacturers to woo consumers back by marketing frozen brands as being equal in quality and health benefits to chilled and strong product innovation in the form of 'steam cooked' meals.

Irish exports of ready meals to the UK faced significant pressure during 2009. Similarly the pizza market was very competitive due to added competition from other manufacturers.

Exports of chocolate confectionery were only marginally lower in 2009 as consumer looked to products such as chocolate to provide a treat. The strongest performing area was that of luxury chocolates with increased market diversification evident by a number of manufacturers. The last year has seen café and store openings in both the United States and the UK by Irish manufacturers. Other markets to perform strongly include Australia and the Middle East.

Sugar confectionery has proven to be more recession proof than most products with exports holding up well to the UK while new business was also developed across Europe and the Middle East.

Bakery products put in a strong export performance helped by increased capacity in Ireland with exports for the year jumping by more than 20%. Key export markets include the UK, which takes 80% of total exports followed by the United States and Denmark. Among the product areas that recorded growth during the year were par-baked breads and muffins.

Outlook for 2010

The market environment for Irish prepared food exports in 2010 is expected to remain difficult, particularly if Sterling remains weak over the coming months. Manufacturers are seeking to adapt products to the changed consumer shopping requirements while also seeking to diversify to a broader range of markets.

55%

The UK market remains critical for most prepared food manufacturers accounting for more than 55% of exports when 'other' prepared foods are excluded.

The strongest performing category continued to be whiskey, which seems to have dealt with the economic crisis better than most.

Some manufacturers have reported an increase in input costs over recent months. If this continues during 2010 it is likely to impact on margins as is any increase in the level of promotional support required.

Product innovation in relation to health, convenience and value for money as well as targeting products for particular markets will continue to offer the best potential for growth. However, the sector looks set to remain very competitive throughout 2010.

Beverages

Exports of beverages remained under pressure during 2009 as the impact of slower consumer spending, a fall off in the Travel Retail sector and destocking impacted on export revenues. All markets have also witnessed a noticeable shift toward value propositions.

As with other sectors, beverages had to deal with the weakness of Sterling while also being proportionately more exposed to the volatility in the US dollar. Overall, exports are estimated to have declined by 13 per cent to almost €1.07 billion, a level last seen in 2005.

The strongest performing category continued to be whiskey, which seems to have dealt with the economic crisis better than most. The economic slowdown negatively impacted on the value of cream liqueur exports. Beer and cider exports slowed as the on-trade felt the effects of slower consumer spending and destocking in many markets during the earlier part of the year.

In terms of non-alcoholic beverages exports, trade was affected by the recession, particularly for products such as juices and smoothies while the water category became even more price competitive.

Beverage Exports (€m)

2008	2009(e)	2009/2008
€M	€M	% +/-
1,229	1,071	-13

Against the deepening financial crisis, whiskey sales held up reasonably well in 2009 with overall exports estimated to have been stable. Despite being hit by the fall away in Travel Retail and destocking in the trade, a strong export performance to the US market which saw double digit growth in most states, helped deliver a good performance given the economic situation. Development markets such as South Africa and Russia also performed well.

The global market for cream liqueurs has seen a decline in value as consumers look to value brands while significant destocking was evident in the supply chain. However, some smaller exporters boosted volumes by targeting the value end of the market. The range of markets for liqueurs continues to develop.

In 2009 exports of Irish cider faced a challenging environment due to currency movements, competition from lower priced products and declining British tourist numbers in key continental markets. Despite this, positive performances were recorded in North America, France, Australia, Scandinavia and Asia.

In terms of non-alcoholic beverages, exports of mineral water remained under strong pressure during 2009 with producers now looking at more innovative products that incorporate robust flavours and functionality. The bulk of non-alcoholic beverages continue to go to the UK.

Sales of juices and smoothies have been badly affected by the recession with smoothies taking the biggest hit in terms of both volume and value. Securing a more competitive price point is the new challenge facing producers. Exports of teas/coffees had a difficult year with revenues around 40% lower with the UK market accounting for around 85% of exports.

Outlook for 2010

The prospects for Irish beverage exports in 2010 depend to a large extent on consumer sentiment, developments in key euro exchange rates and the level of demand from key sectors such as Travel Retail.

Much of the growth in Irish beverage exports over recent years has been built on a strategy of premiumisation and new market development. 2009 saw a sharp shift toward more value offerings, which presents a new challenge for Irish manufacturers. Many are reacting by developing brand extensions targeted at this market segment.

Some exporters are reporting tentative signs of recovery in a number of key markets towards the end of 2009. However, it is still too early to tell if this momentum can be maintained in 2010. All manufacturers seem set to further develop their market portfolio in order to capitalise on any opportunities that exist. Further growth is expected in the whiskey category, particularly to the United States and other emerging markets.

In relation to non-alcoholic beverages, the best export potential appears in products that offer increased functionality while also delivering a competitive price point.

Seafood

The export market for Irish seafood was challenging in 2009 as weaker Sterling led to reduced exports to the UK while also resulting in strong competition from UK suppliers in Eurozone markets. Poorer weather in the final quarter of 2009 affected supplies but also helped unit prices, especially for prawns and whitefish. Overall for the year, the value of seafood exports are estimated to have declined by 9% to €303 million.

Sectoral Review & Outlook

Some beverage exporters are reporting tentative signs of recovery in a number of key markets towards the end of 2009. However, it is still too early to tell if this momentum can be maintained in 2010. All manufacturers seem set to further develop their market portfolio in order to capitalise on any opportunities that exist.

Seafood Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
335	303	-9

The unit value of shipments to the UK held up better than volumes due to an increase in shipments in high value products such as crab meat with sales rising by 5% in value terms during the first half of 2009.

The value of exports to Spain came under strong pressure due to competitive white fish and prawn imports from the UK and Iceland.

Increased sales of mackerel were recorded to Nigeria, Germany, Egypt, Denmark and Poland, reflecting the higher mackerel quota available.

Exports of prawns were negatively affected by competition from Scotland and imports from outside the EU.

Outlook for 2010

The prospects for exports in 2010 rely to a large extent on the relative competition from the UK and non-EU suppliers combined with the final agreement in relation to quota's agreed by the EU Commission. However, it is hoped that the improved demand reported towards the end of 2009 will continue during 2010.

Irish organic salmon production is expected to rise in 2010, which coupled with a very tight supply situation in Chile should help maintain unit prices. The mussel market may remain difficult due to ongoing strong competition in key markets.

Edible Horticulture & Cereals

The value of edible horticulture and cereal exports fell by 18% in 2009 to an estimated €218m. Mushroom exports showed a marginal decrease in both volume and value as trade was increasingly affected as the year progressed by the weakness of Sterling. However, most of the decline in this category was evident in cereal exports, which are estimated to have dropped by some 60% or €40 million in response to lower prices and reduced volumes.

Edible Horticulture & Cereals Exports (€m)

2008 €M	2009(e) €M	2009/2008 % +/-
265	218	-18

Extra supply of mushrooms on the EU market also caused problems during the year. In 2008 the Dutch mushroom canning industry faced major oversupply problems, which have still not been resolved. As a result of the downsizing of the canning industry, mushroom compost is more readily available to fresh mushroom producers, and this extra supply is impacting negatively on returns within the marketplace.

The UK mushroom market is extremely important to Irish producers who supply more than a quarter of the total market. The UK retail market was worth £339m in 2009, with sales value up 8% despite a marginal drop in volumes. Within the market, white closed cup mushrooms have retained their share of just over 50% of the market while loose and value sales have grown in response to more cost conscious shoppers.

Outlook for 2010

The outlook for mushroom exports looks firm once Sterling stabilises and the compost supply situation normalises. Substantial recent investments made by the Irish industry in compost production and mushroom production facilities would indicate that the industry shares this confidence. Other factors which may affect export volumes are Ireland's high input costs particularly labour and energy.

Bord Bia and the mushroom industry in the UK and Ireland will be funding a major mushroom promotion in the UK during 2010. This aims to raise awareness of mushrooms and boost demand. The campaign is to have a strong digital theme to help raise consumption of mushrooms amongst younger consumers.

The prospects for cereal exports are for a more stable situation following the sharp volatility evident in the market over recent years.

Amenity Horticulture Exports

Amenity horticulture exports include modest quantities of garden plants, Christmas trees, cut foliage and daffodil bulbs/cut flowers. While volumes exported in 2009 were similar to '08 levels, the value of exports came under pressure from the weakness of Sterling. Potential for increases in exports to non-sterling markets exists when enlarged supplies of cut foliage, Christmas trees and micro-propagated plants come on stream over the next 5 years.

Much of the recent expansion in the hardy nursery stock/garden plant sector was linked to the boom in the Irish construction industry. Consequently, there has been a sharp contraction in demand for plants in Ireland and sales to export markets have increased in importance. Despite the difficulties presented by the continued weakness of sterling, export development activity will increase in 2010 and a small increase in total revenues is expected.



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