INDUSTRY FINDINGS

Bord Bia's Brexit Barometer

June 2019

Bord Bia
Irish Food Board

GETTING IRELAND BREXIT READY

Rialtas na hÉireann
Government of Ireland


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XIT
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FOREWORD

The complex and sometimes fraught politics that have characterised Brexit over the course of 2018 and early 2019 need no introduction here, but it is useful to set them against some of the more positive economic data that has emerged over the same period, particularly as it relates to Ireland. In the three years since the 2016 Brexit Referendum result, the UK has cemented its position as the single most important market for the Irish food and drink industry. This culminated in 2018, when food and drink exports worth €4.5 billion were destined for our nearest neighbour, or 37% of all Irish food and drink exports. It is an impressive performance not simply in the context of deep political uncertainty, but because of the very practical trading issues posed by the decline of sterling over this time, as well as the general weakening of business sentiment in the UK.

The work that Irish food and drink producers have been doing to develop their preparedness for Brexit since 2016 is also well established, and the Brexit Barometer provides a detailed yearly analysis of the state of play within our industry. The Barometer facilitates this by measuring activities across the six key indices that represent the major risk areas for Irish businesses: customer relationships; supply chain; customs and controls; financial resilience; market diversification; and emerging risks. This year sees the third annual publication of the Brexit Barometer and the 2019 study, undertaken in partnership with Aon, has involved the participation of 130 Irish food, drink and horticulture companies, representing the largest export exposure to date, with data gathered from 1st April to 7th May 2019.

Assessing a period just after the initial Brexit deadline of 29th March and during the second deadline of 12th April, this year's Brexit Barometer provides a fascinating insight into an industry accelerating it preparations, yet doing so in an increasingly uncertain environment. On the key measure of Brexit readiness, the Barometer found it to be a year of emphatic progress. In all, no less than 93% of respondents said they had made some progress in relation to their Brexit preparedness, with a full 65% saying they had made clear progress on the matter. In the 2018 Brexit Barometer, that figure stood at just 20%.

The research also points to larger companies leading the way in this process. In all, 91% of large companies said they had made clear progress over the year, a figure that contrasts to just 43% in the 2018 Barometer. However, it is also clear that companies of all sizes are responding to the challenge. A full 72% have appointed an in-house team or champion to lead this process.

Driving what may be seen as a transformation in levels of preparedness in this last year were two interlinked factors: firstly, the expectation for much of 2018 that a negotiated agreement was finally in sight and, secondly, the return to prominence of a 'cliff edge' no deal Brexit scenario when it became clear that this agreement would not be concluded. It was an experience that left Irish exporters in no doubt that their future trading relationship with UK customers needed to be addressed sooner rather than later.

The political drama around Brexit must also be seen as contributing to the key finding that some 68% of respondents find themselves uncertain as to the impact of Brexit on their business, with a further 22% pessimistic about its consequences. In addition, while 57% of companies could point to growth in the UK market over the past year, many believe this to be based on a 'business as usual' approach by UK customers, who have not yet engaged with the challenge of sourcing in a post-Brexit environment.

Against this, what is also strikingly clear from the 2019 data is that resilience and determination are very much at the core of the Irish industry response. It is clear that more and more Irish companies are actively looking beyond familiar marketplaces and this process is set to gain momentum as planning around Brexit translates into concrete actions.

It has been said that there are no net upsides to Brexit for Ireland. The Government of Ireland's Getting Ireland Brexit Ready campaign clearly outlines that this is a challenging political and economic scenario that undermines a close tie with our nearest neighbour and largest trading partner.

Yet there is much to be encouraged by in the response of Irish companies to this challenge over the last year. The 2019 Brexit Barometer shows an industry that is attuned to the issues that lie ahead and both realistic and resolute in its response to them.

This year's Brexit Barometer offers a fascinating insight into Ireland's largest indigenous industry as it prepares for one of its most significant challenges ever and would like to sincerely thank all those who have participated and made it possible. We look forward to working with you, and all our partners and clients, as we continue to develop the momentum of preparedness and to ensure a sustainable path of growth for Irish food, drink and horticulture exports in both established and emerging markets.



Tara McCarthy

CEO, Bord Bia

UK MARKET CHALLENGES

THE RESULTS OF BORD BIA'S 2019 BREXIT BAROMETER HIGHLIGHT THAT THE UK REMAINS THE MOST IMPORTANT MARKET FOR THE IRISH FOOD AND DRINK INDUSTRY. OVERALL EXPORTS WERE WORTH €12.1 BILLION IN 2018, OF WHICH €4.5 BILLION WERE DESTINED FOR THE UK. OVERALL, THE UK ACCOUNTED FOR 37% OF ALL IRISH FOOD AND DRINK EXPORTS IN 2018.

UK EXPORTS

The value of Irish food and drink exports to the UK in the first quarter of 2019 was €1.14bn, 6% higher than the same period in 2018. Some of the largest growth has been seen in the dairy sector; the value of dairy exported to the UK in Q1 2019 was 16% higher than the same period in 2018.

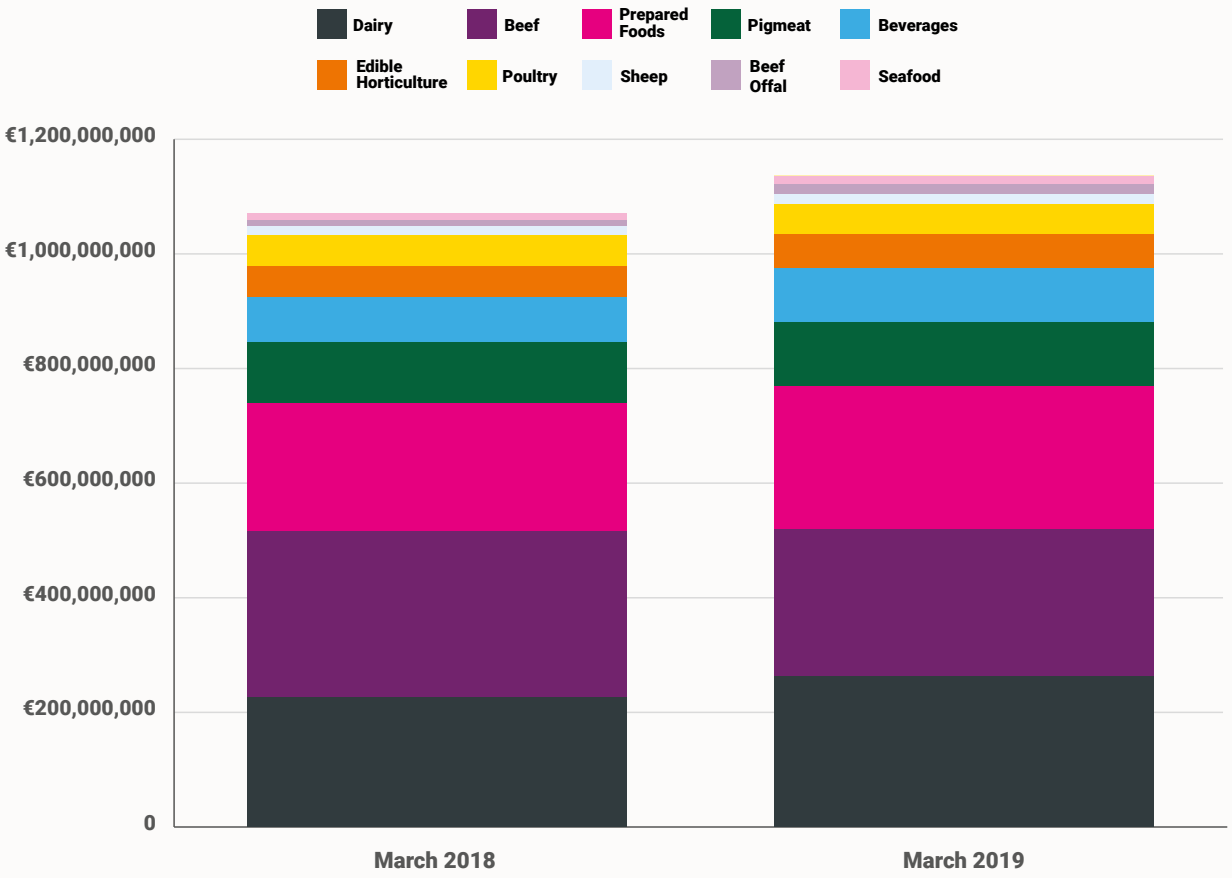
Evidence of stockholding to manage a potential Hard Brexit scenario can be seen in the export figures. 37,000 tonnes of cheese was exported to Britain this year - a 39% increase on Q1 2018's volumes.

Other sources of significant export growth include the beverage sector - up 19% Year on Year (YoY) to €94m in Q1 2019. This was supported by exceptional growth in the cider and beer subcategories.

The Prepared Consumer Foods (PCF) category has been performing well through the period and for the YTD the export figures of pizzas, quiches and other prepared meals increased 12% on 2018 to be worth €249m in 1Q 2019.

Beef exports have been challenged and are down 11% on 2018 for the same period. Pigmeat, poultry and sheepmeat have all had a very strong start to the year (+5%, +6%, +26% respectively). The cumulative value for the pigmeat, poultry and sheepmeat categories is only 70% of the value of the beef category however, leading to an overall lower performance.

Value of Food and Drink Exports to the UK in first quarter of the year



Source: CSO, 2019

POLITICAL DEVELOPMENTS

Following months of negotiations between the UK and EU, the Withdrawal Agreement and Political Declaration on the future relationship between the UK and EU was agreed by the EU's 27 leaders on November 25 2018[1]. Theresa May was then tasked with getting the Agreement through the House of Commons.

The agreement was defeated three times in the UK parliament, which resulted in the European Council granting the UK an extension in April until October 31 2019. If the UK manages to pass the Withdrawal Bill through parliament before then, it will depart the EU before the end of October.

The extension granted in April meant that the UK was obliged to take part in the European Parliament elections on May 23rd.

The results of the elections exposed the public's frustration with the two main parties and highlighted that Brexit remains a highly divisive issue for the electorate in the UK. Nigel Farage's Brexit party, created only a few months prior to the European Parliament elections, was the clear winner, capturing 30.75% of the vote. The Liberal Democrats won 19.76% of the vote, while Labour came in third place with 13.72%.

The Conservatives scored their worst results in a national election since the party was founded in 1834, winning only 8.85% of the vote[2].

On May 24 2019, Theresa May announced that she would resign as leader of the Conservative Party on Friday June 7, triggering a leadership contest[3]. The winner of this contest is to be announced in the week commencing July 22.

This leadership contest, coupled with the fact that following on from the European Parliament elections, new presidents of the European Parliament, Commission and Council have all to be elected, will have an impact on the trajectory of the Brexit process in the coming months.

MACRO ECONOMY

The UK's economic growth was sluggish in 2018 in comparison to global growth levels. The UK's GDP growth was 1.4% in 2018, against global growth of 3.2% and the G7 countries' growth of 2%. The results for the UK's economy in the first quarter of 2019 were relatively positive, with growth of 0.5%. However, this was driven by unprecedented stockpiling by manufacturers preparing for the possibility of a no-deal Brexit at the end of March, the original Brexit deadline. Factory output was up 2.2% in the first quarter, which was the strongest quarterly performance for manufacturers since 1988[5]. GDP growth for January 2019 was 0.5%, while for March this dropped to -0.1%, supporting the hypothesis that the growth was boosted by stockpiling, rather than a sign of the resilience of the UK's economy. GDP data is likely to be volatile in coming months, adding to the uncertainty of the current trading environment.

In terms of currency, following on from the news the Brexit cross-party talks had collapsed between Labour and the Government, the pound fell to a four-month low against the dollar in May, after a period of relative stability since January 2019. Speculation over who will replace Theresa May as Prime Minister, and what type of Brexit policy they will pursue, have resulted in volatility in the value of the pound in recent weeks.

ONS data shows that in April 2019, the 12-month inflation rate was 2.1%, up from 1.9% in March[6]. According to Kantar, UK grocery inflation was 1.4% in April 2019[7], while Foodservice Price inflation for March 2019 was 7.4%, and increase of 5.5% from the same month of the previous year[8].

Despite continued wage growth, stable inflation and a robust labour market, consumer confidence in the UK remains low, at -10 points in May 2019, although this was up from -13, where it had been since January 2019[9]. Consumer confidence has been in negative territory since April 2016, with Brexit uncertainty cited as main factor behind this. Consumer spending however, improved in the three months to April 2019. According the British Retail Consortium, this was due to higher earnings, warmer weather and the Brexit deadline extension. The growth of 4.1% was driven by food purchases. For the same period, spending in pubs and restaurants increased by 2.5% in April 2019, according to data from Barclaycard[10].

[1]November 25 2018 https://www.consilium.europa.eu/en/meetings/european-council/2018/11/25/

[2]2019 European Election Results, United Kingdom, https://www.election-results.eu/united-kingdom/

[3]Gov.UK, Prime Minister's statement in Downing Street: 24 May 2019, https://www.gov.uk/government/speeches/prime-ministers-statement-in-downing-street-24-may-2019

[4]Gov.UK, Memorandum of Understanding between the UK and Ireland on the CTA, https://www.gov.uk/government/publications/memorandum-of-understanding-between-the-uk-and-ireland-on-the-cta, 8 May 2019

[5]May 10 2019 https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2019

[6]May 2019 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2019

[7]April 2019 https://uk.kantar.com/consumer/shoppers/2019/late-easter-sunshine-heats-up-grocery-market/

[8]April 2019, CPI Prestige Foodservice Price Index, Sub-Category Report March 2019

[9]Capital Economics, UK Consumer Data Response: GfK Consumer Confidence May, 31 May 2019

[10]May 8 2019 https://www.ft.com/content/7d449d48-70c0-11e9-bf5c-6eeb837566c5

POTENTIAL IMPACT

The uncertainty of the current situation in the UK will continue to exert pressure on Irish food and drink producers who must continue to prepare for all eventualities.

The possibility of the UK leaving the EU without a deal has re-emerged as a threat to Irish food and drink manufacturers. Companies should continue to take steps to ensure they are prepared for all Brexit eventualities, by examining the six key risk areas that the Brexit Barometer has identified.

The UK will remain an important export market for the Irish agri-food industry. The Brexit Barometer demonstrates that Irish food and drink companies have taken significant steps to ensure that they are prepared for Brexit and that they will be able to continue exporting to the UK.

This report also highlights that there has been active expansion and diversification into new markets. Irish food and drink companies will continue to leverage their world-class brands and food safety standards to overcome the current and forthcoming challenges.

BAROMETER OBJECTIVES

BORD BIA'S 2019 BREXIT BAROMETER HAS PLAYED A VITAL ROLE IN ENABLING FOOD AND DRINKS MANUFACTURERS TO IDENTIFY, ASSESS, QUANTIFY AND WHERE POSSIBLE MITIGATE THE KEY RISKS THEY FACE ARISING FROM BREXIT.

The timing and the terms of the UK's scheduled departure from the EU have been in flux, with current plans for a flexible leaving date up until October 31 2019, companies now more than ever need to ensure that they have plans in place to mitigate against any Brexit impacts on their business. This additional time to prepare should not be wasted.

In February 2019, Bord Bia commissioned Aon to support the development of a new Brexit Barometer. In conjunction with Aon, Bord Bia drew up a series of questions across six key Brexit risk areas. An online risk diagnostic tool was developed, and a series of one-to-one client meetings were conducted with a view to understanding the context of companies' challenges and preparedness.

130 companies completed the Brexit Barometer and 59 face-to-face meetings were held.

The objective of this risk diagnostic exercise was to assess the exposure of Bord Bia's clients to Brexit across six key risk areas. These were examined from the perspective of company awareness, the potential impact of Brexit on their business, their level of preparedness and current activation of their plans in relation to Brexit risk.

KEY BREXIT RISK AREAS

01

CUSTOMER RELATIONSHIPS

+ Protect and grow the UK market
+ Customer engagement
+ Specific marketing strategy

02

SUPPLY CHAIN

+ Confidence in supply chain partners
+ Stock holding outside Ireland
+ Testing supply chain resilience
+ Impact of landbridge

03

CUSTOMS & CONTROLS

+ Understanding customs processes
+ Cost of customs compliance
+ Controls on products of animal & plant origin

04

FINANCIAL RESILIENCE

+ Hedging strategy
+ Impact of Brexit on investment plans & profitability

05

MARKET DIVERSIFICATION

+ Tailored marketing strategy for each new market

06

EMERGING RISKS

+ Future proofing for new and emerging risks

Between the April 1 and May 7, 2019, 130 Irish food, drink and horticulture companies undertook the Brexit Barometer assessment. Of those 130 companies, 107 (82%) currently export to the UK. Of the 23 companies who do not currently export to the UK, the majority are small businesses, who might be considering exporting to the UK at some future point, depending on the outcome of Brexit. Others in this category may be those who export to or import from other countries but currently depend on the UK landbridge to succeed at this.

Responses were received from a cross functional selection of senior management.

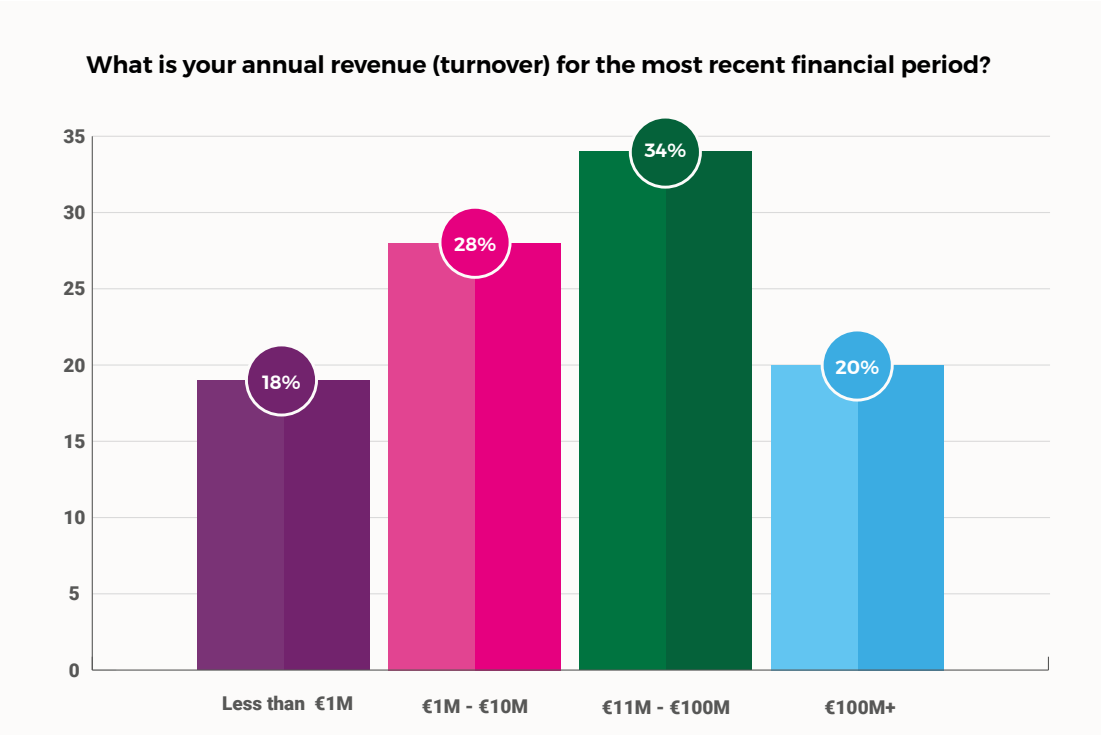
The outputs from Brexit Barometer 2019 are designed to:

+ Continue to raise awareness of key Brexit issues for Irish food and drinks manufacturers.
+ Capture the level of risk exposure
+ Inform manufacturers of key risks facing their business specifically, as well as the sector more broadly
+ Highlight areas for risk management
+ Inform Bord Bia on how best to support the sector through tailoring appropriate support programmes

RESPONDENT PROFILE

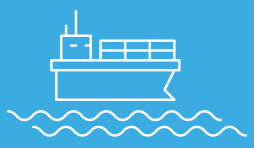
Of the 107 companies exporting to the UK, there was a strong cross-section of respondents, by company size (turnover), industry sector and level of dependency on the UK market.

TURNOVER



There is strong representation from businesses of all sizes in the report, with turnover ranging from less than €1m to some of Ireland's largest global food and drink businesses.

SECTOR & EXPORT COVERAGE

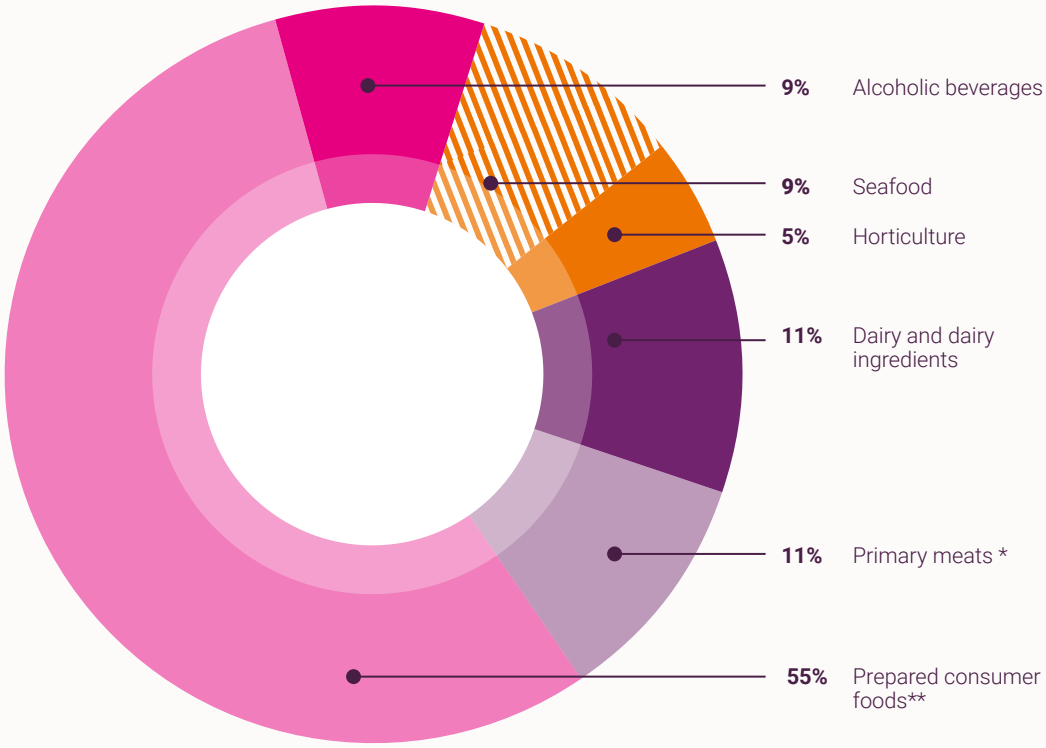


72%

RESPONDENTS ACCOUNT FOR AN ESTIMATED 72% OF EXPORTS TO THE UK.

Over half of the respondents (55%) are from the Prepared Consumer Foods sector, reflecting the wide range of companies that account for this portion of Irish food and drinks exports to the UK. The balance of the responses is quite evenly split among the remaining sectors. Dairy and Dairy Ingredients account for 11% for the respondents, Primary Meats for 10%, Alcoholic Beverages for 9% and Horticulture makes up the final 5% of respondents.

Please select the main industry sector that applies to your organisation:



The table below illustrates the number of respondents who currently export to the UK and the corresponding estimate of their exports as a percentage of each sector's total exports to the UK, which in 2018 were €4.5b[11].

Sector	No of companies	% of total UK exports (estimate)
Dairy & dairy ingredients	12	97%
Primary meats	18	67%
Prepared consumer foods	53	74%
Alcoholic beverages	10	12%
Seafood	10	46%
Horticulture*	5	73%
Total	**107**	**72%**

[11]Bord Bia Performance & Prospects 2018

[12]The data quoted in this report is based on Bord Bia's Brexit Barometer respondents and not on CSO figures or normally quoted Bord Bia statistics

* Cereals are excluded

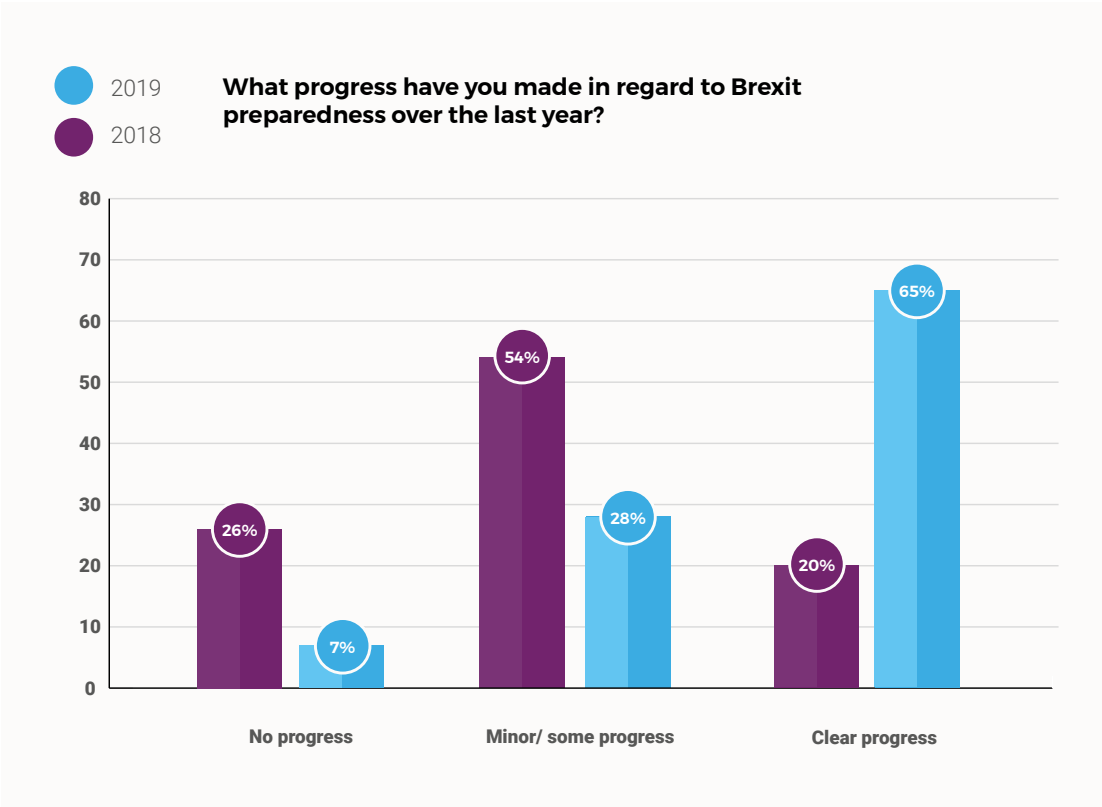
BREXIT READINESS

PROGRESS SINCE MARCH 2017

Almost three years have passed since the Brexit vote. The ever-changing political negotiations and various potential Brexit scenarios are driving high levels of uncertainty and volatility for Irish food and drink companies. However, a combination of our risk diagnostic analysis and in person company interviews indicates that Irish food and drinks manufacturers are proactively identifying, assessing, quantifying, and where possible, mitigating Brexit related risks. They are actively navigating challenges (and in some cases opportunities) such as customer relationships, customs and controls, supply chain, market diversification, financial resilience and emerging risks.

In a positive trend, over the last 12 months, 93% of companies have made progress in relation to Brexit preparedness:

+ **65% have made clear progress, defined as having taken actions (a seismic leap from 20% in March 2018)**
+ **28% have made some progress, defined as making plans. The number of companies making no progress is 8%, compared with 26% in March 2018, which is a marked improvement**

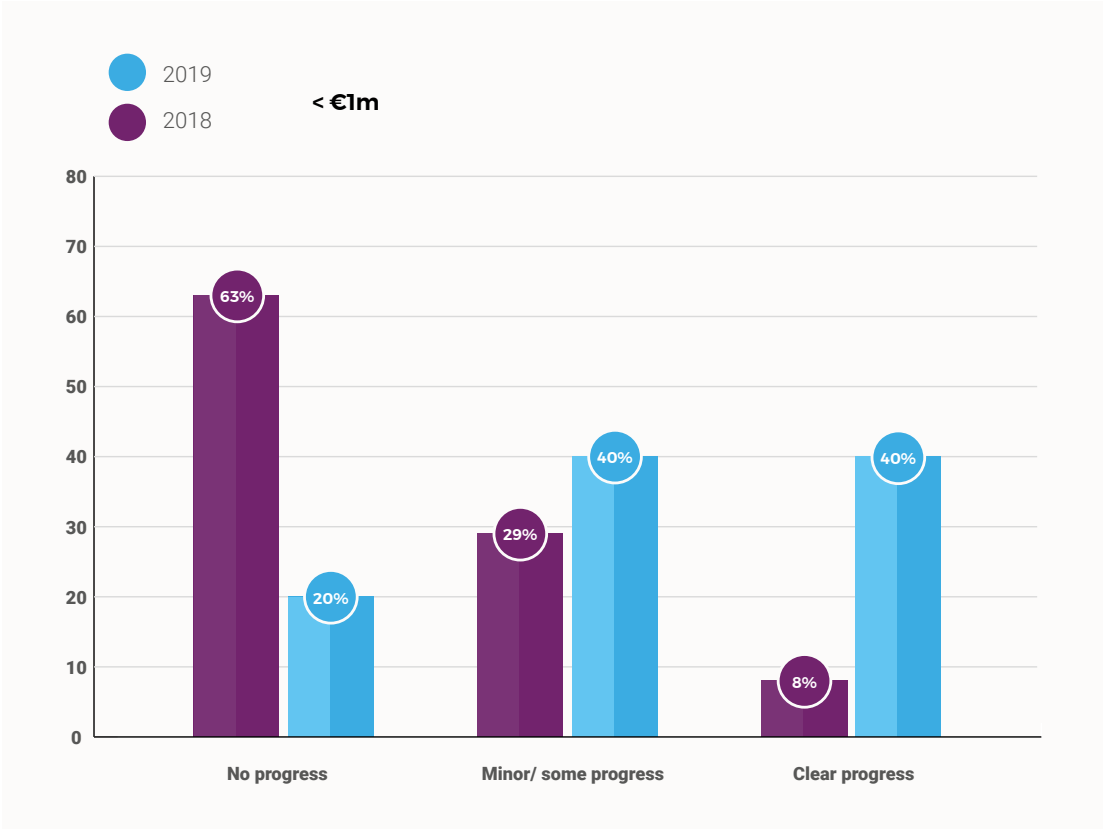


When analysed by company size:

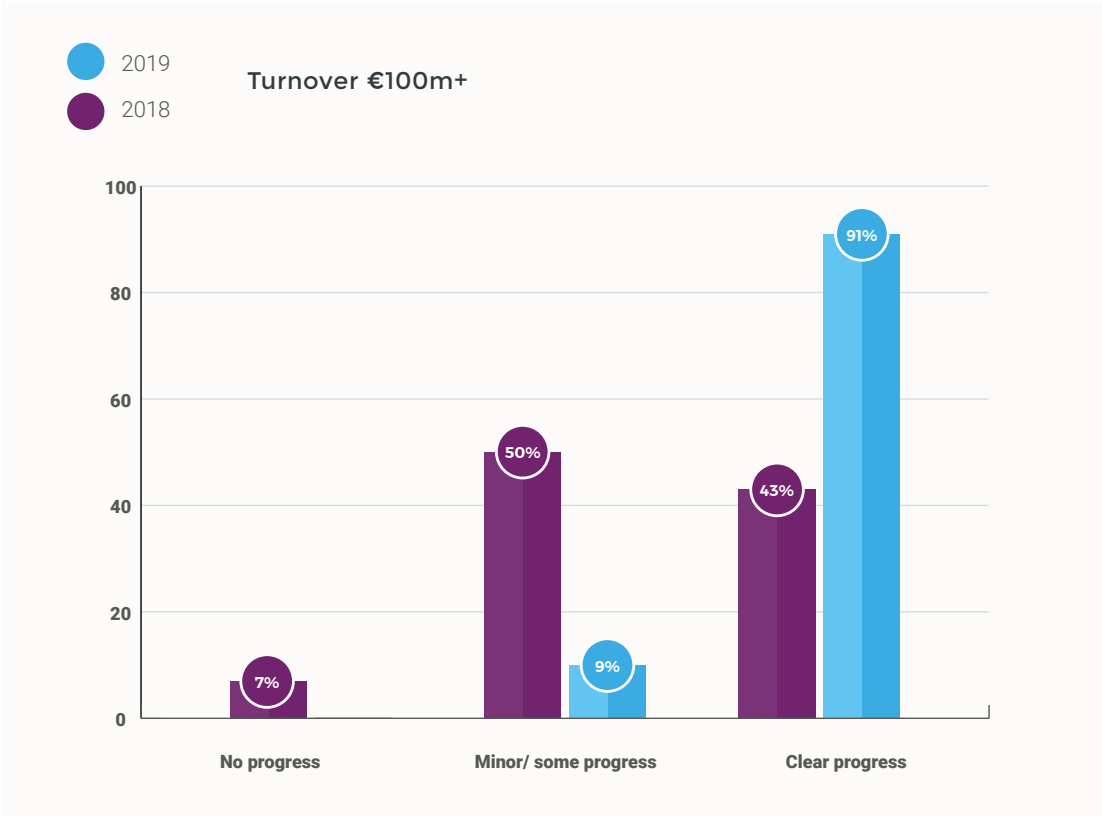
Large companies are taking Brexit preparations very seriously, with 91% making clear progress, compared with 43% in 2018.

Companies in the €11m - €100m and the €1m - €10m bracket have clearly shifted from planning into taking actions, with clear progress of 64% and 63 % respectively. This has increased from 21% and 33% respectively in 2018.

For small companies with a turnover of less than <€1m, there has been a positive trend with four in ten taking actions to prepare, versus just 8% in 2018. However, two in ten companies of this size have still made no progress in regards to Brexit planning. This reflects the limited time and financial resources of smaller companies and highlights the support needed from Bord Bia for firms of this profile.





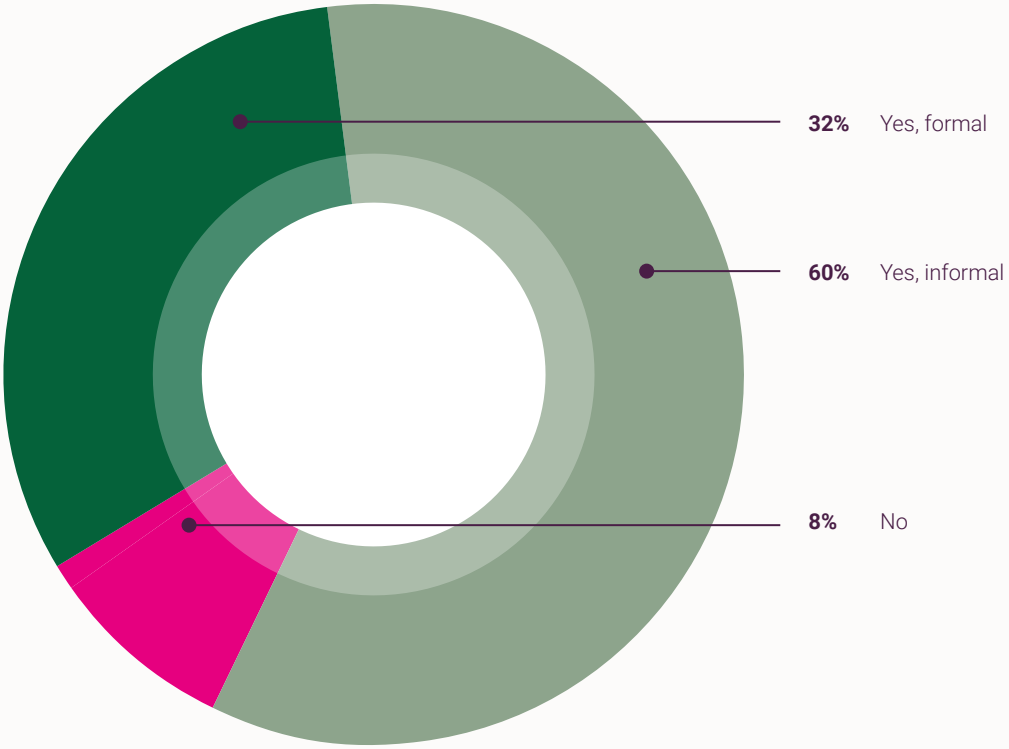


CONTROLLING THE CONTROLLABLES

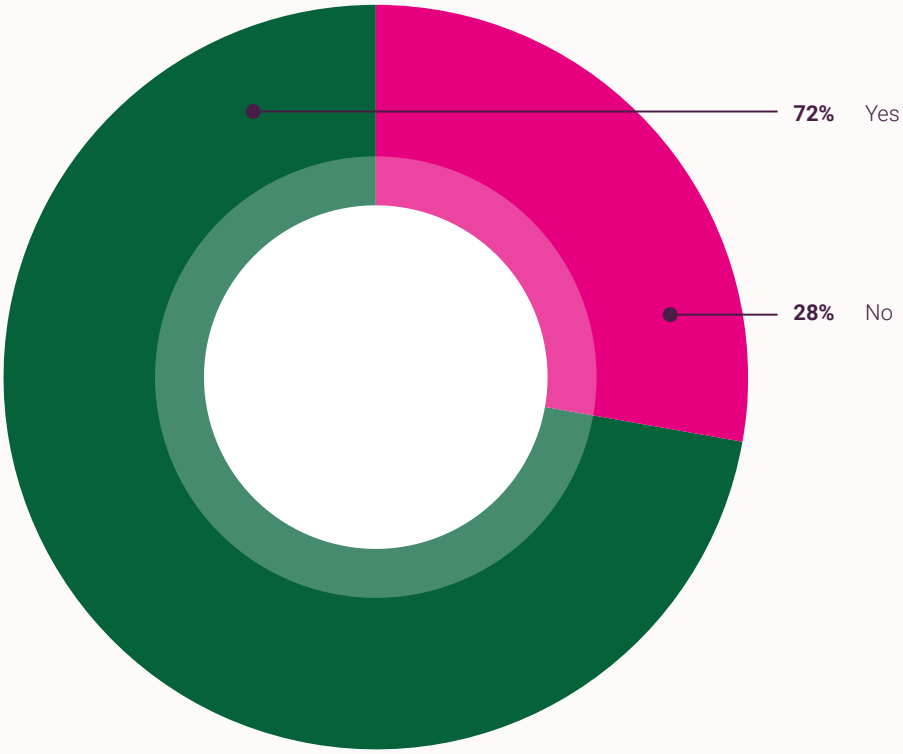
There is a clear focus on managing Brexit with 93% of companies having plans developed. This is made up of a mix of formal (32%) and informal (60%) planning. Of the respondents, 72% have a Brexit team or Brexit champion in place. Insights from Bord Bia's face-to-face interviews indicate that those best prepared have established cross-functional teams, that meet regularly and have Brexit project plans in place.



Have you developed a Brexit plan for your company?



Do you have a Brexit champion/team in place in your business?

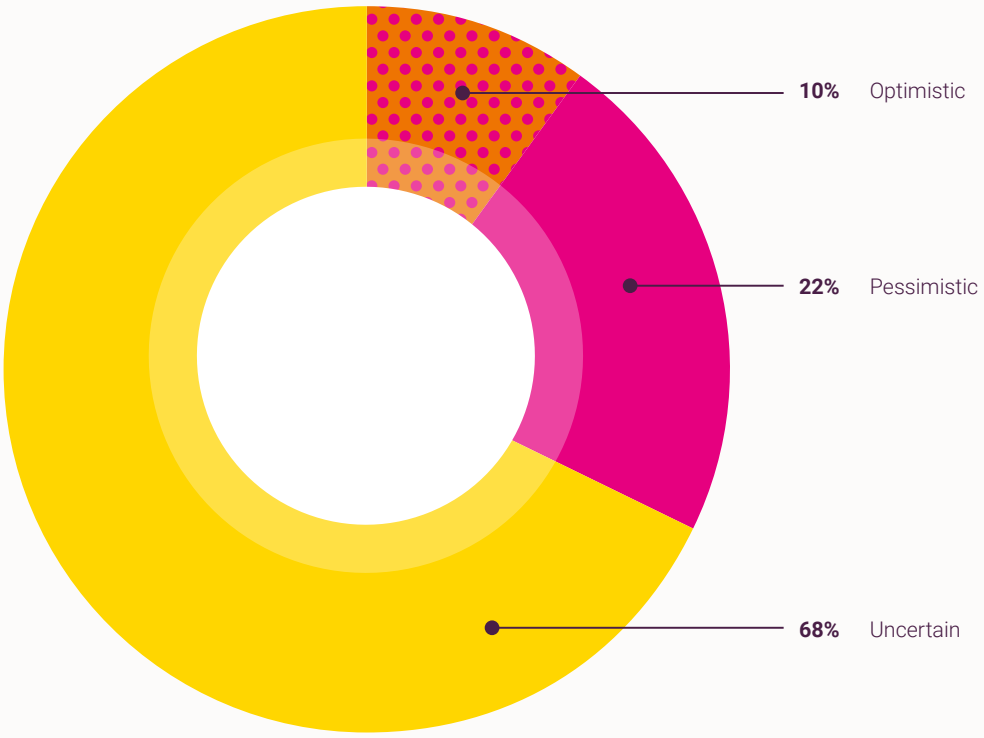


THE IMPACT OF BREXIT

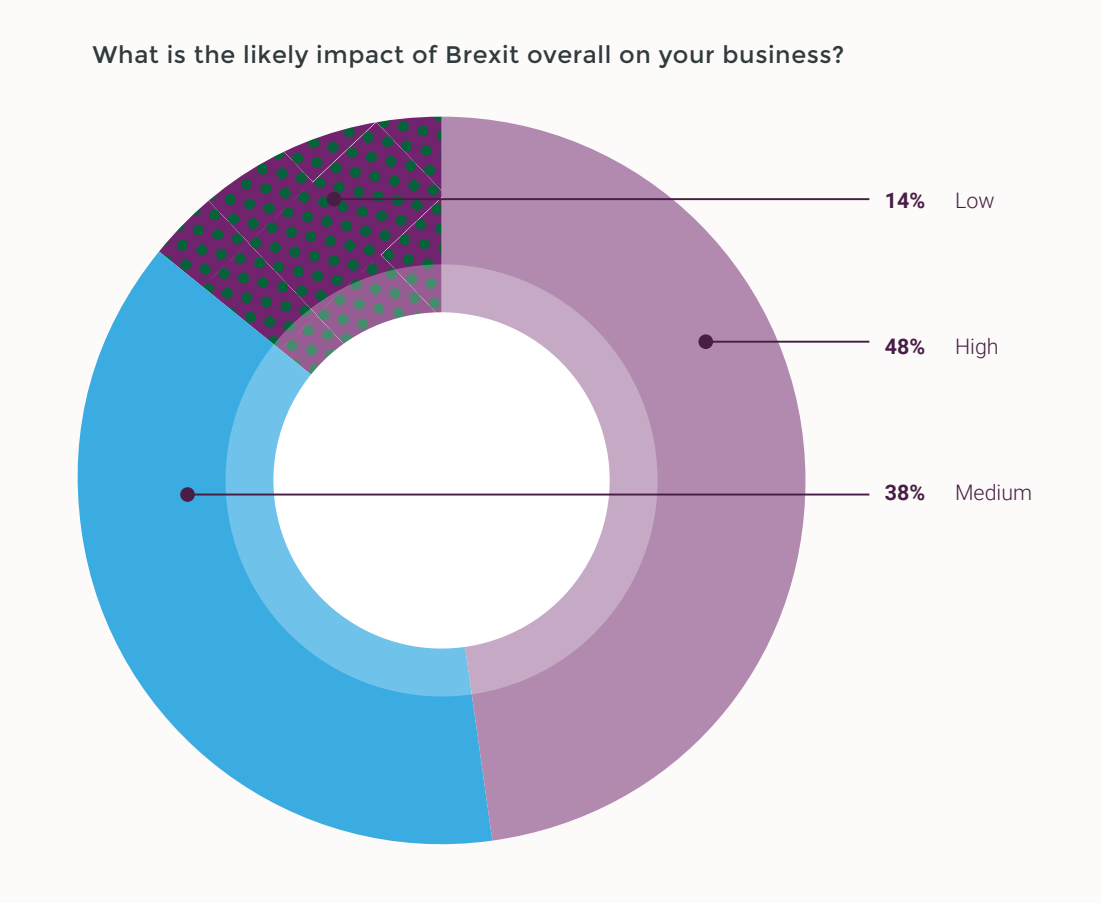
Despite the increasing preparedness of Irish food and drink companies in prioritising management of risks within their control, high levels of uncertainty regarding the impact of Brexit still prevail. This is by no means surprising, given British political developments over the last year.

+ **68% are uncertain around what the impact of Brexit will be**
+ **22% are pessimistic about the potential impact of Brexit on their business**
+ **10% are optimistic. These are primarily Prepared Consumer Foods businesses, who have identified a niche growth opportunity in Ireland, or are a sole/key supplier to the UK market.**

How optimistic or pessimistic are you about the impact of Brexit?



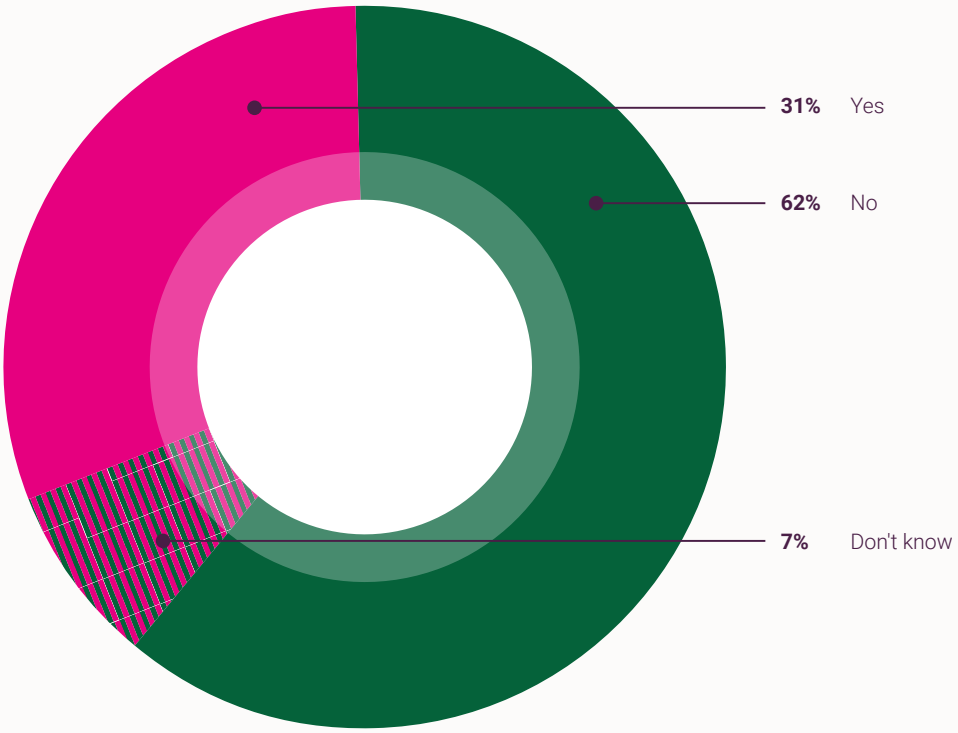
Brexit will impact 86% of respondents. Of that total, 48% believe Brexit will have a high impact, and a further 38% call out a medium impact to their business. Companies that expect a medium impact have put in place robust systems to manage any potential costs and complexities that may emerge from logistics and customs. They are also looking to new markets but are conscious that their service levels for UK customers may be put under strain. 57% of companies who expect Brexit to have a medium impact are in the Prepared Consumer Foods sector. The companies that are of the view that Brexit will have a low impact (14%) have a relatively lower level of export dependency on the UK market.



Despite the ongoing uncertainty, almost one third (31%) of Irish food and drinks manufacturers have identified business opportunities created by Brexit. Some manufacturers believe they can win new business on the continent following the UK's withdrawal from EU, while other respondents have already received inquiries from potential customers currently dependent on UK suppliers.



Have any opportunities arisen for your business from Brexit in the past 12 months?



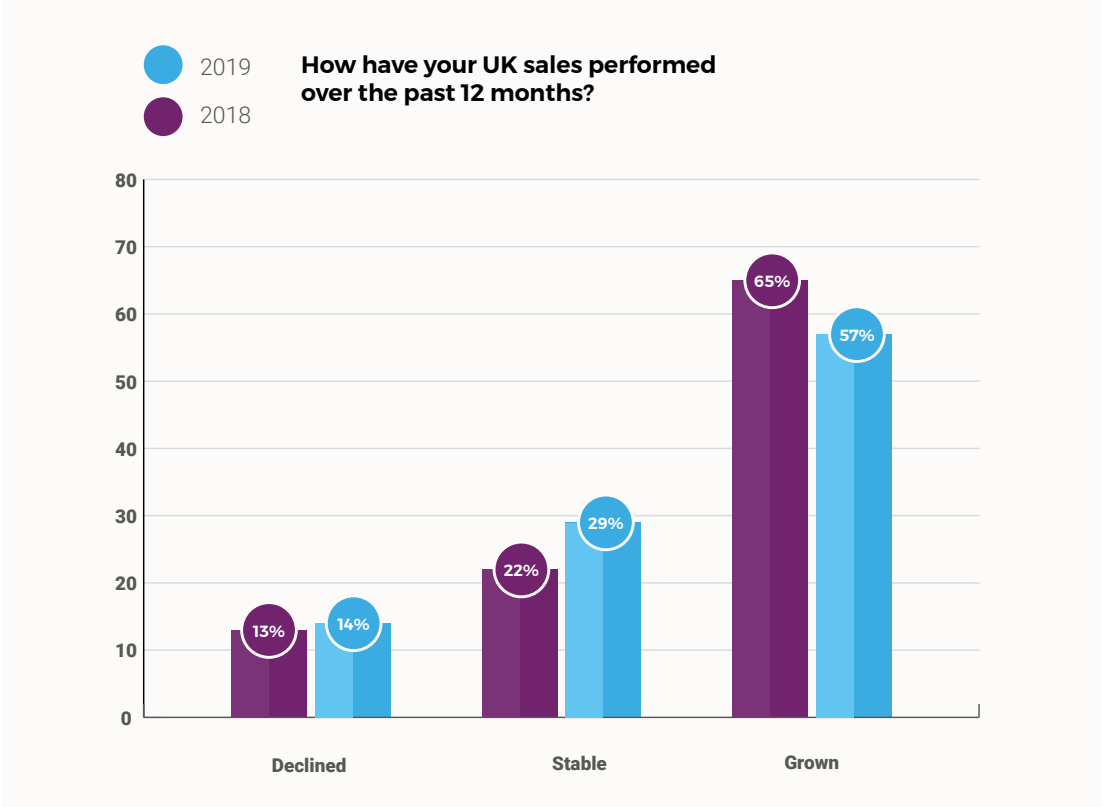
CUSTOMER RELATIONSHIPS

WHILE BREXIT HAS BEEN ON THE AGENDA SINCE THE JUNE 2016 REFERENDUM IN THE UK, THE LAST 12 MONTHS HAVE SEEN CUSTOMER RELATIONSHIPS BROUGHT INTO SHARP FOCUS.

The data indicates a variety of strategies have been progressed in terms of how customer relationships have been managed in the context of Brexit. Despite significant planning and upskilling on the part of Irish suppliers, a 'business as usual' mind-set has prevailed among UK customers and there have not been any major business disturbances reported.

UK MARKET GROWTH

Against a backdrop of ever-changing political negotiations, the UK remains a significant market for Irish food, drinks and horticulture companies. Despite the uncertainty surrounding Brexit, 57% of respondents reported an increase in their sales to the UK over the past 12 months, with a further 29% reporting stable revenues.

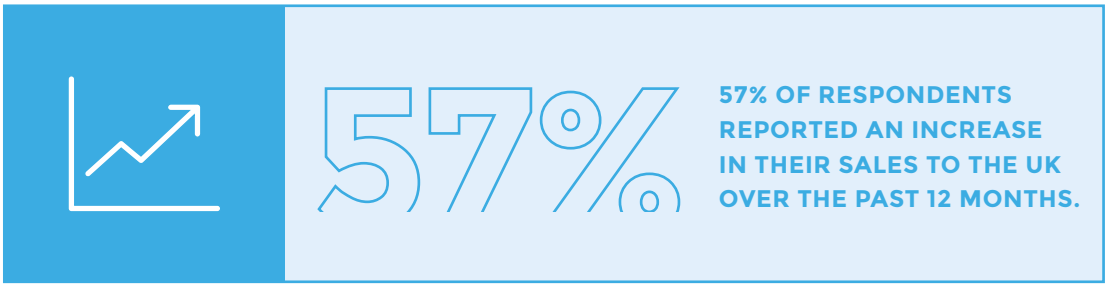


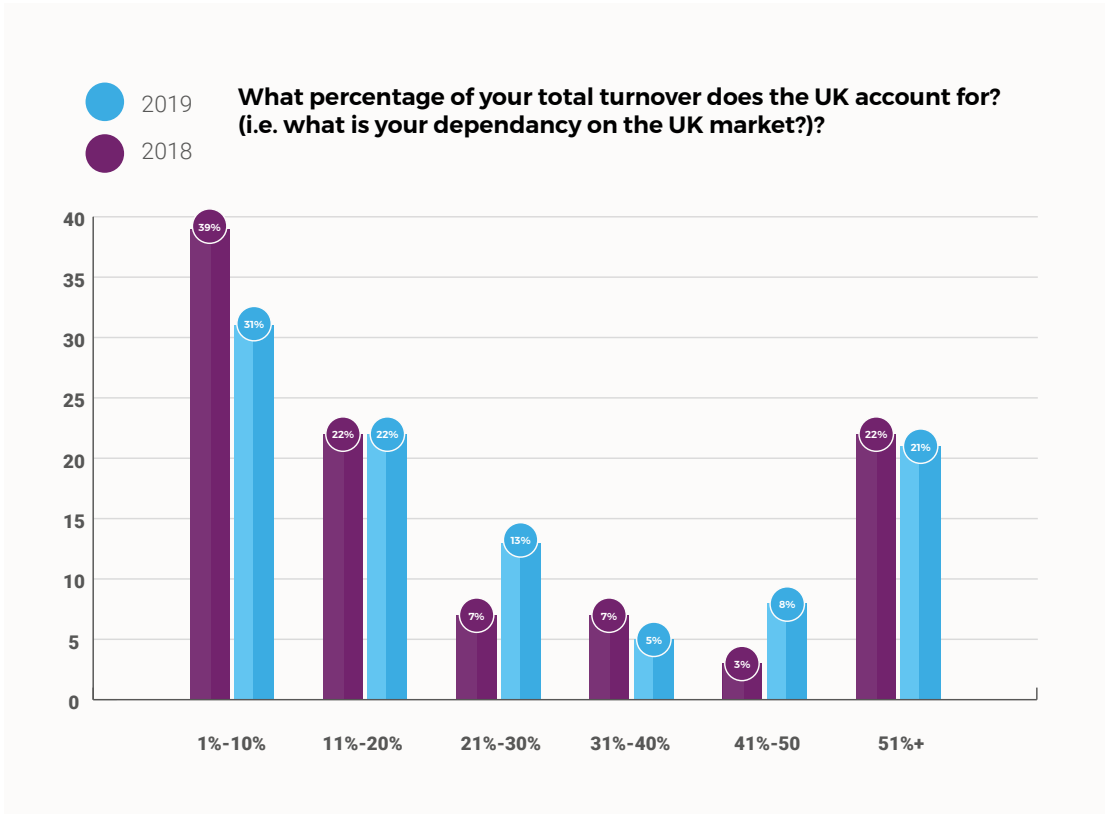
It's clear from the data that many Irish food and drinks manufacturers have either sustained or grown their business during this challenging period, which is testament to the strength of business relationships between Irish suppliers and UK customers. It also highlights that opportunities still exist in the UK market for Irish suppliers. However, a perceived lack of Brexit planning by UK customers may create challenges for Irish food drink manufacturers. There is an impression that some UK customers have yet to design clear protocols on where and how to source current EU products post-Brexit, which may result in difficult commercial planning for Irish suppliers later in the year. There is a view that Irish retailers and foodservice customers have conducted more in-depth planning and analysis and are therefore more prepared for the complexities of Brexit than their UK counterparts.

The small decline (14%) in sales can be attributed to two main drivers. A cohort of Prepared Consumer Foods companies are being challenged by competitiveness in the UK market. More significantly, however, certain companies have intentionally changed their strategy to grow revenue in other markets. They have weighed the opportunities to continue doing business in the UK with diversifying to new markets and believe they can glean greater value from business in the rest of the EU or further afield

UK MARKET DEPENDANCY

Over half (51%) of the respondents stated that the UK market accounts for less than 20% of their turnover. At the other end of the scale, 22% of companies derive more than 51% of their sales income from the UK.

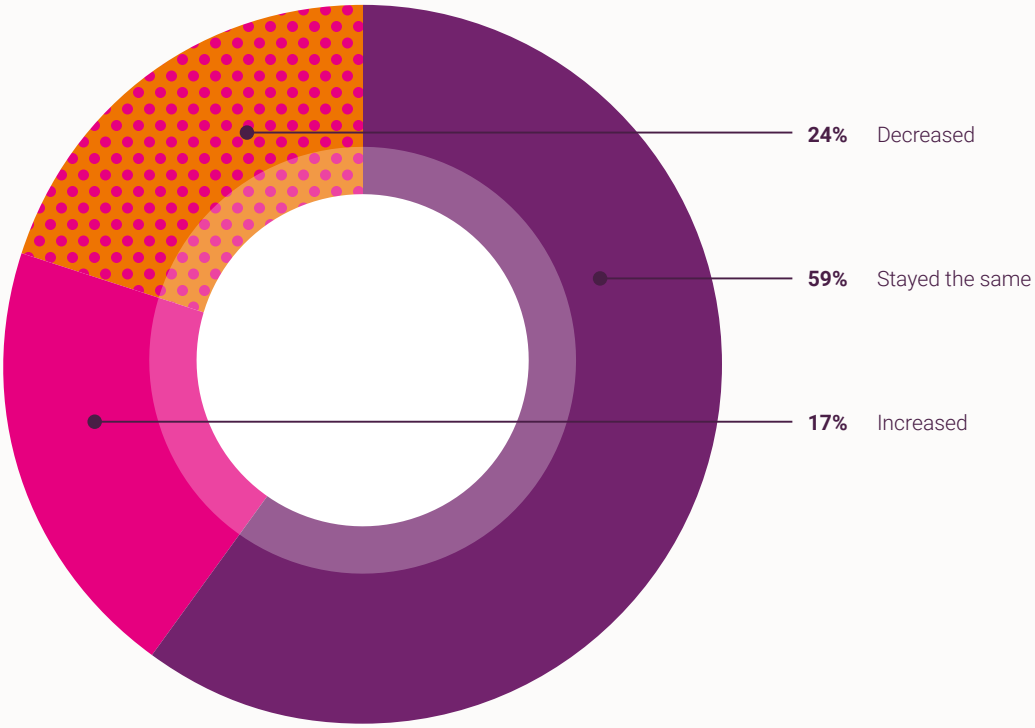




The most exposed sector is Horticulture, with 100% of mushrooms exporters having high dependency on the UK market. A quarter of Prepared Consumer Foods business reported a 51%+ revenue dependency.

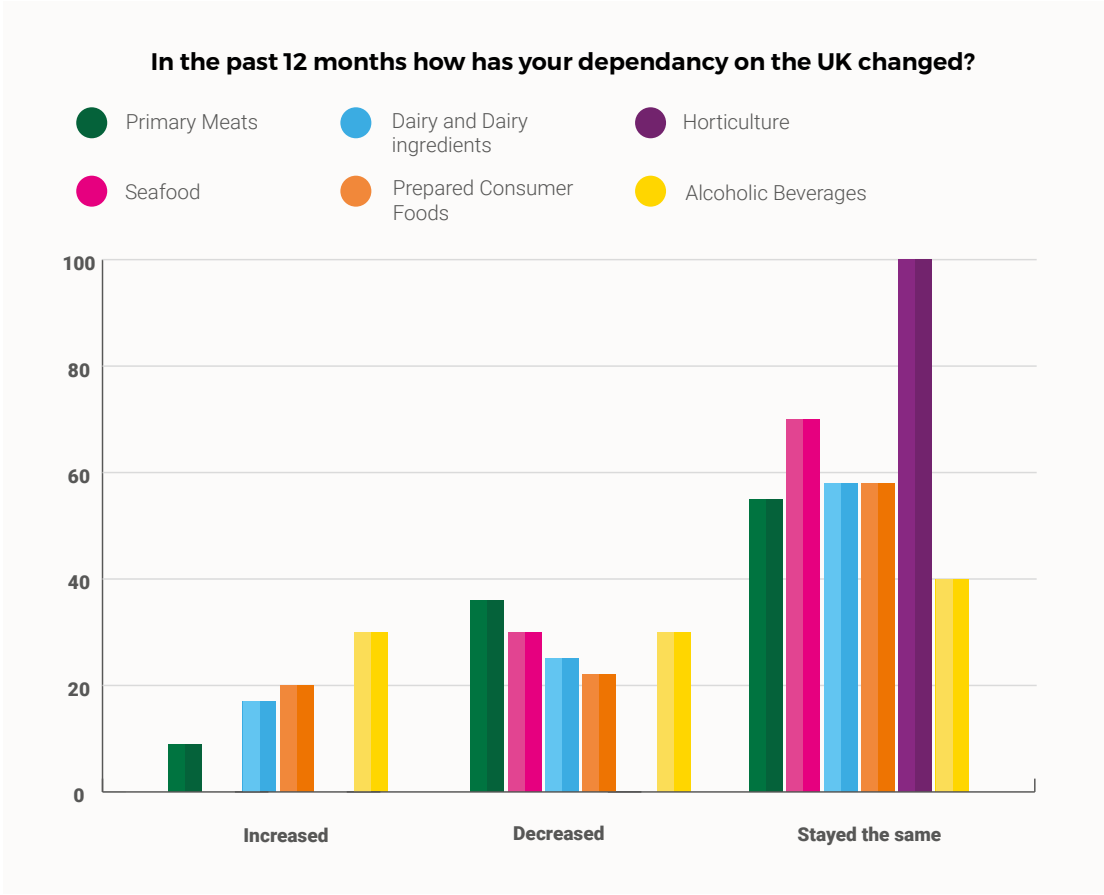
Encouragingly however, companies appear to have taken steps to de-risk or stabilize their dependency on the UK. Almost a quarter of companies (24%) reported a decrease in dependency on the UK, and in many cases attributed this trend directly to moving business away from the UK due to Brexit uncertainty. Meanwhile 60% reported that dependency had not changed.

In the past 12 months how has your dependency on the UK market changed?



Many companies reported a commitment to the UK market even in the context of a hard Brexit. In parallel to growth plans in the UK however, they also intend to grow their EU sales by a greater degree.

There is relative consistency by sector in relation to changes in UK market dependency, with the notable exception of Horticulture. Given that Horticulture reports a 100% dependency on the UK market, it is not surprising that their deep dependency levels have not changed over the last year.



CUSTOMER ENGAGEMENT

Irish food and drink manufacturers clearly understand the importance of engaging with their UK customers, with 96% of participants stating that they have spoken to their UK customers in the last 3 months and a large cohort (79%) having had discussions within the past month. In fact, Bord Bia's company interviews revealed that many Irish manufacturers are speaking with their key customers every day.

Only 4% of respondents have not discussed Brexit with their UK customers. Customers may be awaiting the outcome of Brexit before entering discussions or the respondents are not a major supplier of product and therefore do not view it as a significant issue.

Senior Leadership, Buyers and Supply Chain personnel feature most prominently in terms of the individuals that were engaged with in UK retail and food service customers, with Technical / Quality also featuring for UK Manufacturing customers. This reflects where Brexit challenges are likely to arise.

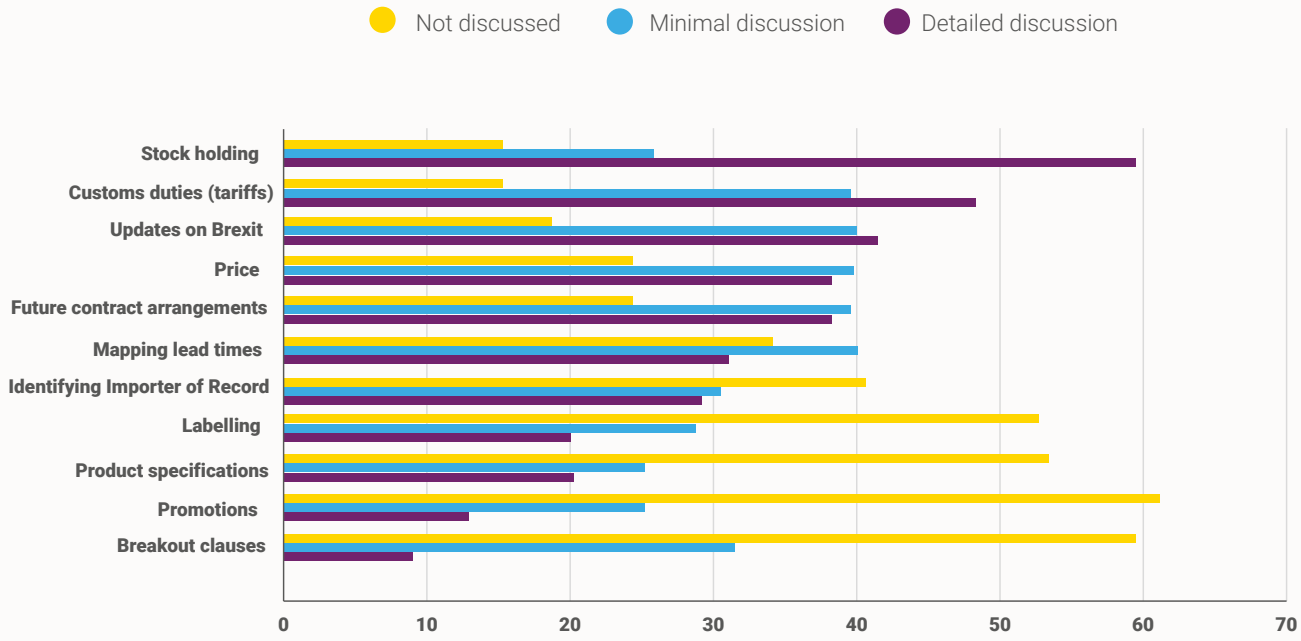
96%

96% OF PARTICIPANTS HAVE SPOKEN TO THEIR UK CUSTOMERS IN THE LAST 3 MONTHS.

KEY TOPICS ON CUSTOMERS' BREXIT AGENDA

Detailed discussions have been taking place with UK customers on stockholding (58%), customs duties (47%) and the sharing of general Brexit updates (42%).

During your most recent conversation on Brexit with your UK customers, which topics were on your customers agenda?



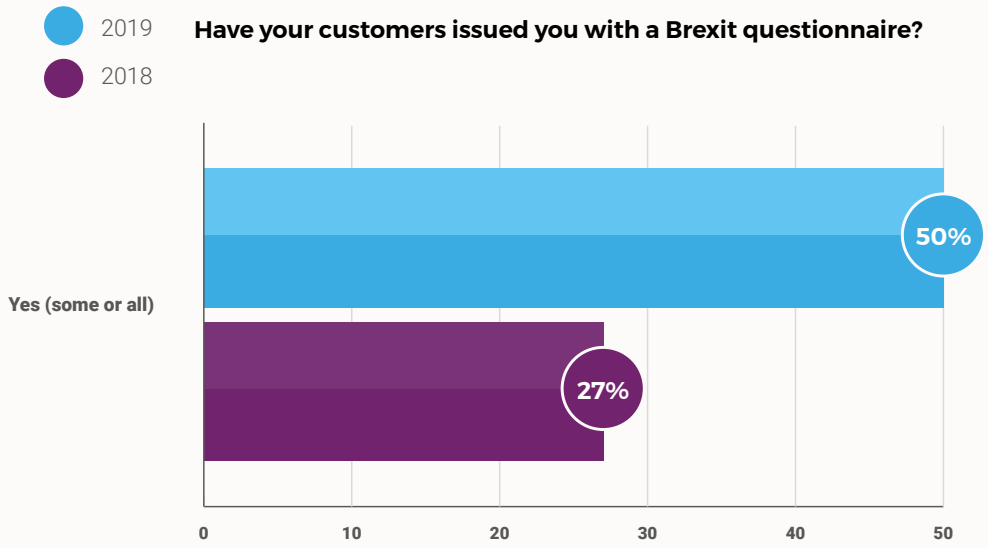
There was a notable difference in responses between larger and smaller companies in regards to Brexit customer conversations. Larger companies have had far more detailed discussions about customs duties (71% for €100m + companies, which compares to the overall response rate of 47%) and future contract arrangements (48% for €100m + companies, which compares to the overall response rate of 37%). Smaller companies don't always have formal contracts in place, often opting for a supply agreement. This may be why they have not had as detailed Brexit discussions with the customers. Horticulture and Primary Meats had the highest response rates regarding detailed discussions on future contract arrangements, at 60% and 46% respectively.

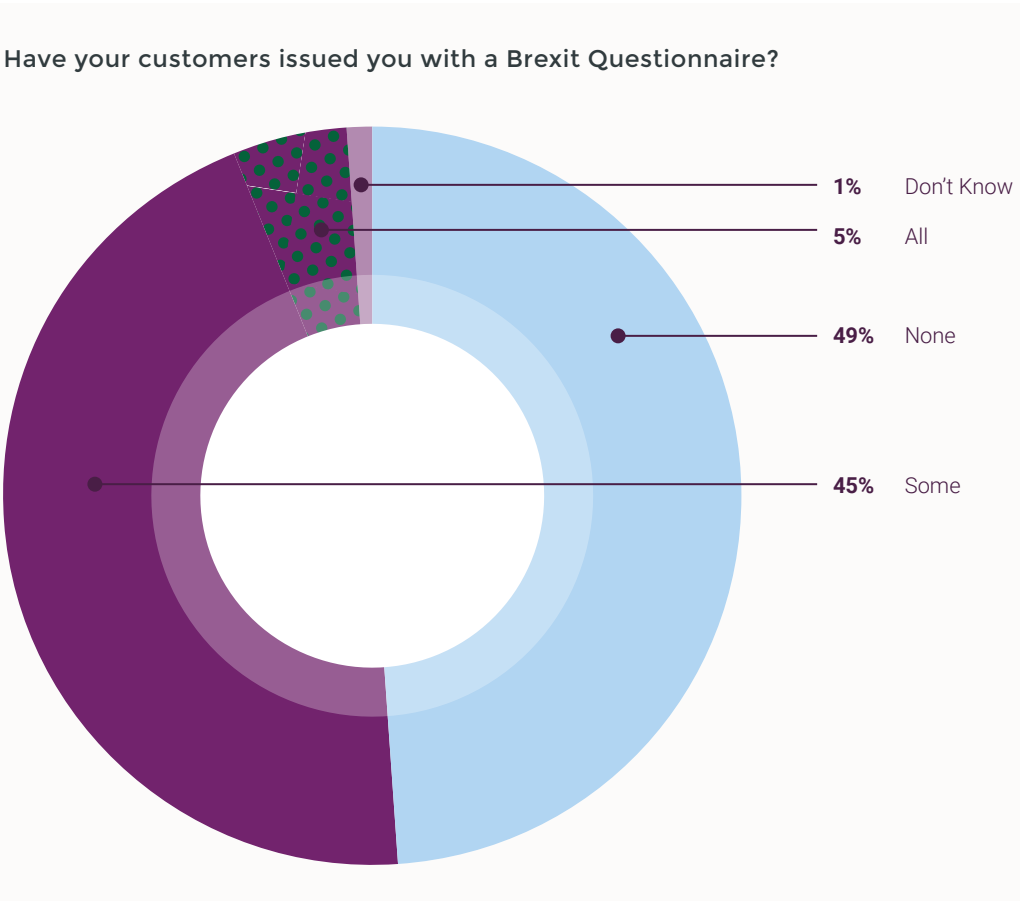
Almost all respondents (92%) in the Dairy & Dairy Ingredients sector have held detailed discussion on stock holding. For some sectors such as Horticulture, this is not an option due to shelf life challenges. Some companies reported challenges with availability and / or pricing of warehouse capacity in the UK.

In terms of general Brexit updates, customers generally expect their suppliers to have some planning and analysis in place on the various potential outcomes and how they may impact their ability to supply. The UK retail sector is reported to be more advanced and formal in its planning for Brexit in comparison to the foodservice and manufacturing sectors.

BREXIT QUESTIONNAIRE

UK customer engagement in relation to Brexit has increased significantly since last year, when just 27% of respondents reported that UK customer had sent Brexit questionnaires to assess the readiness of their Irish suppliers. As of March 2019, half of respondents' reported that some (45%) or all (5%) of their customers have issued them with a Brexit questionnaire.





The company interviews indicated that certain UK retailers are working in partnership with their suppliers to ensure that they are as prepared as possible to deal with the consequences of Brexit.

This engagement is generally based on the UK customer's dependency on the supplier and volume of imports within the category. By sector, 83% of Dairy & Dairy Ingredients companies have received Brexit questionnaires from their UK customers, as have 55% of Prepared Consumer Foods businesses.

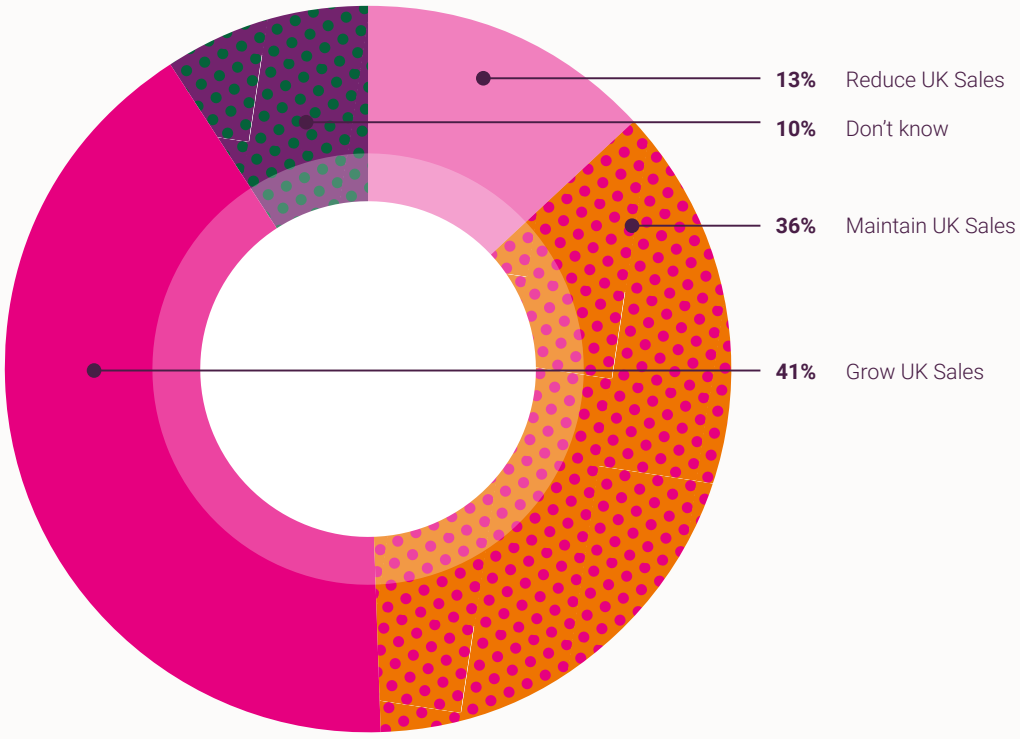
UK MARKET GROWTH OPPORTUNITIES

Looking ahead, the UK continues to be a very important market for Irish food and drink manufacturers, with 7 out of 10 companies planning to maintain or grow sales in the UK:

+ **41% of respondents intend to grow their UK sales**
+ **36% intend to at least maintain their current levels**
+ **Of the 13% who plan to reduce UK sales, feedback from Bord Bia interviews indicate that this is a deliberate strategy by some of those businesses to diversify away from the UK**.

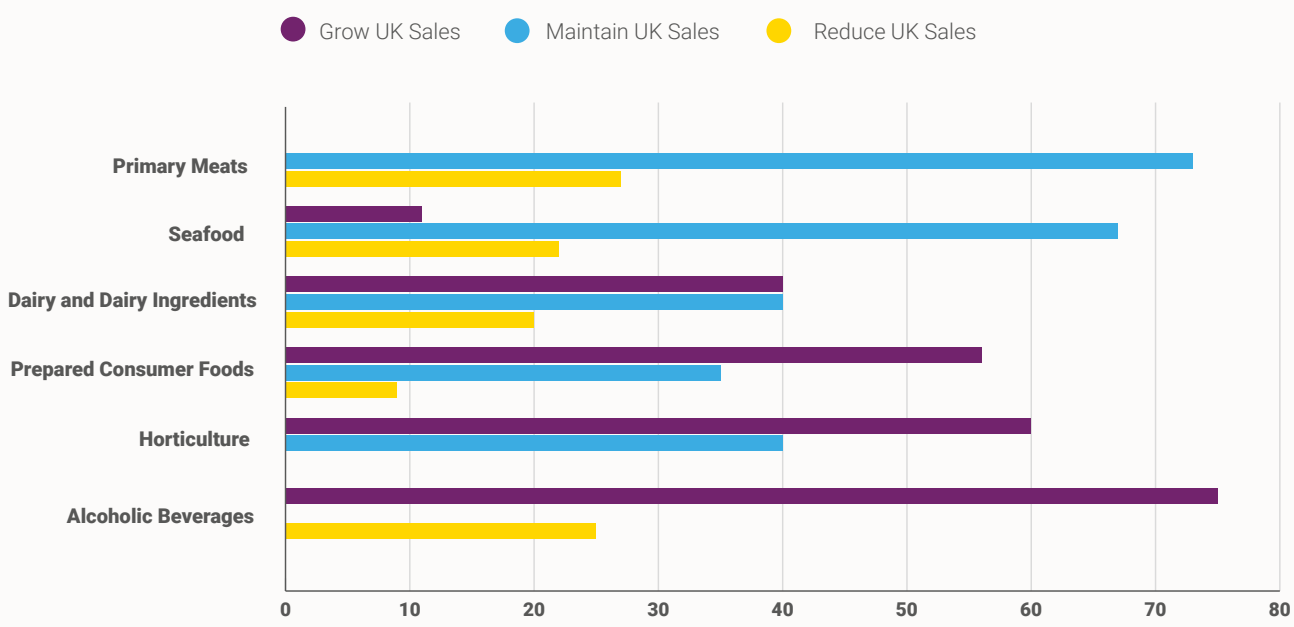


Given current Brexit challenges, do you intend to protect/grow your sales in the UK market?

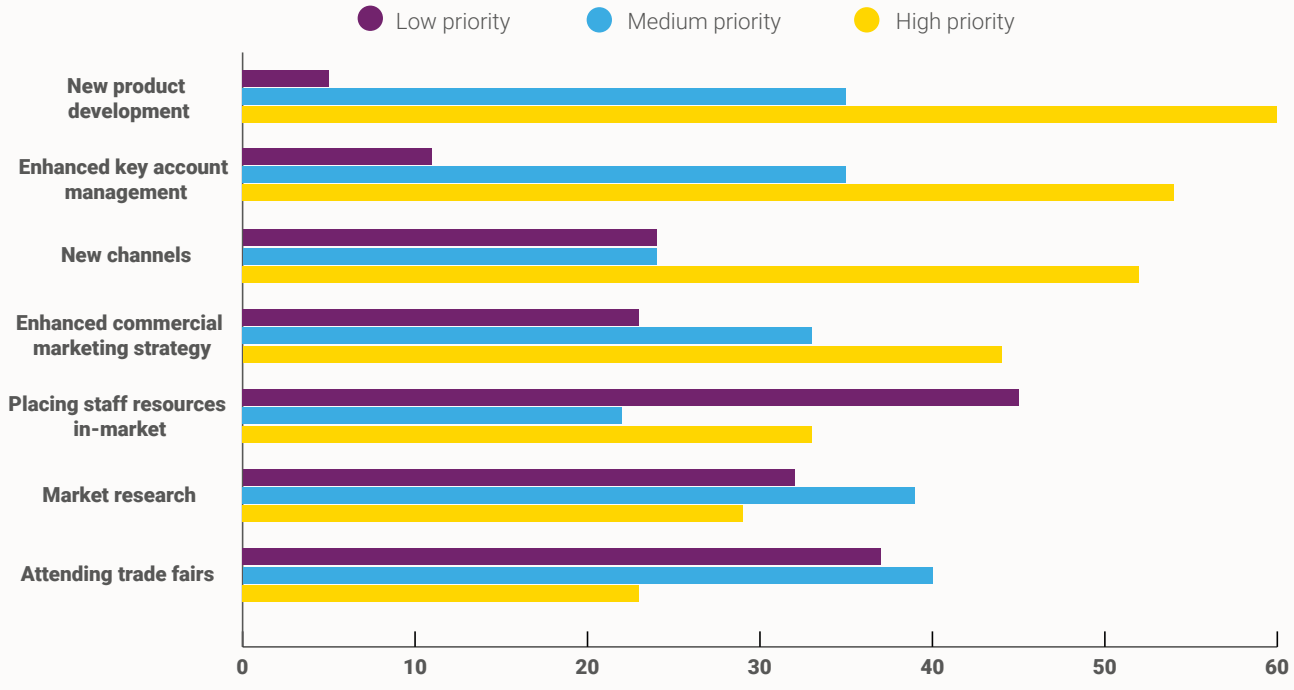


Alcoholic Beverages, Horticulture and Prepared Consumer Foods are the leading sectors in terms of intention to grow sales in the UK.

Given current Brexit challenges, do you intend to protect/grow your sales in the UK market?



Given current Brexit challenges, how do you intend to protect / grow your sales to the UK?



When identifying opportunities to initiate growth, the top strategies cited were:

+ **New product development: 60% of respondents chose this as a high priority, with a further 35% identifying it as medium priority.**
+ **Enhanced key account management: 54% identified this as a high priority and 35% medium priority**
+ **Enhanced commercial marketing strategy: 44% see this as a high priority and 33% as a medium priority.**

Even in a period of distinct uncertainty, respondents are still highly engaged and have identified specific growth strategies for the UK market.

COMMERCIAL MARKETING STRATEGY

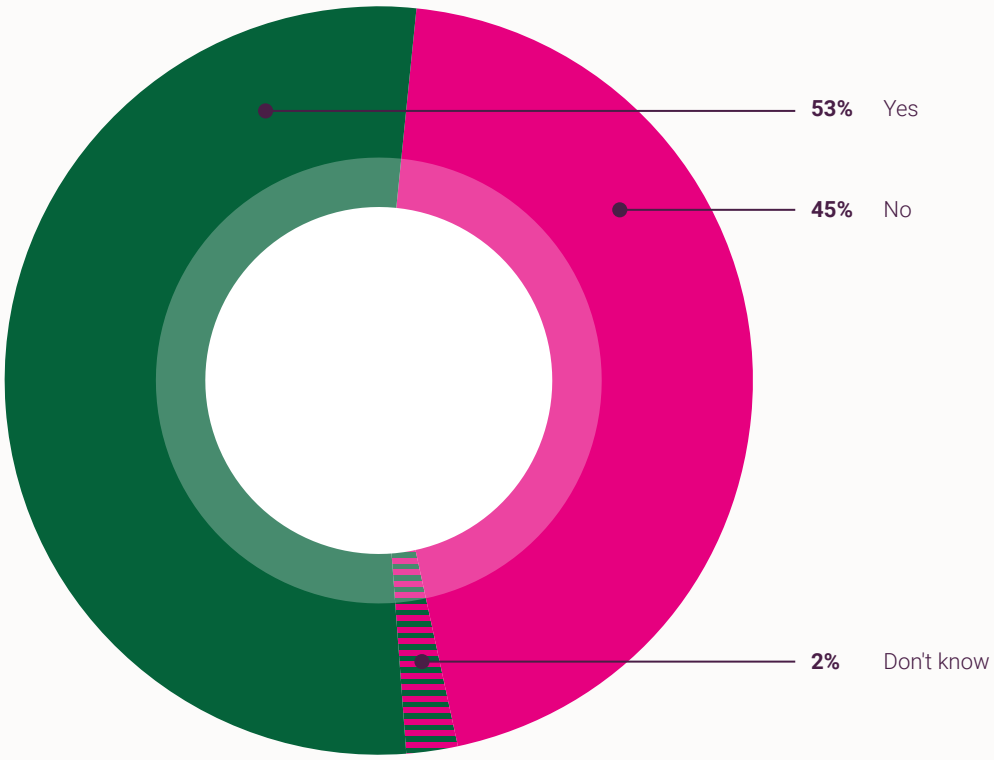
More than half of respondents (53%) have a commercial marketing strategy specifically developed / tailored for the UK market. Unsurprisingly, the response rate is highest amongst the larger companies, with 75% of €100m+ turnover companies stating they have a tailored UK marketing strategy in place.



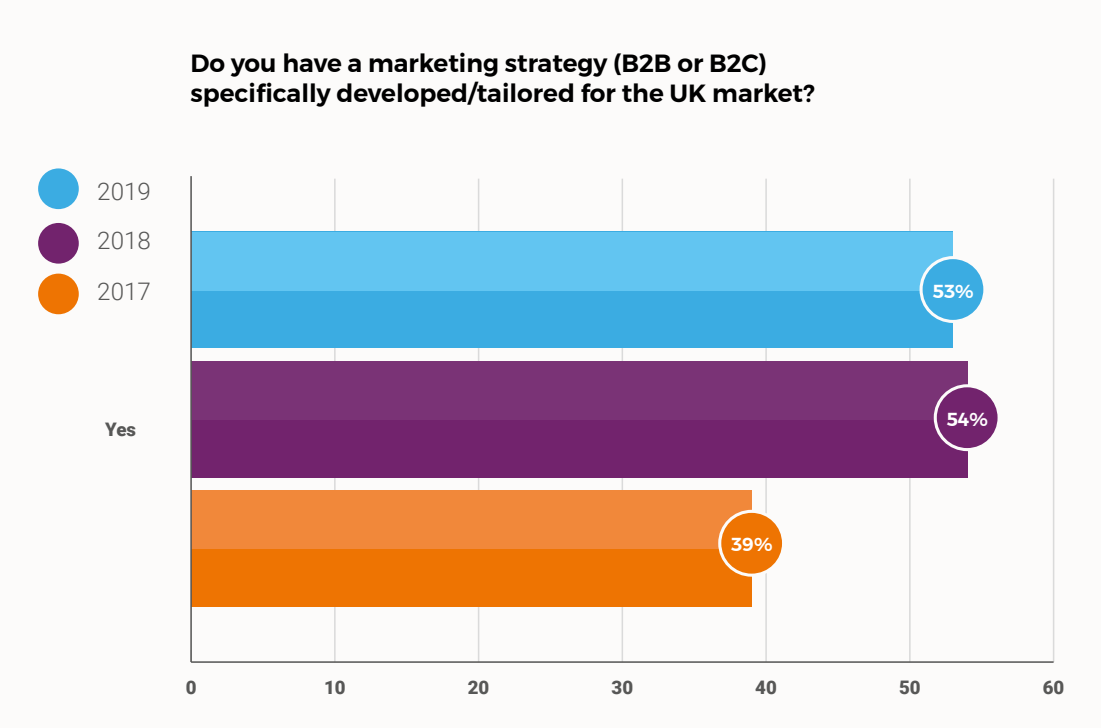
53%

53% OF RESPONDENTS HAVE A COMMERCIAL MARKETING STRATEGY SPECIFICALLY DEVELOPED/TAILORED FOR THE UK MARKET.

Do you have a marketing strategy (B2B or B2C) specifically developed/ tailored for the UK market?

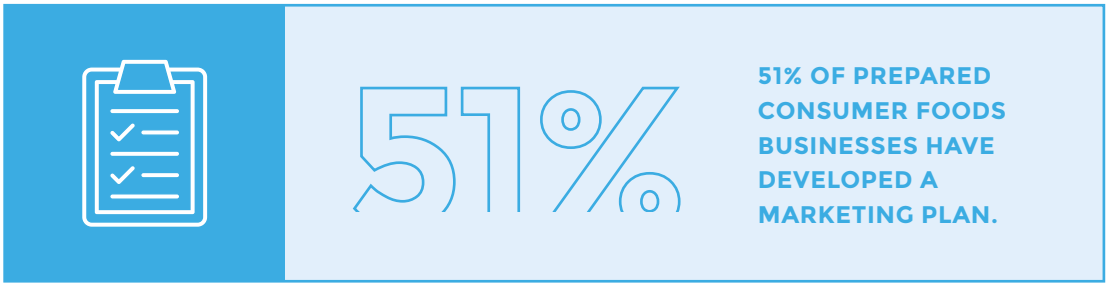


While the level of positive responses (53%) is broadly in line with the 2018 figures (54%), the high level of respondents who said they do not have a marketing strategy specifically developed for the UK market is an area for urgent action.

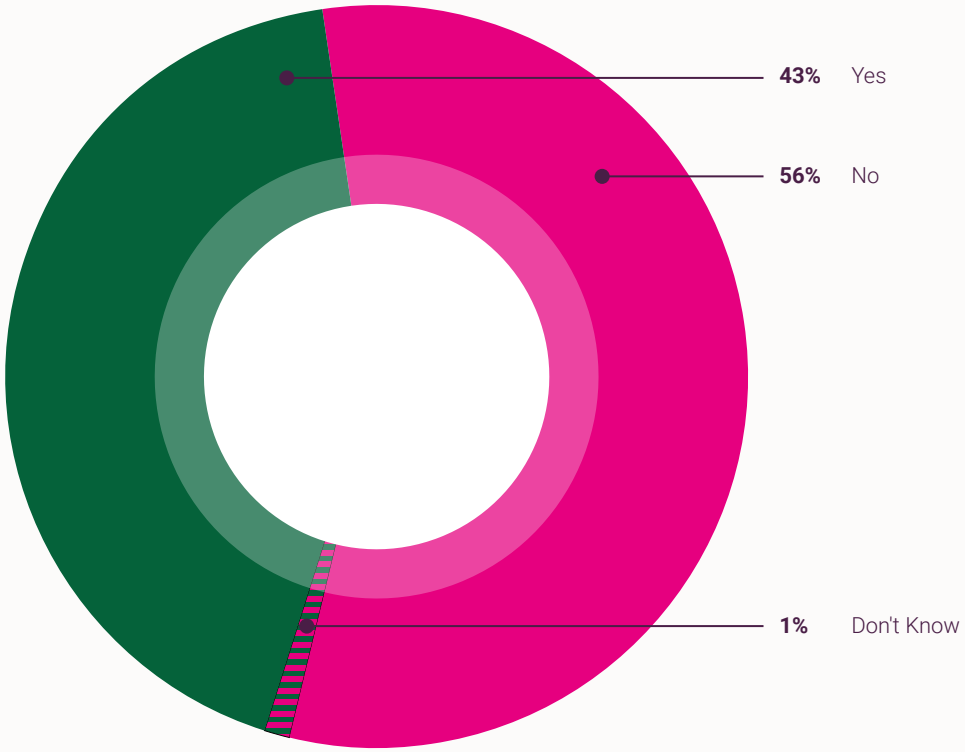


Given that their level of dependency on the UK is 100%, it is positive to see that all Horticulture respondents have a targeted UK marketing strategy in place. This is not as positive for the Prepared Consumer Food business however. Just over half (51%) of PCF companies have developed a marketing strategy for the UK, which is a concern given the sector's level of dependency on the market.

In some cases, companies that did not have a marketing strategy cited having a customer strategy instead, which is often used to leverage relationships to grow business in additional markets.



Do you have a UK focused marketing team, either in-house or managed by a third party?



Just under half (43%) of respondents have a UK focused marketing team, either in-house or managed by a third party. This correlates closely with the 53% who have a dedicated UK marketing strategy.

KEY TAKEAWAYS

The UK will continue to be a very important trading partner for Irish food and drink companies. Many exporters have chosen to maintain current levels of trade with the UK and remain positive about growth, subject to a favourable Brexit outcome. Others are actively pursuing a UK market growth strategy until the outcome of Brexit is clearer. A cohort have made a strategic decision to reduce sales to the UK, and in many cases these companies are actively diversifying into alternative markets.

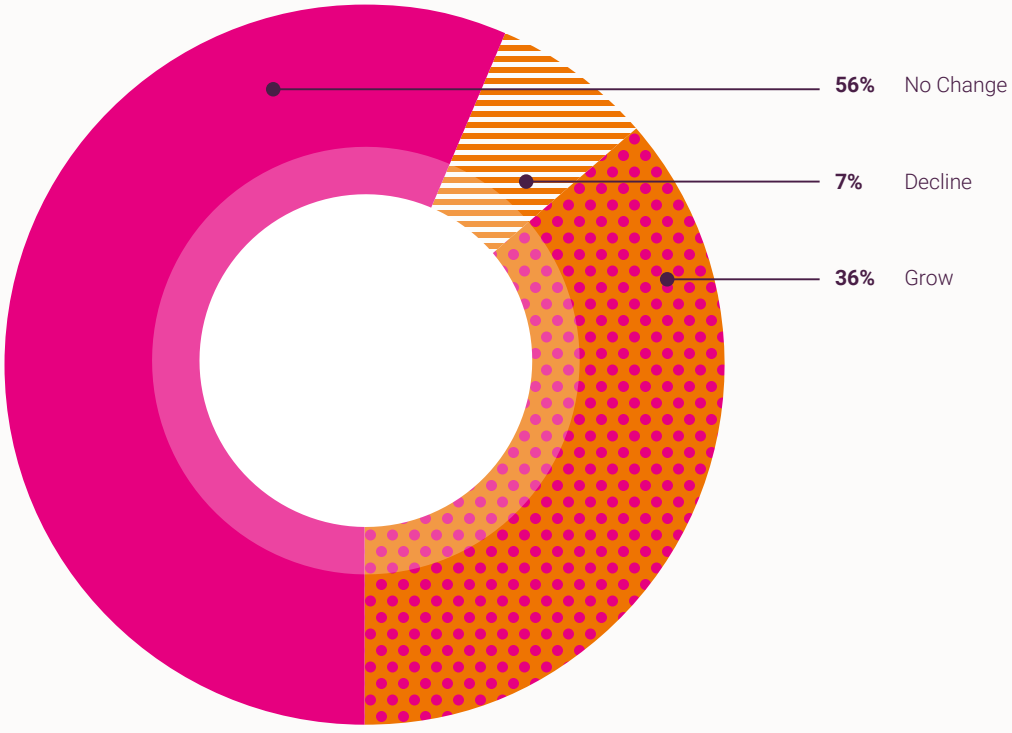
Key topics covered in discussions with UK customers are tariffs, stockholding and Brexit related business updates. Many companies are reporting significantly increased levels of engagement with UK customers relative to 12 months ago, with very regular (sometimes daily) discussions taking place. Half of the respondents stated that some of all their customers have issued them with a Brexit questionnaire.

Despite the Brexit turbulence, seven out of ten companies intend to grow or maintain sales in the UK market. Recognising the importance of planning, half have a marketing strategy in place that is specific to the UK market. For those that don't, Bord Bia can support companies to put a strategy in place. For more information on this, please see the Brexit Action Report.

IRISH MARKET DYNAMICS

JUST OVER ONE THIRD (36%) OF RESPONDENTS SEE SOME OPPORTUNITIES FOR GROWTH IN THE REPUBLIC OF IRELAND (ROI) MARKET DUE TO BREXIT. OVER HALF (56%) EXPECT SALES TO REMAIN STABLE.

How do you expect your sales on the Irish (RoI) market to be impacted as a result of Brexit?





36%

OF THE 36% OF COMPANIES THAT ARE FORECASTING GROWTH, TWO THIRDS OF THOSE ARE OPERATING IN THE PREPARED CONSUMER FOODS SECTOR.

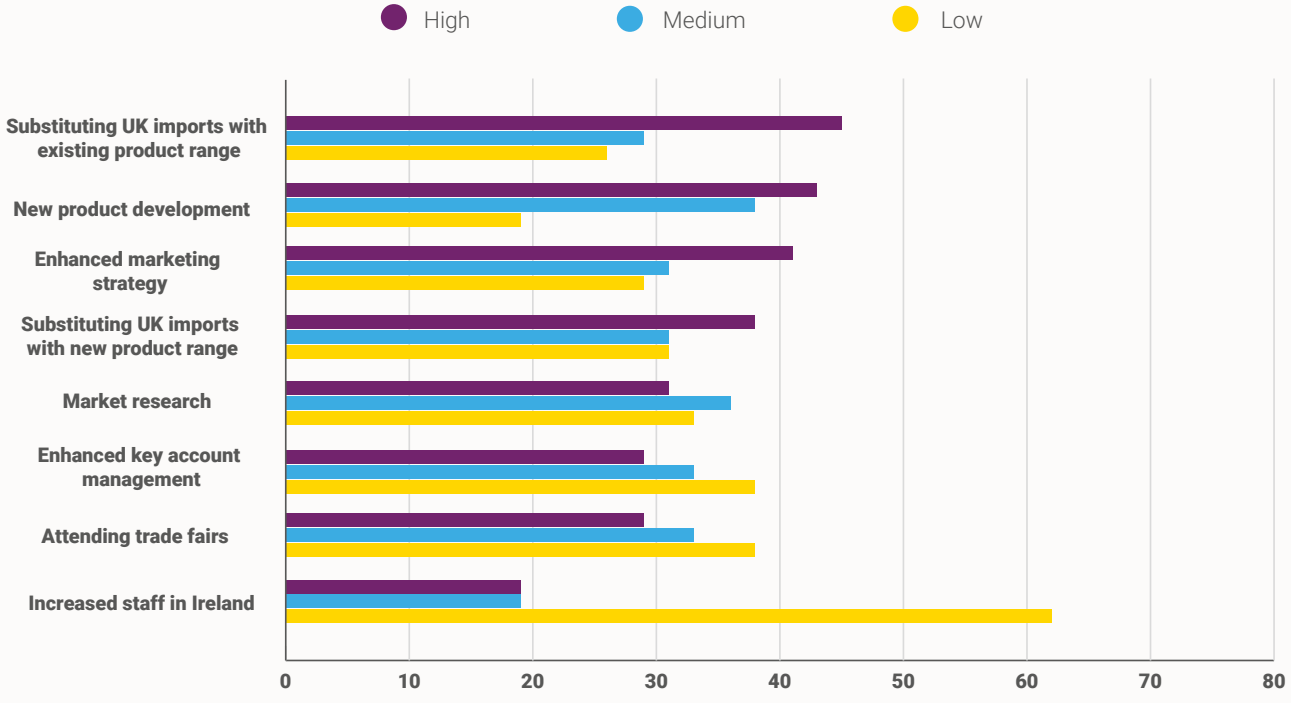
Of the 36% of companies that are forecasting growth, two thirds of those are operating in the Prepared Consumer Foods sector. The Irish retail market has a significant dependence on UK consumer food products, with nearly half of all UK food and drinks imports coming from the PCF category. Any disruption to trade between the UK and Ireland may naturally create an opportunity for Irish competitors that are equipped to compete with UK products on quality and scale.

Within the cohort of the 36% of companies forecasting growth, the growth forecasts are as follows:

+ **44% expect to grow their revenue 1% - 10%.**
+ **Growth of 11% - 20% is expected by 44% of companies who have forecast opportunities in the RoI market because of Brexit.**



Please rank the RoI strategy in order of potential growth possibilities



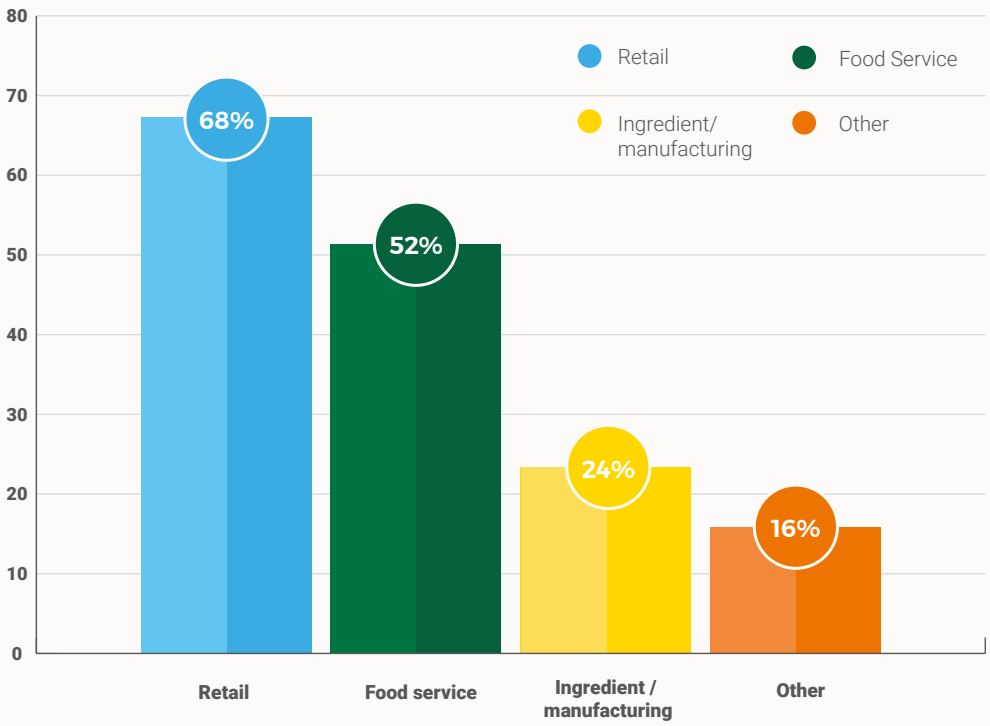
Substituting UK imports with existing product ranges and new product development are the most likely growth possibilities reported. Some companies commented that they believe Irish retailers are concerned about their level of dependency on UK imports for certain product ranges.

While there are some product categories that Irish suppliers have had a long tradition in supplying, such as yoghurts and fresh soups, significant investment will be required before Irish manufacturers can fill a potential vacuum in many others.

Growth opportunities, where they exist, will be generated across a mix of retail, food service and ingredients / manufacturing channels, with retail featuring most prominently. While several companies have called out growth opportunities in the food service channel, this often came with the explanation that it would be driven by a strong economy rather than Brexit.

Many companies commented that as a general rule of thumb when economic performance is strong, food service tends to perform well, due to higher levels of consumer disposable income.

Please select the appropriate RoI channels that you expect to see growth in the next 12 months



Note: respondents could choose more than one channel. Other could include online sales and selling via a distributor or agent

DISCUSSIONS WITH IRISH CUSTOMERS

Many companies observed that their engagement with Irish customers is very much 'business as usual', rather than being impacted by Brexit. Feedback from the respondents suggests that retailers in the RoI market are very engaged with their suppliers, and they are very proactive in taking a partnership approach, including hosting supplier conferences, issuing surveys and conducting regular meetings and calls.

There is clear sentiment from companies that Irish retailers are more prepared and proactive in relation to Brexit preparedness and supplier engagement relative to their UK counterparts.

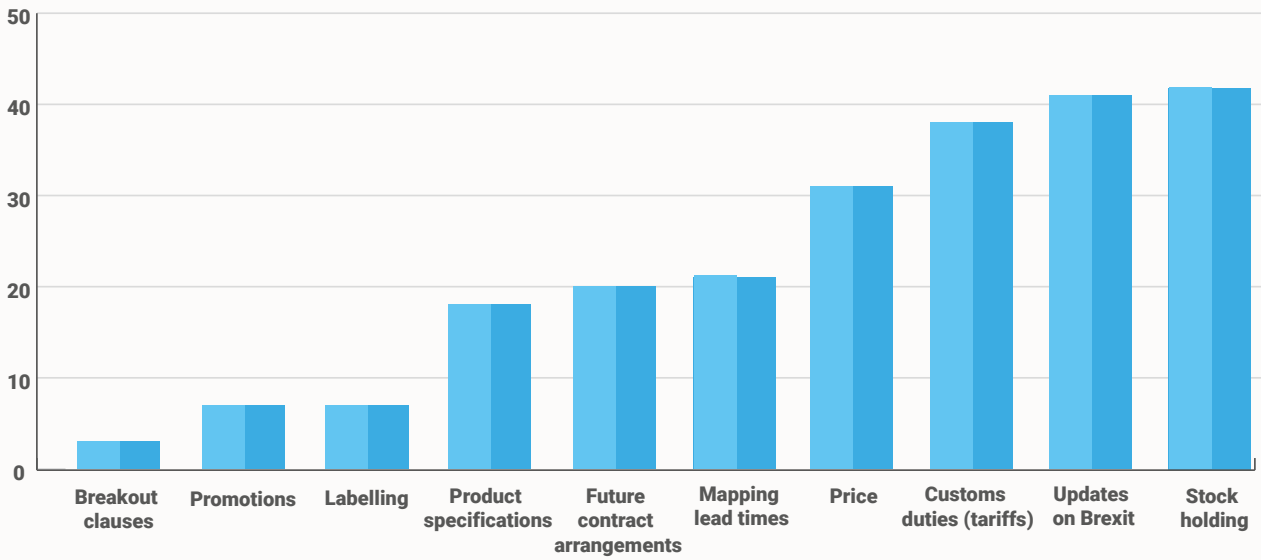
As with UK customers, when specifically discussing Brexit, the most topical items on Irish customers' agenda were stock holding (42%), updates on Brexit (41%) and tariffs (39%). For certain companies relying on imports for their manufacturing process, there is a nervousness around security of supply, and potential price increases due to tariffs.

Unlike discussions taking place with UK customers, there is no major variance in topics being discussed between the smaller and larger companies.

Larger companies had a higher response rate for future contract arrangements (33%), which compares to the overall response rate of 20%. This is likely explained by the fact that smaller companies don't always have formal contracts, so discussions can be quite different to those that larger companies would be having with their customers.

There is a concern among Irish retailers that Irish food and drink manufacturers are dependent on the UK market to achieve economies of scale in their production processes, and if their Irish suppliers suffer a decline / loss of UK volume, this may impact their ability to competitively supply the RoI market.

During your most recent conversation on Brexit with your Irish customers, which topics were on their agenda?



KEY TAKEAWAYS

The RoI market opportunity will always be limited by Ireland's small population, relative to the UK market. Most manufacturers are operating on a business as usual basis in the RoI market and are of the view that Brexit will not impact their RoI trading.

Some businesses have identified growth opportunities, mainly in the Prepared Consumer Foods sector, and a small number of companies are developing new products to tap into these niche opportunities.

In some cases, these opportunities are being generated against the risk of a potential loss of revenue from the UK market.

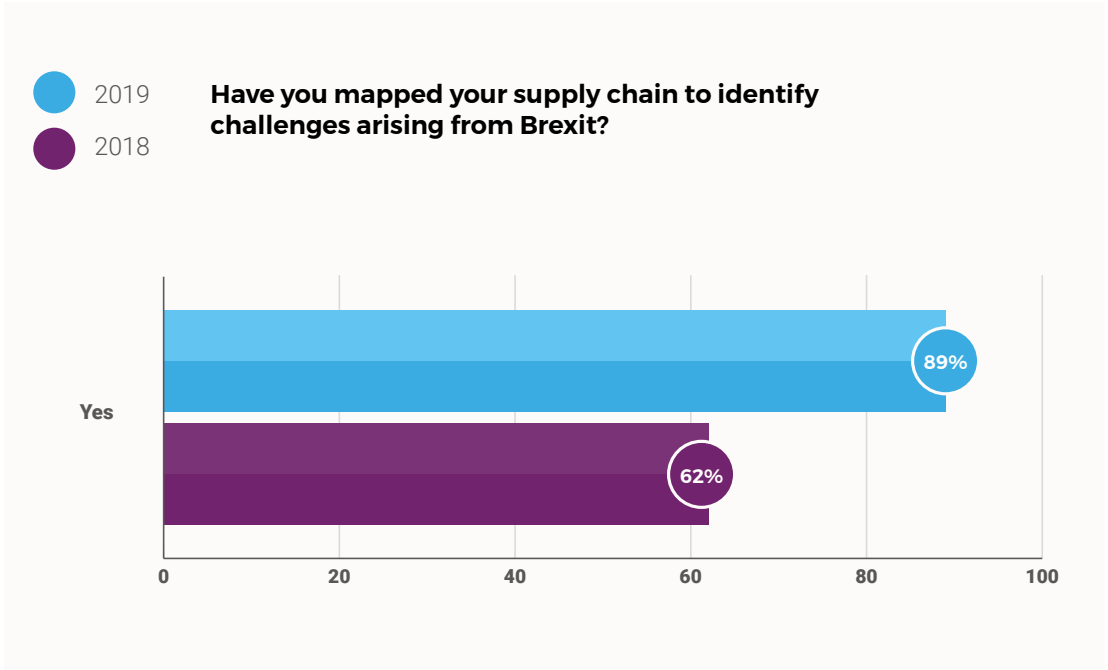
SUPPLY CHAIN

EFFECTIVE SUPPLY CHAINS ARE CRUCIAL TO THE SUCCESS OF THE IRISH FOOD AND DRINKS SECTOR. SUPPLY CHAINS ARE OFTEN COMPLEX, WITH MANY MUTUALLY DEPENDENT STAKEHOLDERS PLAYING A KEY ROLE IN THE PROCESS.

UNDERSTANDING THE SUPPLY CHAIN

Almost all respondents (89%) have mapped their supply chain to identify challenges arising from Brexit. This is a very positive result and a significant leap from 62% recorded in March 2018. It demonstrates that most businesses are spending time to better understand their logistics arrangements and appreciate the benefits of understanding the complex networks and interdependencies between the partners involved.





Supply chain mapping is being completed as part of both formal and informal planning and is a vital first step to managing logistics complexities arising from Brexit. Larger companies lead the way with almost all (95%) companies with turnover exceeding €100m reporting that they have mapped their supply chains. Only 65% of smaller companies (<€1M turnover) have mapped theirs. Given the likely resource and/or capability issues for smaller companies, this is still a positive result and shows that a large majority of companies have taken time to understand the factors involved.

LEAD TIMES AND SHELF LIFE

Over two thirds (69%) of respondents have a commercial model that is sensitive to an increase in lead times. Of those that do have sensitivity to lead times:

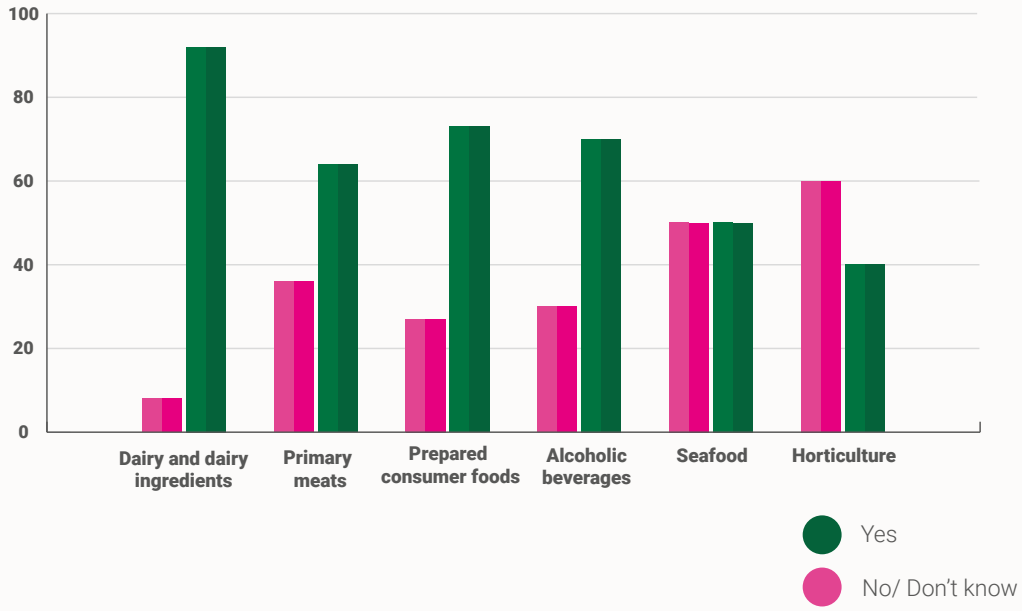
+ **60% stated that both export and import supply chains would be impacted by a time increase**
+ **27% of respondents believe only the export element of their supply chains will be impacted**

CONTINGENCY PLANNING

The Barometer reveals that 70% of respondents have developed contingency options for holding stock in response to Brexit. This indicates a high level of preparation by the respondents. Dairy & Dairy Ingredients (92%), Prepared Consumer Foods (73%) and Alcoholic Beverages (70%) are particularly active in developing plans due to the long shelf life of their products.



Have you developed contingency options for holding stock in response to Brexit?



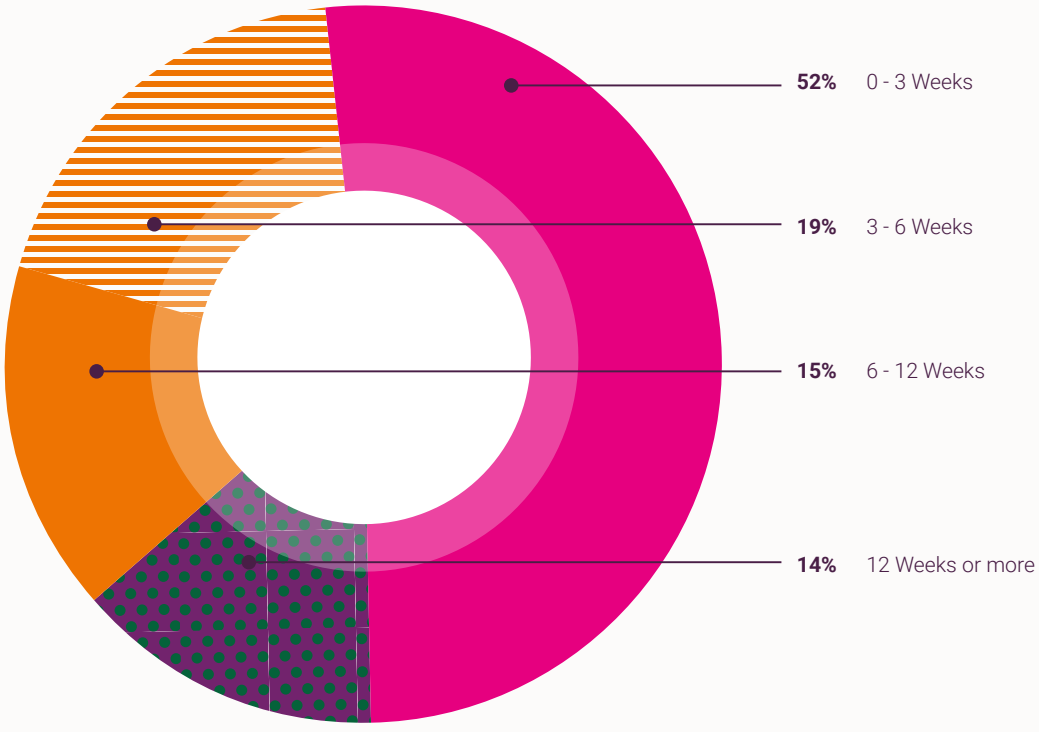
Of those that have developed contingency plans, 85% have activated these plans. In many cases, these plans have been designed and activated without any request from customers. This is an encouraging trend across all sectors and demonstrates the proactivity of Irish food, drink and horticulture companies in ensuring delivery of supply on time and in full is not impacted by disruption at UK borders post-Brexit.

Many companies are also holding stock on the continent for European customers, to pre-empt potential disruption arising from the UK landbridge and over-subscribed ferry routes. It should also be noted that there were some respondents who have plans in regards to stock holding, but have not activated them at this time. However, they will be fully prepared should the need arise.

85%

OF THOSE THAT HAVE DEVELOPED STOCKHOLDING PLANS, 85% HAVE ACTIVATED THESE PLANS.

How much stock are you holding outside of Ireland?



A GREAT DEAL OF UNCERTAINTY STILL EXISTS ACROSS COMPANIES...

Over half of respondents (52%) are holding three weeks of stock outside Ireland. 19% are holding 3 to 6 weeks.

The implications of this are significant. Holding stock impacts on working capital and adds cost to the supply chain which is not recoverable from the market. Rotating stock as buffers are built up and then stood down in response to shifting Brexit timelines requires additional resources. It should also be noted that while it was possible for respondents to store buffer stock in the spring, this will not be as feasible in the lead up to the UK's October 2019 exit date, as warehousing and storage will already be at full capacity for the busy Christmas trading period and logistics systems will be under pressure.

There are a cohort of companies who are not able to hold stock, due to challenges such as short shelf life, cost and capacity constraints for warehousing and cold stores.

CONFIDENCE IN SUPPLY CHAIN PARTNERS

When assessing the overall impact of Brexit on logistics, companies have higher levels of concerns around links in the supply chain that are outside their control.

Of the total respondents, 81% have spoken to their logistics partners in the past month, with almost all (92%) having spoken with their logistics partners over the last three months.

Despite these recent discussions, there is still a lack of confidence in the preparedness of logistics partners. Furthermore, the company interviews highlight that these discussions are being initiated, driven and revisited by the Irish food and drinks manufacturers, rather than by the logistic partners.

However, a great deal of uncertainty still exists across companies of all turnover ranges. The majority (89%) of food and drinks manufacturers have mapped their supply chains as part of their Brexit preparation, yet there is a distinct level of discomfort around some supply chain partners' readiness. Respondents report the following levels of uncertainty per supply chain partner:

+ **Ports' readiness – 64% are unsure**
+ **Shipping stakeholders' readiness – 47% of respondents are unsure**
+ **Hauliers' readiness – 37% of respondents are unsure**
+ **Freight forwarders – 35% of respondents are unsure**

The highest confidence levels are for packaging partners (62%). There is a positive trend of growing confidence as in March 2018, only 28% of companies were of the view that their supply chain partners were adequately prepared for Brexit. However, it is clear that issues remain outstanding.



52%

52% OF RESPONDENTS ARE HOLDING 3-6 WEEKS OF STOCK OUTSIDE IRELAND.



It is reported that there is a general lack of truck drivers available and manufacturers fear that this will be exacerbated post-Brexit. There are also concerns around tachographs and how Brexit may impact on drivers' rest times and working time rules. This demonstrates that there are risks at play for the haulage sector itself, which if realised may have a knock-on effect on their consigners in the food and drink sector.

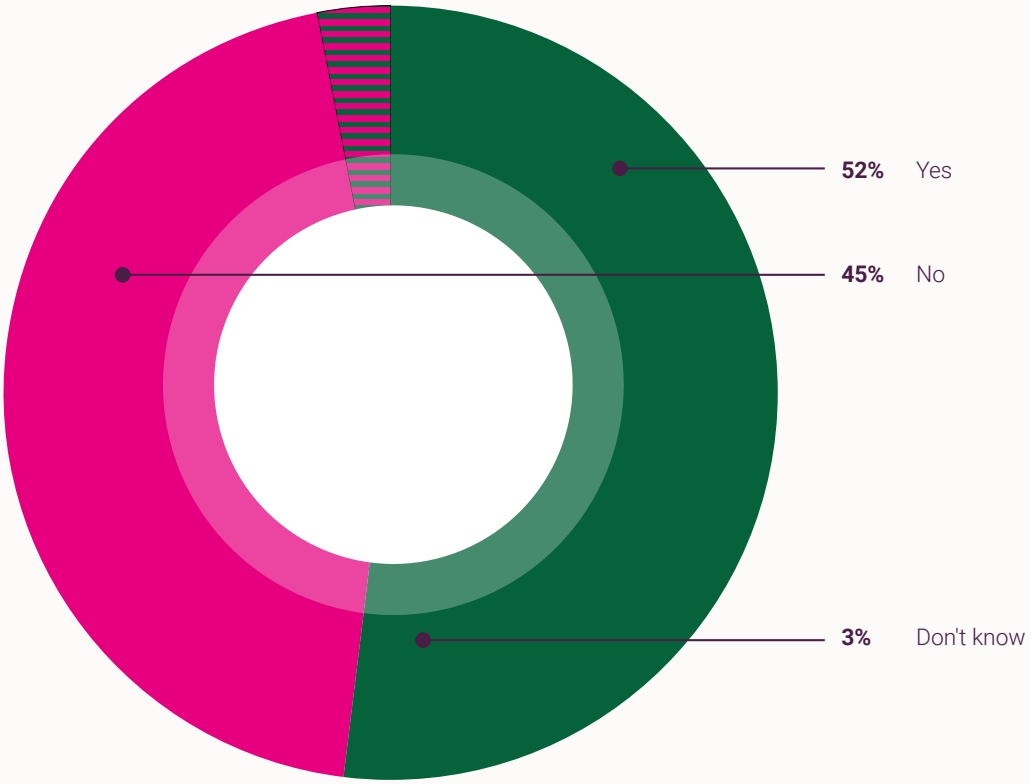
This potential vulnerability in the supply chain is a key concern for the food and drinks sector. Manufacturers relying on groupage arrangements are particularly concerned by how potential complexities will be managed by their partners.

It appears from the interviews that the larger manufacturers are receiving a better level of service from logistics partners and are therefore better protected from potential delays and other impacts. Best practises reported by food and drinks manufacturers include hauliers and freight forwarders that are proactively offering Brexit easing solutions to their consigners, are testing their systems, are engaging with Revenue, are considering or pursuing AEO certification, are adequately insured and are offering customs agent services.

GROUPAGE

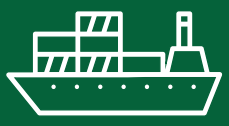
Groupage is an arrangement where the consignments of several companies are transported together in a single container.

Are you dependent on groupage arrangements for exports to the UK or exports using the UK landbridge?



Over half (52%) of respondent companies are dependent on groupage arrangements for exports to the UK, or exports using the UK landbridge. There is slightly lower dependency for the larger companies and this reflects their greater ability to move full loads rather than rely on shared consignments.

In the context of Brexit, the challenge with groupage is that customs inspectors or SPS and other control officials may wish to inspect several consignments in a load, resulting in accumulated delays.



52%

52% OF RESPONDENT COMPANIES ARE DEPENDENT ON GROUPAGE ARRANGEMENTS FOR EXPORTS TO THE UK.

AUTHORISED ECONOMIC OPERATOR (AEO)/ "TRUSTED TRADER"



Progress has been made since March 2018 regarding companies' knowledge as to whether their logistics partners are registered as a trusted trader/AEO:

+ **53% said yes (versus 16% in 2018)**
+ **11% said no (versus 16% in 2018)**
+ **36% don't know (versus 68 % in 2018**)

When analysed by company size, there is large proportion of companies with turnover of less than €1m (65%) who don't know whether their logistics partners are registered as a trusted trader/AEO.

Just over half (51%) of participants' logistic partners are willing or able to act as their customs agent for the UK market, and 17% are not. Three out of ten businesses don't know if their logistics partners can act as their customs agents. When this data is analysed by company size, 35% of companies with turnover of less than €1m do not know if their logistics partners can help them with this. Having a customs agent ready, or having the capacity to manage this in house, will be crucial for doing business with UK customers under a range of Brexit scenarios. During company interviews it became clear that some manufacturers are appointing hauliers or freight forwarders primarily because they have agreed to act as customs agents.



51%

51% OF PARTICIPANTS' LOGISTIC PARTNERS ARE WILLING OR ABLE TO ACT AS THEIR CUSTOMS AGENT FOR THE UK MARKET.

RESILIENCE TO LOSS OF SUPPLY CHAIN PARTNERS



Of those companies who identified a critical dependency on supply chain partners:

+ **24% feel that they are resilient to the loss or impending loss of a critical supplier due to Brexit, and they have tested this resilience (versus 23% in 2018)**
+ **However, 44% have a critical supplier dependency but have not tested their resilience (58% in 2018)**
+ **24% are not resilient to the loss of a critical supplier (14% in 2018)**

This response came through at all company turnover levels and is a concern, as loss of a critical supplier could severely impact on the companies' ability to supply their customers. There is a requirement for manufacturers, both large and small, to be clearer on how to identify, assess and test the various elements of their supply chain. It is important to view supply chain resilience through the lenses of risk, rather than solely through a financial lense. This is because the cost of the item could be low, but a scarcity of supply of that item could impact the companies' ability to produce the product and ultimately supply the customer.

SOURCING STRATEGY

One in five (21%) respondents have changed their raw materials and input sourcing away from the UK because of Brexit. Of these, a large number are sourcing from within the EU. Ireland/ROI and other international markets have also benefitted. A further 20% intend to but have not yet activated this plan. Just under half (48%) have no intention of sourcing away from their current UK suppliers yet.

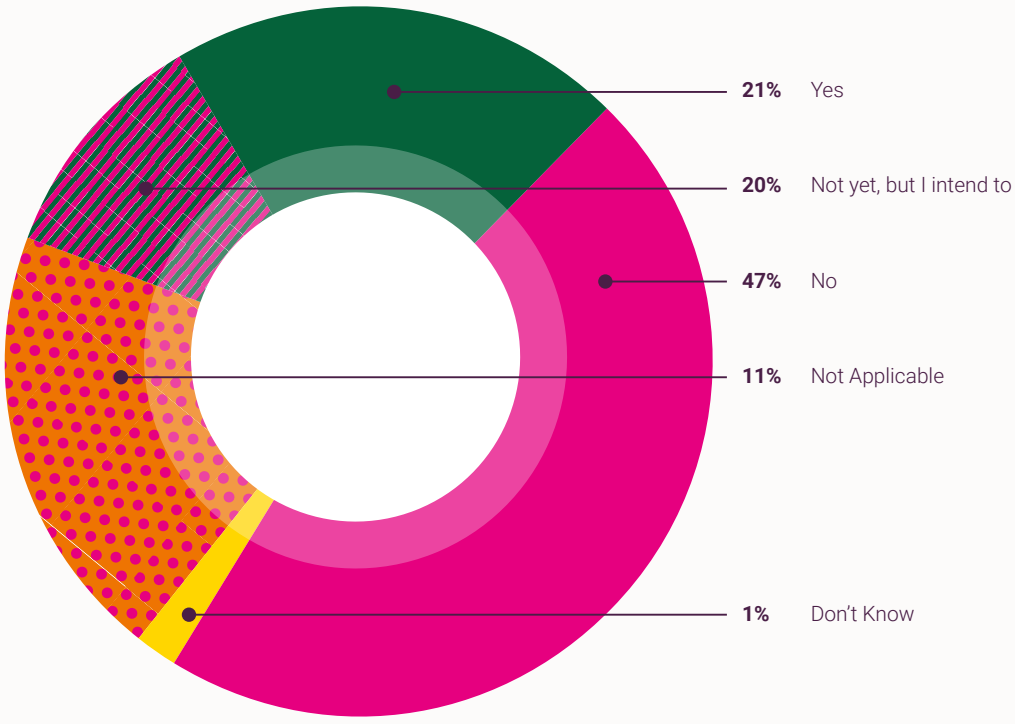
A variety of reasons were cited for this, including an added logistics complexity from sourcing further from the UK as well as a desire to continue supporting long term UK partners. A small cohort of businesses called out their UK glass jar manufacturer as a critical supplier and added that an EU supplier was not an option due to glass production being at full capacity in mainland Europe. This is principally due to the move towards glass and away from plastics for environmental reasons.



21%

21% RESPONDENTS HAVE CHANGED THEIR RAW MATERIALS AND INPUT SOURCING AWAY FROM THE UK BECAUSE OF BREXIT.

Have you changed your raw materials and inputs sourcing away from the UK as a result of Brexit?



UK LANDBRIDGE CHALLENGES (EU & OTHER MARKETS)

IMPACT OF LANDBRIDGE

Ireland faces several unique risks posed by Brexit, not least its geographic island location at the edge of Europe. After decades of easy access to Europe via the UK, over half (53%) of respondents are dependent on the UK landbridge for exports to other markets and 51% report concern on how Brexit will impact this route. 57% are dependent on the landbridge for their imports into Ireland.

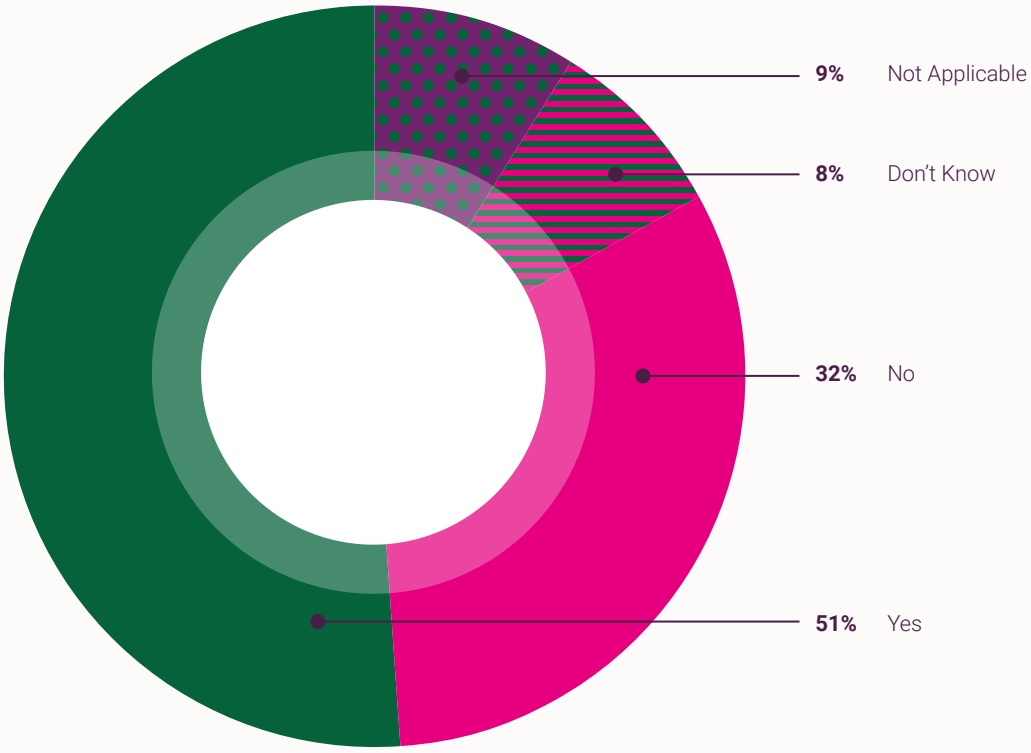
There is some variance across sectors, with Dairy & Dairy Ingredients and Primary Meats expressing the most concern about exports, 75% and 73% respectively. Company size did not emerge as a factor. The main issues causing concern amongst manufacturers are longer travel times, potential delays for both imports and exports, due to inefficiencies and weather disturbance, as well as increased costs. All these factors could cause customer dissatisfaction in both the domestic market and on the continent.



53%

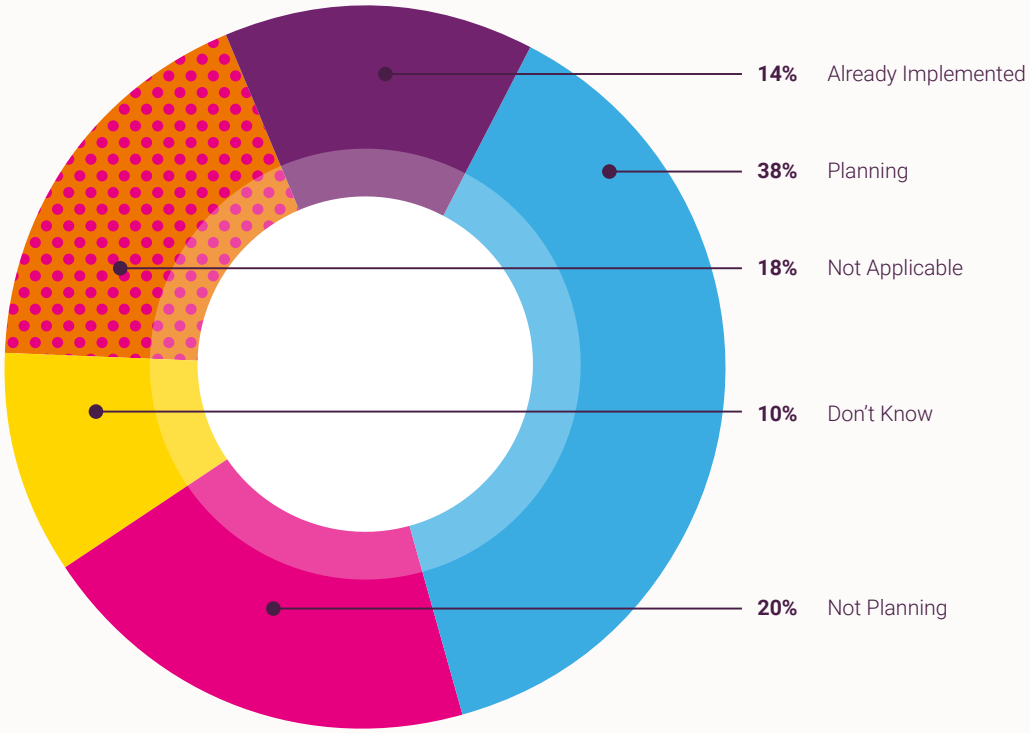
53% OF RESPONDENTS ARE DEPENDENT ON THE UK LANDBRIDGE FOR EXPORTS TO OTHER MARKETS.

Are you concerned by the impact of the UK landbridge on your exports to other markets?



AVOIDING THE LANDBRIDGE

Have you planned alternative routes to avoid the UK landbridge?



Just over half of respondents are either planning alternative routes to avoid the UK landbridge (38%) or have already implemented plans to avoid it (14%). The overall figure for alternative landbridge routes increases to 64% when respondents who answered "not applicable" are excluded. This is positive in terms of the awareness, preparedness and activation by the respondents to minimise the impact of the landbridge on exports and/or imports. That said, it should be noted that this has come at a financial cost to manufacturers. Likewise, avoiding the landbridge may have knock on impacts on manufacturers' lead times. With alternative ferries to the continent leaving at different times than those to the UK, this new scheduling must be factored into manufacturing and ordering times, resulting in a knock on effect on all elements of production. Primary Meats leads the sectors with 46% planning alternative routes and 36% having already implemented plans.



51%

51% REPORT CONCERN ON HOW BREXIT WILL IMPACT THE UK LANDBRIDGE.



KEY TAKEAWAYS

There is definite evidence of real progress in mapping and understanding supply chains, which implies both effort and understanding from companies of the importance of knowing each link in the chain.

Shelf life continues to be a challenge, particularly in the Horticulture sector, where potential delays at port will potentially have a severe impact. Seven out of ten companies have a commercial model that is sensitive to an increase in lead times.

Companies are planning to hold contingency stock in the UK, when it is logical and affordable to do so. There is certainly a level of concern around warehouse and cold store capacity and availability in the UK.

While it is positive to report a high level of engagement and discussion with logistics partners, concerns have been expressed about the preparedness of these partners. These concerns are supported by the company interviews and the survey results. This is a real and tangible risk that is outside the control of respondents.

Regarding the preparation levels of logistics partners, over half know that their partners are AEO registered, and half also state that their logistics partners are willing to act as their customs agents.

A further area of immediate concern is around understanding and testing supply chain resilience. Of the 51% who identified a critical dependency on supply chain partners, only 24% have tested this resilience. Loss of a key supply chain partner has the potential to disrupt supply to customers.

Planning for alternative routes to avoid the landbridge for imports from and/or exports to other markets is encouraging, although it should be noted that it brings with it a financial cost for manufacturers.

Bord Bia's interviews have highlighted that each supply chain is unique and nuanced, with inter-connected levels of dependency across supply chain partners. Therefore, each company must take the time to map and understand their own supply chains and the unique risks that it faces.

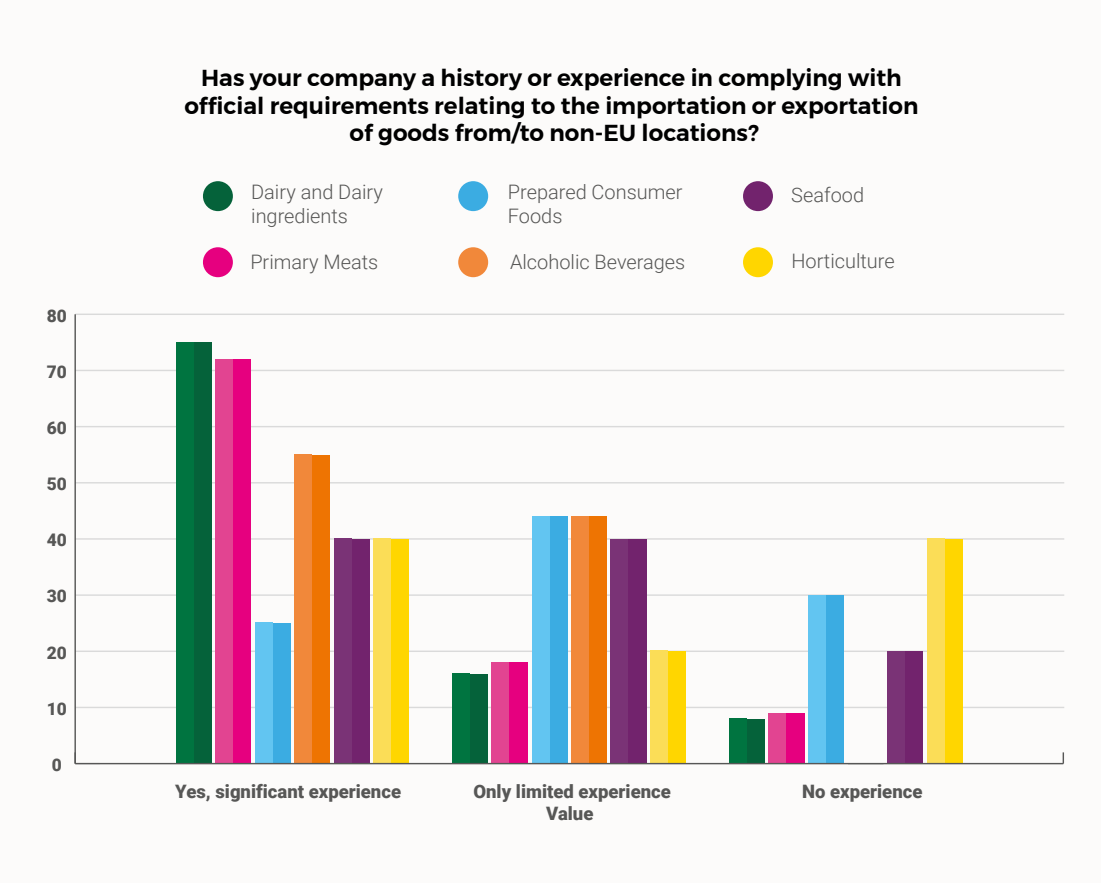
CUSTOMS AND CONTROLS

Depending on the final Brexit outcome, it is likely that Irish exporters will face new challenges when doing business with UK customers due to additional time and cost pressures. These challenges may arise in the form of customs compliance, payment of tariffs and sanitary and phytosanitary (SPS) controls. Those manufacturers that currently only do business in the UK or other EU markets will be particularly impacted by these new complexities.

CUSTOMS PROCESSES

Experience managing customs compliance

Four in ten respondents report that they have significant experience in complying with official requirements relating to the importation or exportation of raw materials & inputs from/to non-EU locations. Over one third (37%) report only limited experience while the remaining 22% stating they had no experience at all.



Those companies with little experience will be particularly vulnerable to systems changes and increased planning and costs in their supply chain. It is recommended that they leverage the supports available from Bord Bia and other organisations to help manage this. More information on these supports can be found in Bord Bia's Brexit Action Plan. .

There is variation in response depending on company size and sector whether they have experience of dealing with complying with official requirements in regards to importing and exporting to non-EU countries:

+ **Almost all (90%) respondents with turnover of €100m+ have significant experience, reflecting the fact that these companies are doing business in several markets, both inside and outside the EU.**
+ **73% of Primary Meats respondents have significant experience. Again this is consistent with expectations that these businesses are well versed with customs requirements given the nature of their products.**
+ **Alcoholic beverage companies have a 100% response rate in terms of experience reflecting the sector's significant exports to the USA. 80% of Seafood companies report either significant or limited export experience. With over one quarter of Seafood exports destined for Asian & African markets, it's clear the sector has a strong history in managing these processes.**
+ **The data validates that for sectors such as Prepared Consumer Foods, the UK is often the first export market. Therefore it is not surprising to find that 75% of these PCF companies have only limited or no experience with customs requirements.**

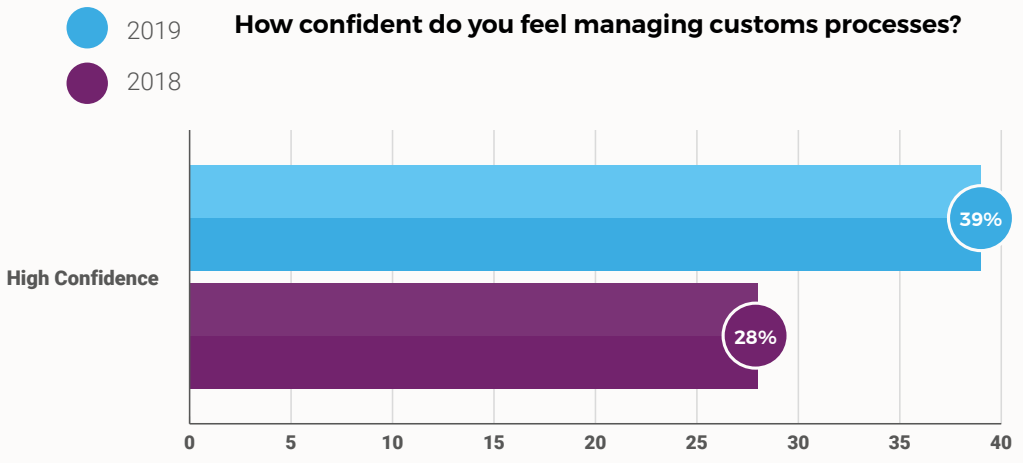
Confidence in managing customs processes

Of those companies that have some level of experience, confidence in managing customs processes is strong. As companies continue to prepare as much as possible for Brexit, 83% expressed high (39%) or slight (44%) confidence in managing customs processes. This is a notable improvement on the 28% who were highly confident in March 2018.

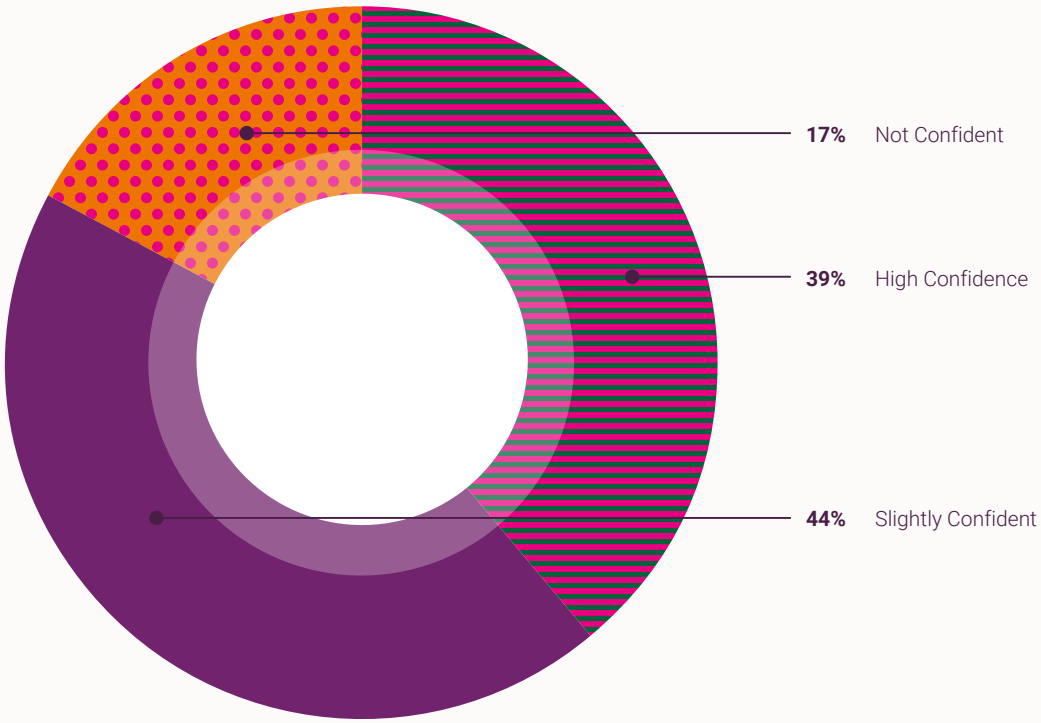


83%

83% EXPRESSED HIGH (39%) OR SLIGHT (44%) CONFIDENCE IN MANAGING CUSTOMS PROCESSES.



How confident do you feel managing customs processes?



Whilst a very large number of manufacturers have upskilled themselves on customs compliance through Bord Bia, Local Enterprise Office and other training programmes and have taken the necessary steps to prepare for this new trading reality, they will not feel highly confident until those systems have been tested in practise.

In terms of company size, 95% of €100m+ turnover companies are either highly (67%) or slightly (29%) confident in managing customs compliance. At the other end of the scale, 35% of companies with turnover of less than €1m are not, due to lack of experience and practise.

There is high confidence in sectors including Alcoholic Beverages (67%), Primary Meats (64%) and Dairy & Dairy Ingredients (58%) in managing customs compliance, due to either their scale or their experience in exporting to third countries.

CUSTOMS AGENTS

45% of respondents have identified an external customs agent for doing business in the future with the UK. Just under half of these (19%) have already hired them. 9% intend to manage this internally. This is reasonably consistent with the 51% of respondents who identified their logistics partners as being willing or able to act as their customs agent for the UK market (refer to the Supply Chain section).

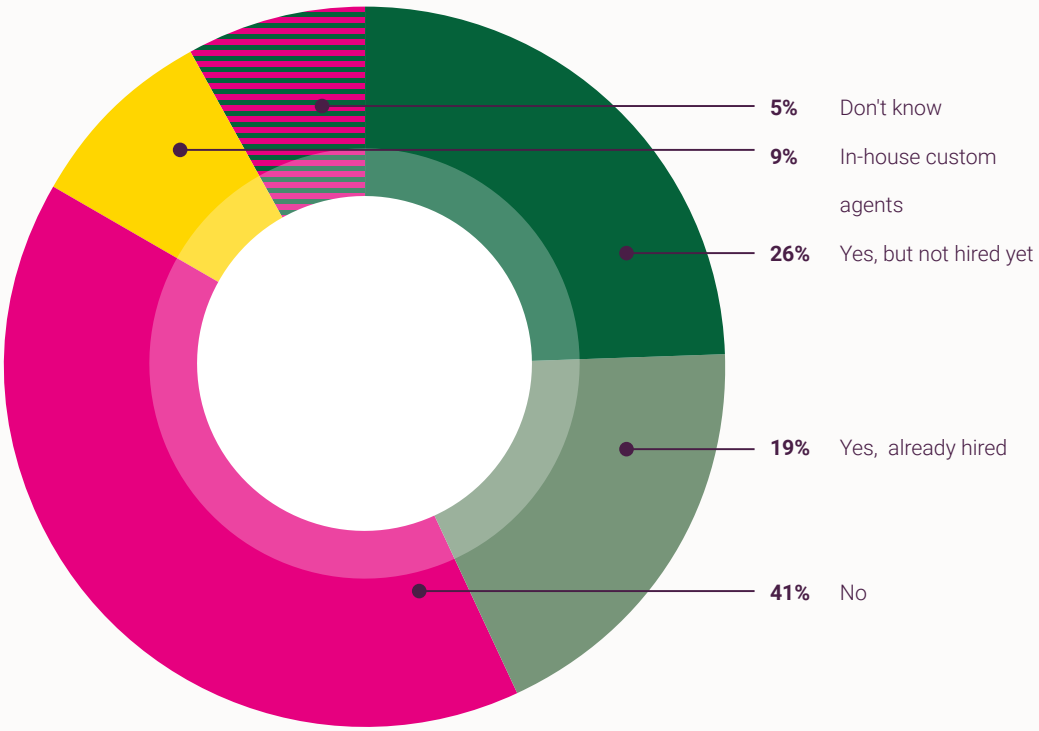
The 41% of companies that have not yet identified an agent will need use one of a number of options: find one as soon as possible, identify logistics partners that can offer this as part of an overall package or set up the necessary training, IT systems and software to manage this in house.



45%

45% OF RESPONDENTS HAVE IDENTIFIED AN EXTERNAL CUSTOMS AGENT TO HIRE FOR DOING BUSINESS WITH THE UK.

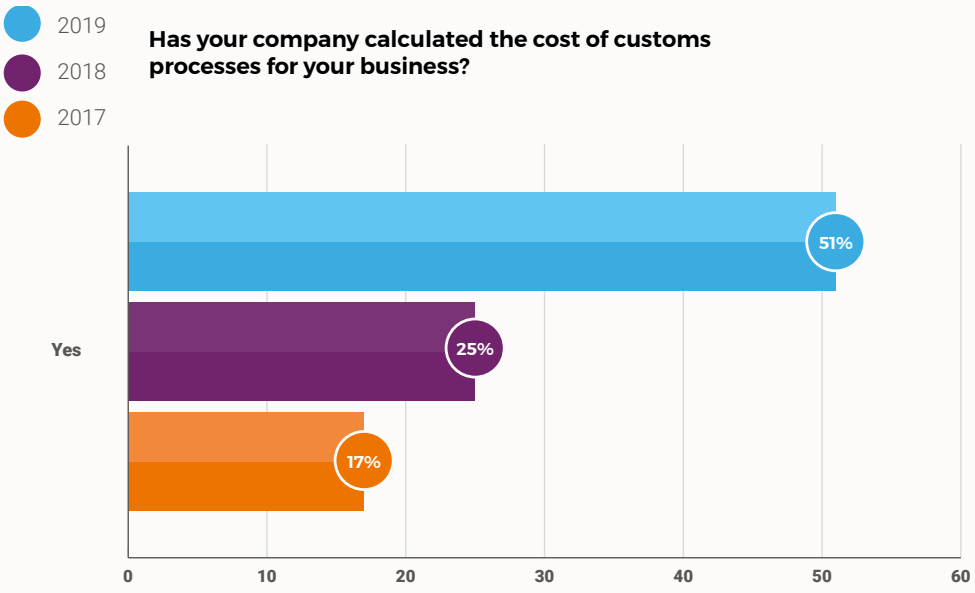
Have you identified an external customs agent to hire for doing business in the UK?



FINANCIAL IMPLICATIONS

Cost of customs compliance

Customs compliance requires administrative work which can be a time and significant cost burden for companies that are exporting to non-EU markets. Costs will be incurred through the recruitment and retainment of either customs agents, distributors or other partners that manage this as a paid service. Costs that emerge include fees, customs duties, deferred payment accounts, changes to systems and reporting.



Over half (51%) of respondents have calculated or estimated the cost of customs compliance. This is a significant improvement on prior years (2018 – 25%, 2017 – 17%) and likely reflects the increased preparation level of respondents in anticipation for the expired March 29th and April 12th Brexit deadlines. However it's clear that there is still room for improvement on forecasting and understanding the cost implications. This will impact companies' profitability, so it is vital that they have calculated this cost and factored it in to their financial projections.

Of the larger companies (€100m + turnover), 86% have calculated the cost of customs processes/ compliance, while just a quarter of smaller companies (less than €1m turnover) have done so due to resource issues. Unsurprisingly, given their experience of trading beyond the EU, Dairy & Dairy Ingredients and Primary Meats feature prominently again with positive response rates at 75% and 64% respectively.

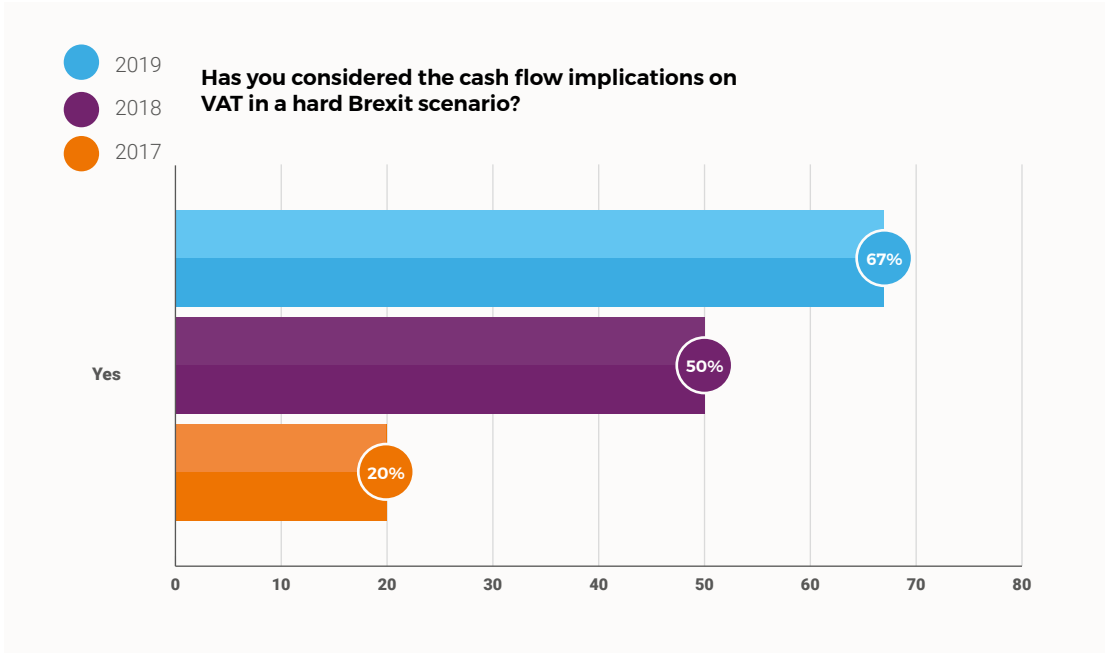
Of the Prepared Consumer Foods respondents, 54% have calculated the cost of customs processes/compliance.

Cash flow implications of VAT in a hard Brexit

The system for transactions with the UK, particularly invoicing and reporting, will change following Brexit. This may result in cash flow impacts, as well as increased administration for manufacturers selling to UK customers.

In the event of a hard Brexit, two thirds (67%) of respondents have considered the cash flow implications on VAT, again evidencing the increasing efforts by companies to be as prepared as possible for the impact of Brexit. This is an increase on last year's figure of 50% and the 20% response rate in 2017.





HMRC's no-deal plans currently include postponed accounting to avoid the cash flow burden of paying import VAT on goods at the time of arrival from Ireland and the EU. Likewise, Irish Revenue have opened applications for a deferment account for payment of VAT on UK imports so that the payment of VAT and Duty can be deferred to the 15th day following the month of import of the goods. However, Irish food and drinks manufacturers should continue preparations for changes to the UK's VAT system in order to be ready for a number of scenarios.

This is less of an issue for companies who are in a VAT receivable position, as often they only pay VAT on packaging. However, it remains a concern that one third of companies have not considered the cash flow implications on VAT in a hard Brexit scenario. It is important for Irish businesses to keep focused on any changes in tax rules that emerge as Brexit negotiations evolve.

COMMERCIAL CONSIDERATIONS

Review of commercial contracts

Incoterms are a set of rules that define the responsibilities of sellers and buyers for the delivery of goods under sales contracts. They are published by the International Chamber of Commerce (ICC) and are widely used in commercial transactions.

Incoterms define the basic responsibilities of the contracting parties for the goods at each point during the transit process, from the sellers' premises to the buyers' premises. They typically cover matters such as who handles customs procedures, who pays taxes and duties, who arranges transport, who has responsibility for insuring the goods and so forth. They can vary by agreement or by customer in particular circumstances.

A key incoterm that will be central to many supplier and customer discussions is Delivered Duty Paid (DDP). This term places maximum responsibility on the supplier to deliver the goods and also makes the supplier liable for the payment of all customs related costs, including tariffs. Ensuring clarity on obligations that are enshrined in commercial contracts is crucial in Brexit planning. However, only one quarter (26%) of respondents have reviewed their contracts with UK stakeholders to include Incoterms.

For trade post-Brexit, the UK will be considered a third country, which means that trade between the Republic of Ireland and the UK will be treated the same as trade between non-EU countries and Ireland.

Incoterms have been widely used for trade within the EU, though the provisions relating to matters such as customs and border clearance formalities have had little relevance due to the EU customs union and single market. When Brexit occurs, much closer attention will have to be paid to the practical and commercial implications of the Incoterms that are selected.



85%

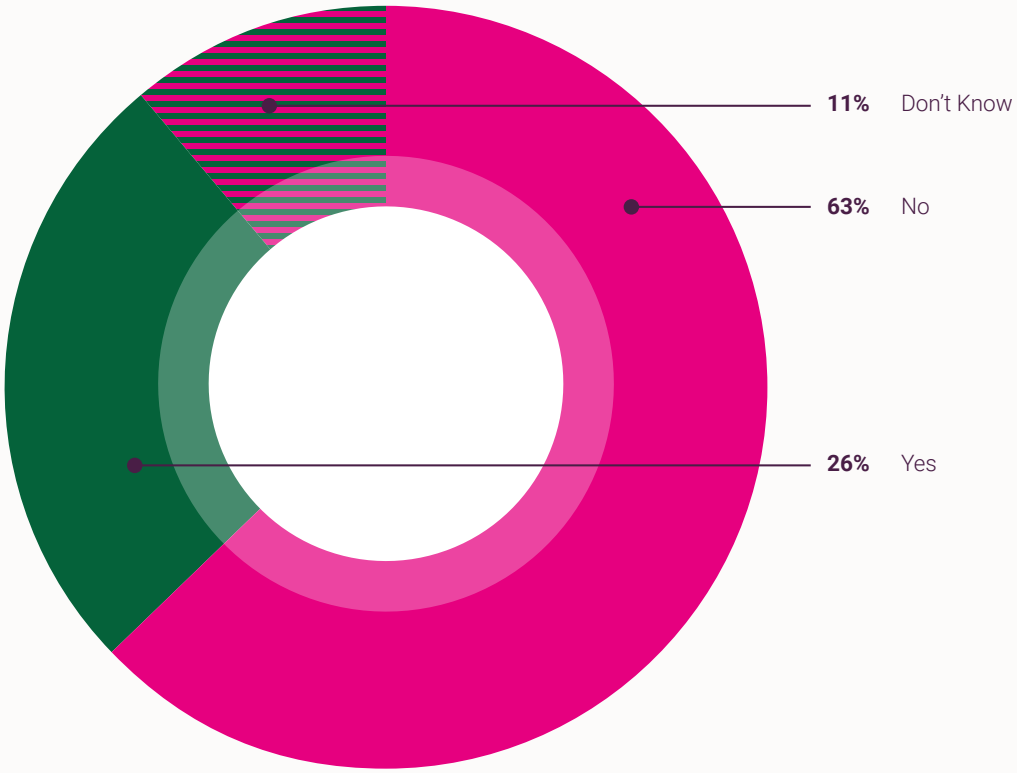
85% OF BAROMETER RESPONDENTS STATE THAT THEY HAVE APPLIED FOR AN EORI NUMBER FROM IRISH REVENUE.



67%

67% OF RESPONDENTS HAVE CONSIDERED THE CASH FLOW IMPLICATIONS ON VAT.

Have you reviewed your commercial contracts with UK stakeholders to include incoterms?



TAKING PRACTICAL STEPS TO PREPARE FOR A NEW CUSTOMS REGIME WITH THE UK

EORI Number – Irish Revenue

Individuals and organisations that are based in the EU and trading goods with countries outside the EU on a commercial basis need an EORI (Economic Operators Registration and Identification) number. It is mandatory for exporting to non-EU countries and it is also mandatory to be EORI registered in order to import goods into the EU from non-EU countries. Providing a number to Customs authorities will allow them to quickly identify you or your company, which will help to get your goods through customs without delays due to time-consuming checks. Without it, Customs can and do take possession of a consignment until an EORI number is produced which creates a further hold-up in transit.

Companies are proactively preparing for Brexit, with 85% of Barometer respondents stating that they have applied for an EORI number from Irish Revenue. This is a positive finding in contrast to an overall national trend of companies overlooking this requirement. According to preliminary figures from Revenue in April 2019, fewer than half of the 84,000 Irish businesses that trade with the UK had registered for an EORI number. It is essential that the remaining 15% of Barometer respondents complete an EORI registration form with Revenue as soon as possible.

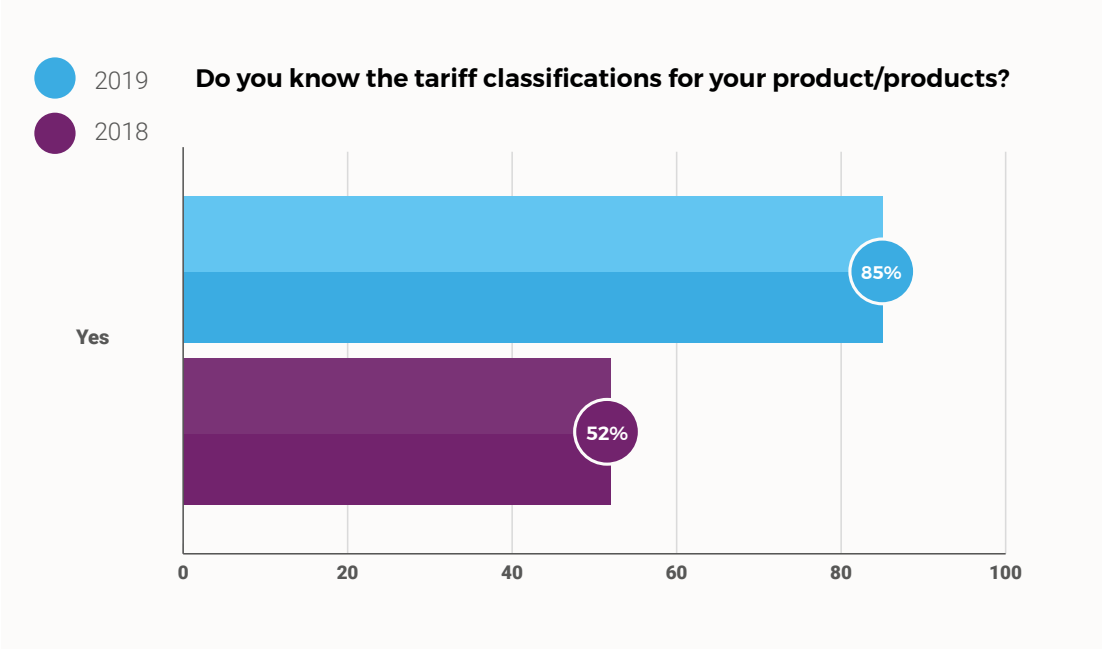
EORI Number – UK HMRC

If the UK leaves the EU with no deal, many Irish businesses will need a UK EORI number to trade goods into and out of the UK. UK Government advice on this is evolving as Brexit negotiations continue. Current guidance from HMRC suggests that Irish manufacturers will need a UK EORI number if they are listed as the importer of record in their commercial contracts with UK customers or if they have UK legal entities within their business. Some companies with many legal entities in their structure have found that each entity needs its own EORI number.

Less than half (43%) of Barometer respondents have applied for an EORI number from UK HMRC. Companies, including those using the UK landbridge, should confirm with HMRC or Bord Bia as a matter of urgency whether they need this number and apply as soon as possible if so. According to HMRC, it takes just five to ten minutes to apply online for an EORI number

Tariff classifications

Almost all (85%) of respondents feel comfortable identifying the tariff classifications for their products. This is a significant increase on last year's figure of 52% and indicates that most respondents have done their research to ensure that they can correctly classify their products. While tariffs for primary processors are relatively straightforward, some secondary processors highlighted that identifying tariff classifications can be difficult for multi-ingredient or composite products.



Bord Bia assists in identifying the correct code and for those more complicated products, Revenue provides a free service to assist in classification. Binding Tariff Information[13] (BTI) decisions are classification decisions issued by the Customs administrations in the various Member States. A BTI decision is a written tariff classification of your goods. It's not a legal requirement, but it provides assurance that a company's goods have the correct commodity code and is legally binding on all EU customs administrations.

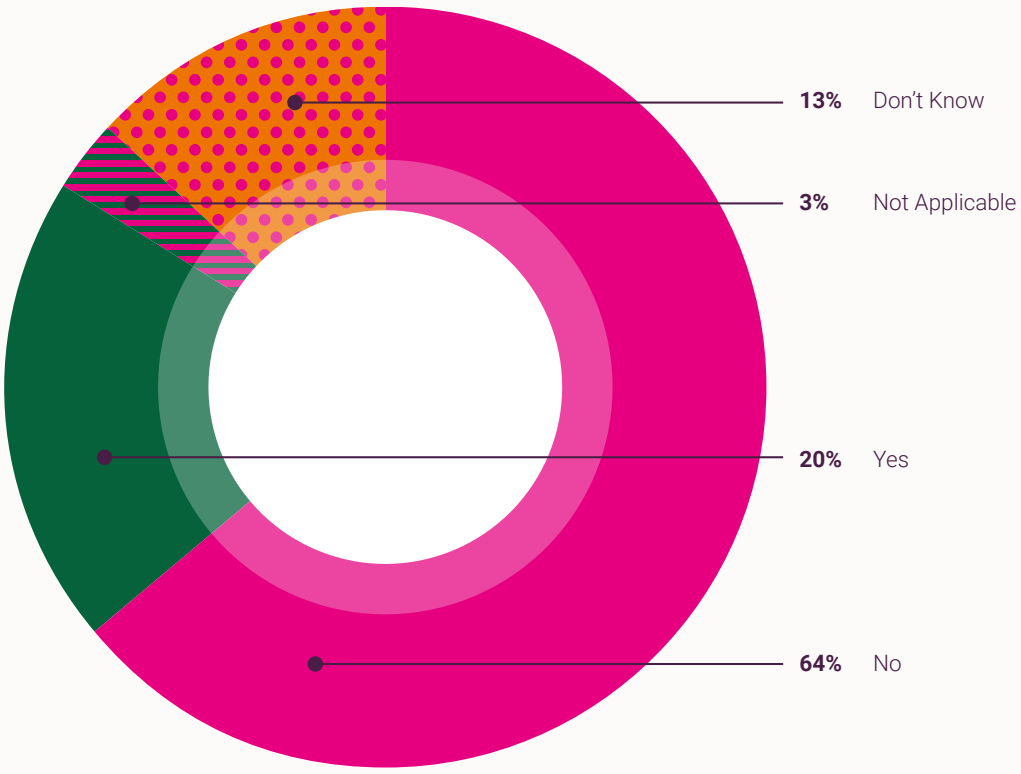
16% of respondents have applied to Irish Revenue for BTI, with a further 12% intending to do so, reflecting that most respondents are confident in determining the tariff classification for their product(s).

Deferred payment account

A deferred payment account is an account for a loan arrangement in which the borrower can start making payments at some specified time in the future.

Only 20% of respondents have set up a deferred payment account with their Irish bank for the payment of customs duties. By sector, just over half Primary Meats and half of Horticulture companies have set this up. Of companies in the €100m+ turnover range, 38% have set up a deferred payment account.

Have you set up a deferred payment account* with your Irish bank for the payment of customs duties?





20%

ONLY 20% OF RESPONDENTS HAVE SET UP A DEFERRED PAYMENT ACCOUNT WITH THEIR IRISH BANK FOR THE PAYMENT OF CUSTOMS DUTIES.

[13] https://www.revenue.ie/en/customs-traders-and-agents/importing-and-exporting/binding-tarrif-information-bti/index.aspx

Authorised Economic Operator (AEO)

The concept of trusted trader / AEO has been described in the Supply Chain section of this report. The benefits of being registered as AEO include:

+ **Lower risk scores in risk analysis systems when profiling**
+ **Priority treatment if physical controls are conducted**
+ **Easier access to simplified procedures**
+ **Recognition from customers and authorities as safe, secure and compliant business partners in international trade**
+ **Reductions or waivers of comprehensive guarantees**

Of the total number of respondents, 27% have applied for AEO status in comparison with 23% in March 2018.

Larger companies lead the way, with 52% having applied for AEO status in the €100m+ bracket. Some of those who have not applied are relying on their logistics partners being AEO certified, whilst others do not believe it will add value as products of animal and plant origin are automatically subject to SPS inspections at point of entry. Others feel that the process is administratively burdensome and/or have resource issues.

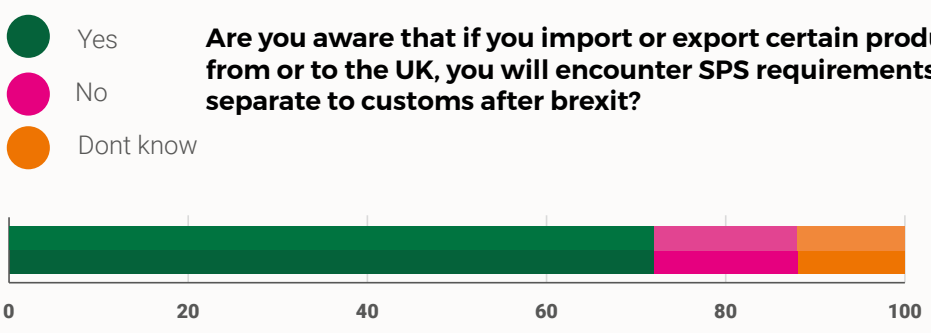
CONTROLS ON PRODUCTS OF ANIMAL AND PLANT ORIGIN

As the UK exit date approaches, controls on animal and plant origin are being brought into sharp focus. Should the UK leave the EU without a deal, it would be subject to the EU's existing SPS controls. Any softening of these controls would be subject to a future trading agreement. As such, Irish food and drinks manufacturers may need to manage a variety of border controls and inspections. For companies that currently only do business in the EU, managing these controls could be new to their business.

Many manufacturers are confused by the definition of products of animal and plant origin and are unsure whether their products are subject to these inspections. Throughout Bord Bia's company interviews, many Prepared Consumer Foods manufacturers queried whether their products' ingredients classified them as being of animal or plant origin due to the diverse range of cooked and uncooked components in them.

SPS (Sanitary and Phytosanitary) requirements

Assuming a Hard Brexit, 72% of respondents are aware that if they import or export certain products to or from the UK, they will encounter Sanitary and Phytosanitary (SPS) requirements. Some respondents may have answered "don't know" as they were unclear as to whether certain ingredients would result in their product being classified as of animal or plant origin. It's important that all those companies involved familiarise themselves with the SPS requirements as a priority.



Registration with the Department of Agriculture, Food and the Marine (DAFM)

Almost half (49%) of respondents are aware that in order to prepare for a Hard Brexit, they must register with the Department of Agriculture, Food and the Marine (DAFM) to import from and export to the UK.

There is significant difference across the sectors, with Dairy & Dairy Ingredients (75%) and Primary Meats (73%) reporting the highest registration levels. On the other hand, Prepared Consumer Foods (39%) have comparably low levels of registration.

Many of those manufacturers may not be required to register with the DAFM but the lack of clarity must be addressed as a matter of urgency. In addition, they should also contact the HSE and Food Safety Authority of Ireland (FSAI) to seek clarity on registration requirements from those bodies.

For companies using a customs agent to handle the import procedure, they must ensure those agents are also registered with DAFM, FSAI and other relevant bodies.



Registration with the EU TRACES system

TRACES is the European Commission's online management tool for all sanitary requirements on intra-EU trade and importation of animals, semen and embryo, food, feed and plants. It's used to ensure:

+ **Traceability (monitoring movements, both within the EU and from non-EU countries)**
+ **Information exchange (enabling trade partners and competent authorities to easily obtain information on the movements of their consignments, and speeding up administrative procedures)**
+ **Risk management (reacting rapidly to health threats by tracing the movements of consignments and facilitating the risk management of rejected consignments).**

In addition, registration on TRACES may be required to use the UK landbridge to import from or export to other EU markets.

One in four companies (25%) have registered their business with the EU TRACES system to import and export products to/from the UK. A further 20% don't know and the balancing 55% have not yet registered. Again, this will not be necessary for all manufacturers, but clarity is required within each individual business on their own requirements.

Primary Meats and Dairy & Dairy Ingredients have high positive response rates at 64% and 58% respectively. There is then a significant drop across Seafood (30%) and Prepared Consumer Foods (15%).

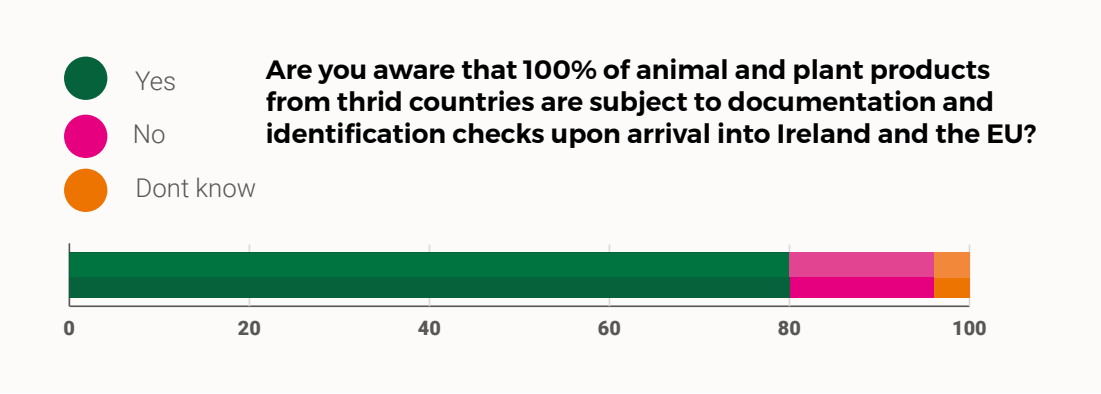
PCF companies should assess if they are required to register on TRACES based on the threshold of meat and/or seafood ingredients in their products. For companies using a customs agent to handle the import procedure, they must ensure those agents are also registered with TRACES and other relevant bodies.



Animal and plant products from the UK post-Brexit

A significant volume of respondents (80%) are aware that all animal and plant products from 3rd countries are subject to documentation and identification checks upon arrival into Ireland and the EU.

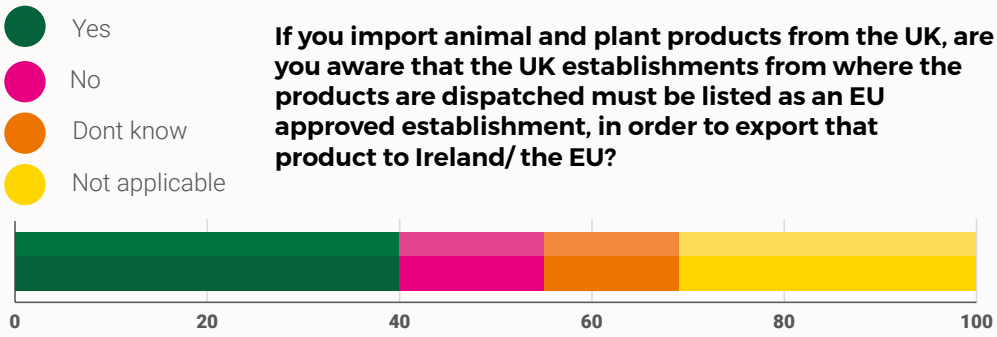
If the UK leaves the EU without a deal, this will apply to the UK as well. There was a positive awareness across all company sizes and sectors.



Requirement for UK establishments exporting to Ireland to be listed as an EU approved establishment

40% of companies are aware that if they import animal and plant products from the UK post Brexit, the UK establishments from where the products are dispatched must be listed as an EU approved establishment, in order to export that product to Ireland/the EU. A further 29% are either unaware of the requirement or were not able to answer the question. Meanwhile, nearly one third report that this requirement does not apply to their business.

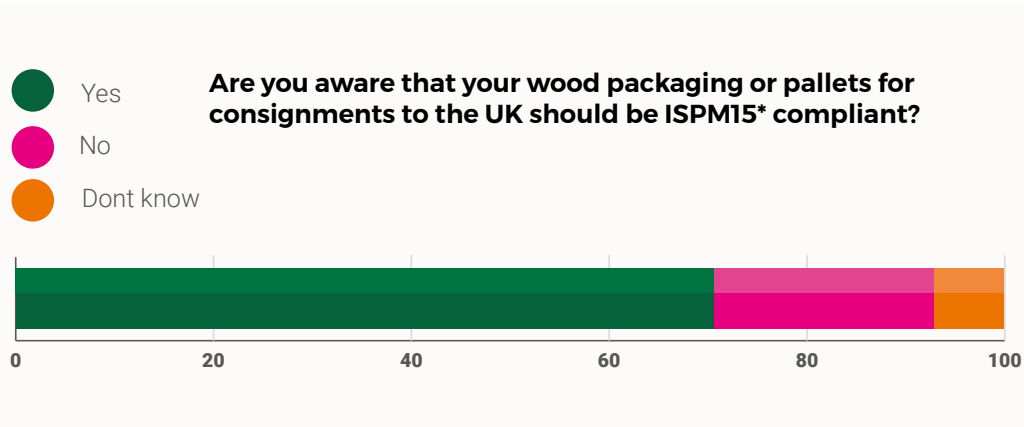
There is a concern that UK entities may leave this to the last minute, and as a result this may cause delays to Irish manufacturers' supply chains. For some companies that currently only source from within the EU, they are mitigating this risk in the short term by building a higher than required stock level in advance of the regulations coming into force. There is of course a cost factor in doing this.



Wood packaging or pallets for UK consignments should be IPSM15 compliant

ISPM 15 is an international phytosanitary measure that sets down standards for treatment and marking of Wood Packaging Material (WPM) (pallets, crates, dunnage etc.) used in international trade. It aims to prevent the international transport and spread of diseases and insects that could negatively affect plants or ecosystems.

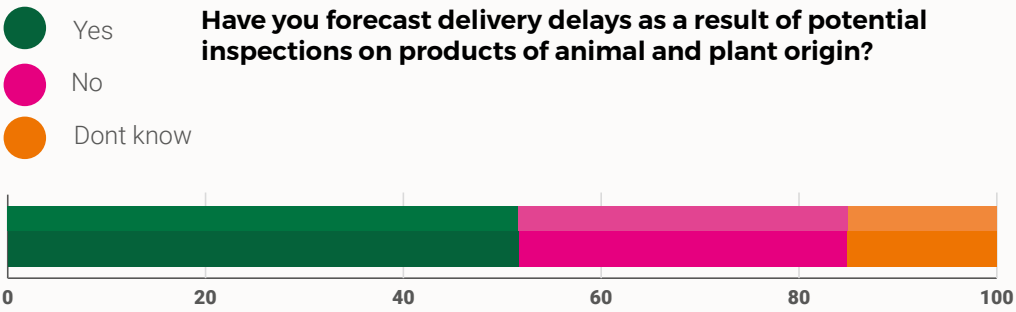
In the case a no-deal Brexit scenario, 70% of respondents are aware that wood packaging or pallets for consignments to the UK would need to be ISPM15 compliant. While awareness around pallet requirements is high, significant concerns were expressed by a broad range of businesses regarding the availability and cost of such pallets, and the risk of fraudulent supply issues.



Delivery delays due to potential animal, plant and product inspections

More than half (53%) of those surveyed have forecast delivery delays because of potential inspections on products of animal and plant origin, while 34% have not. The remaining 13% don't know if the business has carried out analysis of this type.

Of the companies that have completed delay forecasting, some are changing lead times accordingly. There is still uncertainty around how the UK will manage these inspections including where they will take place, thus making scenario forecasting difficult.



KEY TAKEAWAYS

Understandably, many food and drink companies are concerned about the impact on customs processes if the UK becomes a third country. Having said that, as with other Brexit related risks, Irish food and drink companies are investing significant effort into understanding what it will mean for their businesses, both operationally and financially. They are using that information to try and prepare to deal with the risk in as practical a way as possible, given the level of uncertainty that they are working with. The data shows that companies that operate globally have the advantage of having the experience of dealing with third countries and are comfortable with the process that it entails.

Many companies have availed of Bord Bia's and others' customs training, and while the data indicates that levels of confidence in managing customs processes are strong, this preparation will only be fully tested if the UK becomes a third country.

There is disparity in preparation levels when it comes to identifying customs agents for dealing with the UK. While a strong cohort have already done this, it is certainly troubling that 41% have not yet identified a partner for customs compliance. Demand for customs professionals is high, so it is critical for the companies to act quickly and secure the services of a suitable customs agent.

When financial implications were examined, again there are two distinct groups of respondents. Half of the companies have calculated the cost of customs processes, which means they can factor these projections into their budgets and financial scenario planning.

For those businesses who have not yet completed this financial analysis, best practice suggests they should make this a priority action.

Even though the outcome of the Brexit negotiations remains uncertain, there are some practical steps companies can take, including registering for an EORI number in both Ireland and the UK, confirming tariff classifications, modelling the costs of duties and setting up a deferred payment account. Registering for AEO and other simplifications is also worthy of consideration for some companies.

In the context of being as prepared as possible, it is important for businesses to understand the impact of controls on products of animal and plant origin, such as:

+ **Sanitary & Phytosanitary (SPS) requirements**
+ **Registration with DAFM**
+ **Registration with the EU TRACES system**
+ **Awareness of documentation and identification checks for imports**
+ **Knowing that UK establishments exporting to Ireland must be listed as EU approved establishments**
+ **Pallets for consignments to the UK should be IPSM15 compliant**
+ **Potential delays due to animal, plant and product inspections**

Please see Bord Bia's Brexit Action Plan for guidance on how to manage these issues.

FINANCIAL RESILIENCE

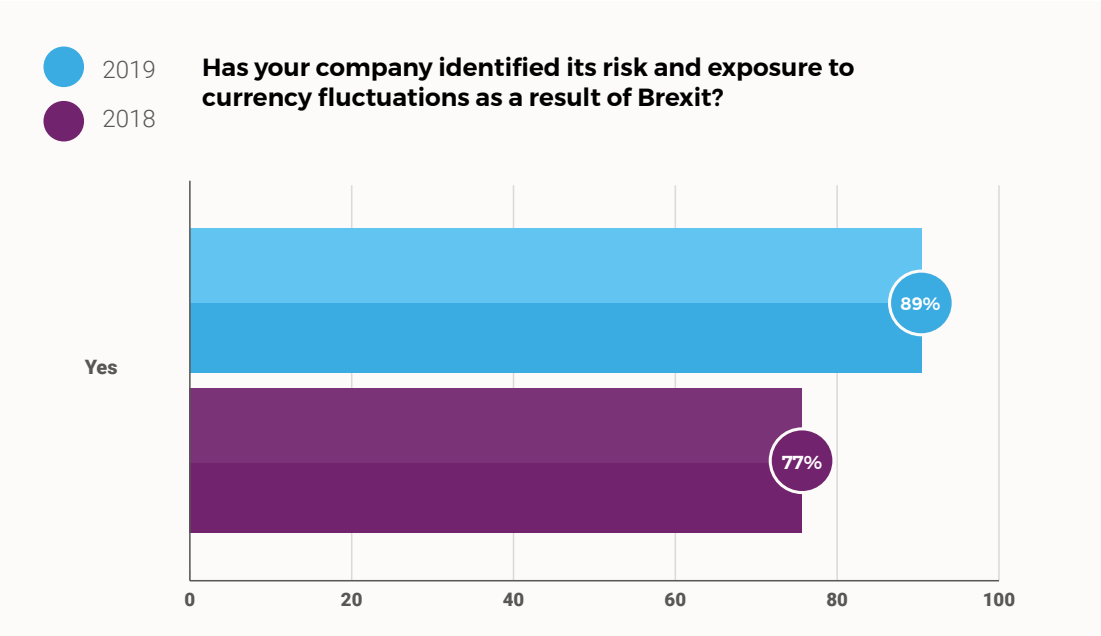
IRISH FOOD AND DRINK COMPANIES HAVE WEATHERED MANY CURRENCY STORMS OVER THE YEARS, INCLUDING STERLING.

IDENTIFICATION OF RISK AND CURRENCY EXPOSURE

Positively, 89% of respondents have successfully identified their Brexit-related risk and currency exposures, an increase from 77% in March 2018. When analysed by company size, almost all the larger companies understand their Brexit currency risk, with exposure identified by the following cohorts:

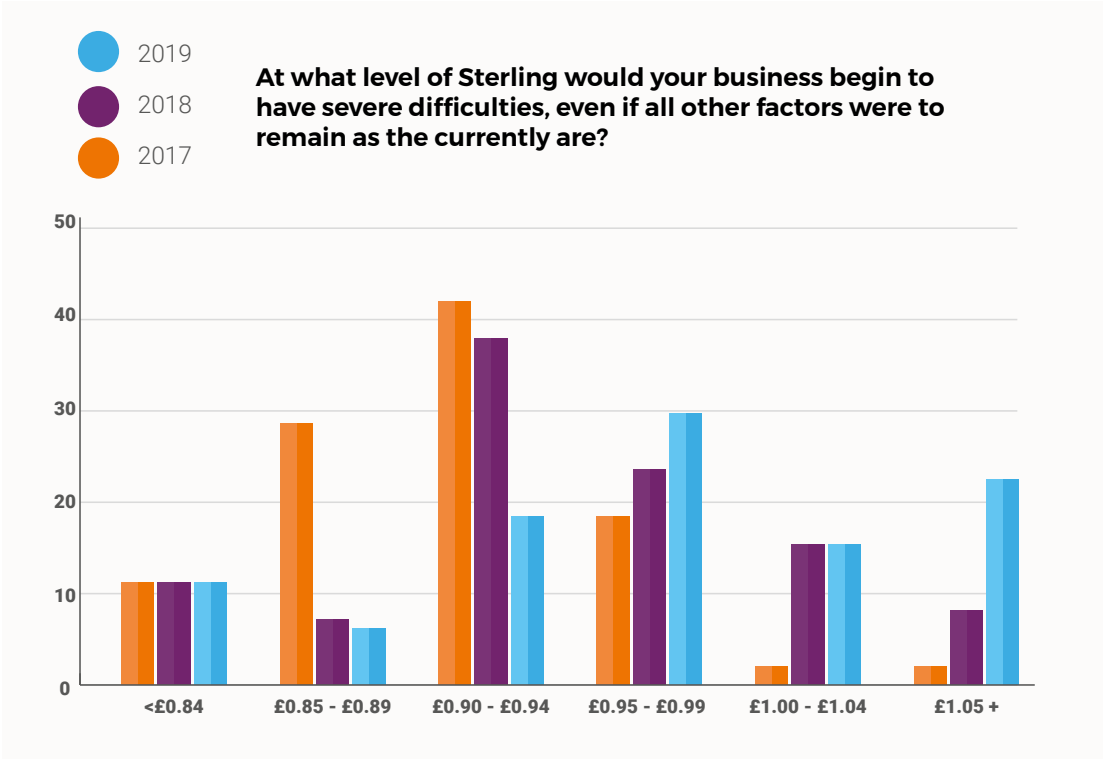
+ **100% - companies with turnover of €100m+**
+ **97% in the €11m - €100m range**
+ **86% with revenue between €1m - €10m**
+ **63% of SME's with turnover of less than €1m**

The percentage of those who identified risk and currency exposures is lower for the smaller companies (>€1m turnover) and this is likely due to lack of resources and/or capabilities. Likewise, some of these micro-enterprises have very low sales volumes in the UK, and as a result have minimal levels of currency exposure.



Managing currency volatility is not a new challenge for most Irish food and drink companies. Over a fifth of companies (22%) identify £1.05+ as the exchange rate that would cause them serious difficulty. A further 15% believe their problems will manifest in the £1.00 - £1.04 range, and 29% call out a rate of £0.95 - £0.99. In contrast, when the 2017 Barometer was conducted, 80% of respondents identified rates of <£0.94 as a challenge.

This positive trend could indicate that companies have become more agile and adaptable in managing currency volatility - and may suggest that exporters have found ways to manage their operational costs, reformulated their products and packaging or negotiated new prices with customers, among other solutions.



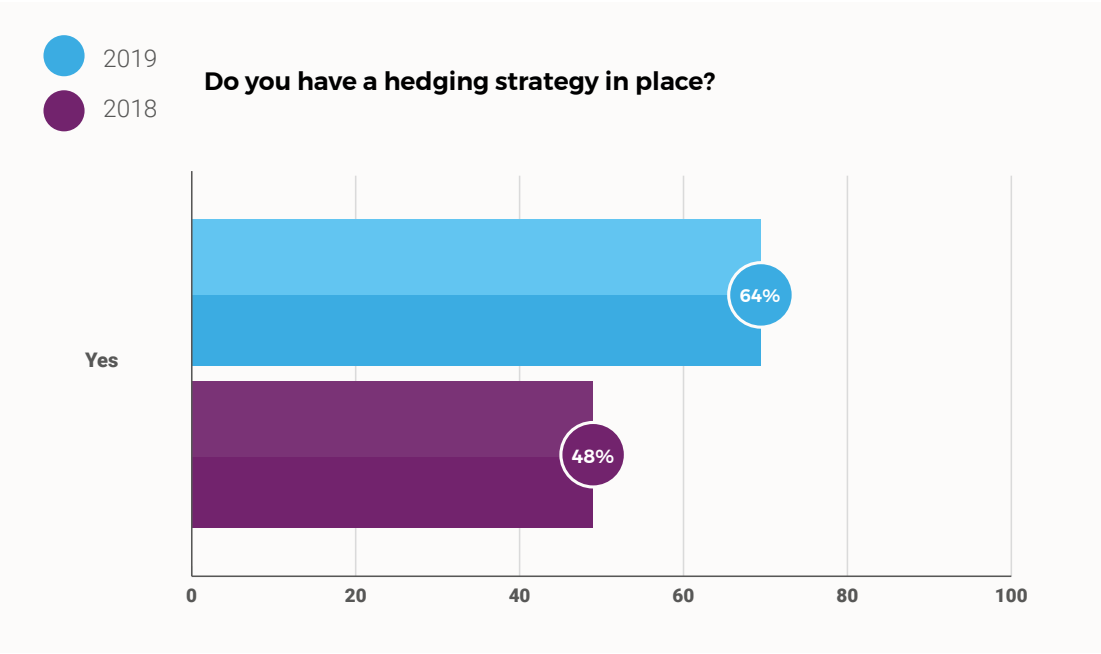
HEDGING STRATEGY

The purpose of hedging is to manage currency risk. Over the last 12 months there has been an increase in companies who have a hedging strategy in place, with 64% stating they have a strategy, either formally with a bank (34%) or an informal internal arrangement (30%). Some companies have an informal hedging arrangement by having a manufacturing plant and corresponding sales in the same country. Other companies manage informal hedging by buying and selling in the same currency where possible to mitigate currency risk. This is up from 48% in 2018. Of the 29% of companies that are not hedging, quite a few agree contract prices with UK customers in Euro, which eliminates the currency risk for them, according to Bord Bia's interviews.



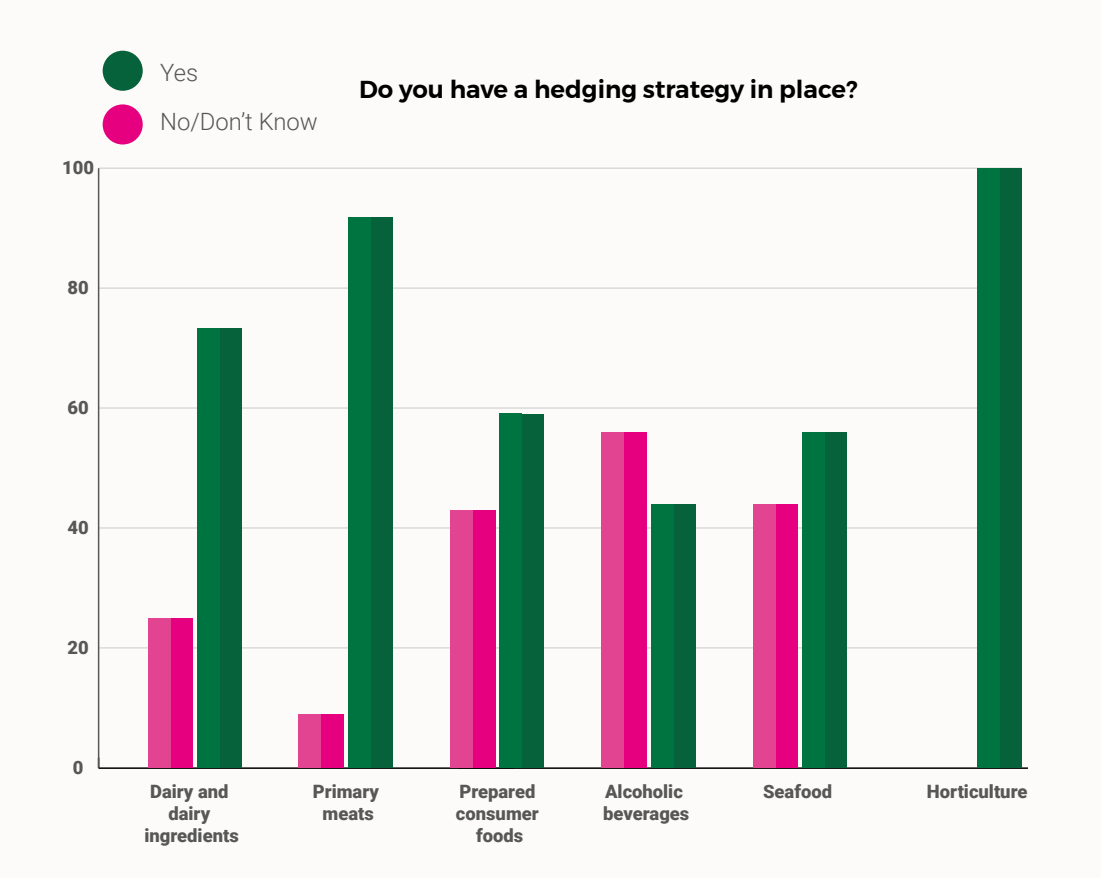
64%

STATING THEY HAVE A HEDGING STRATEGY, EITHER FORMALLY WITH A BANK (34%) OR AN INFORMAL INTERNAL ARRANGEMENT (30%)



Of the companies who are hedging, the larger companies are leading the way:

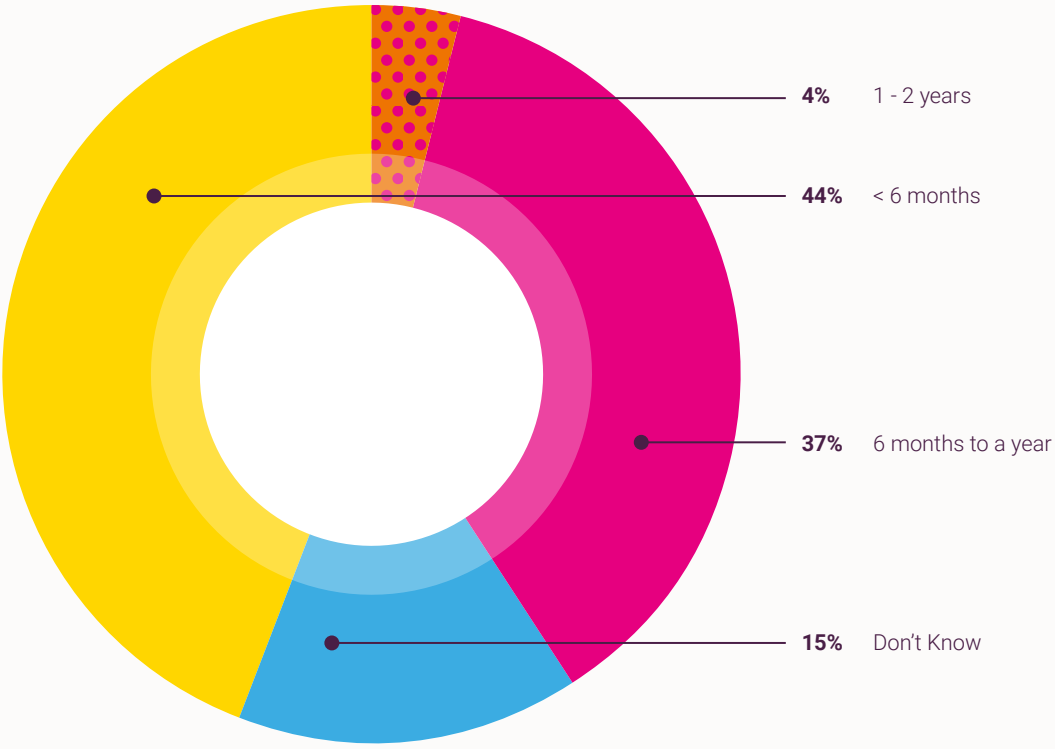
+ 86% of companies with turnover of €100m+ are hedging
+ More than 8 out of 10 companies (86%) in the €11m - €100m turnover range have hedges in place
+ Only 16% of SME's with turnover of less than €1m are hedging, and all of these are using informal arrangements



From a sector perspective, Horticulture is 100% hedged. 91% of Primary Meats are hedging, with Dairy & Dairy Ingredients at 75% and Prepared Consumer Foods at 64%.

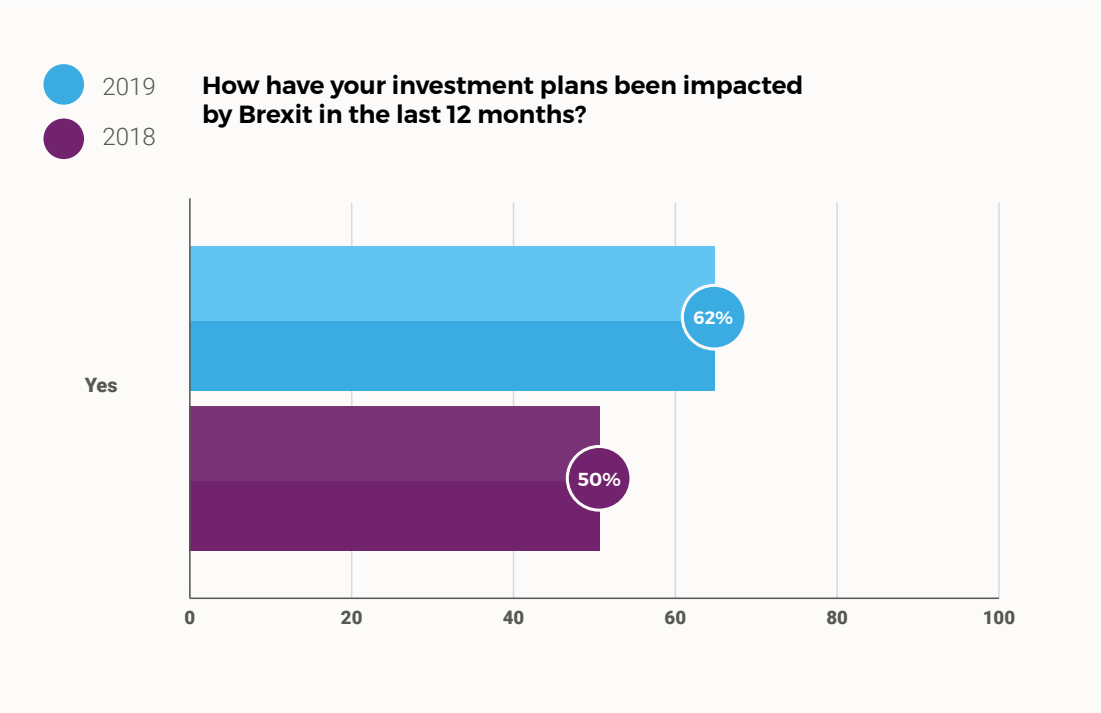
Most companies have a hedging horizon of a year, (44% are hedging for less than 6 months and 37% hedging between 6 months and a year). It is clear from Bord Bia interviews that common practice is to have a rolling hedge in place. Some companies have multiple hedges set up whilst most of the larger companies have Treasury departments that manage all hedging centrally.

How far forward have you hedged?



CHANGES TO INVESTMENT PLANS AS A RESULT OF BREXIT

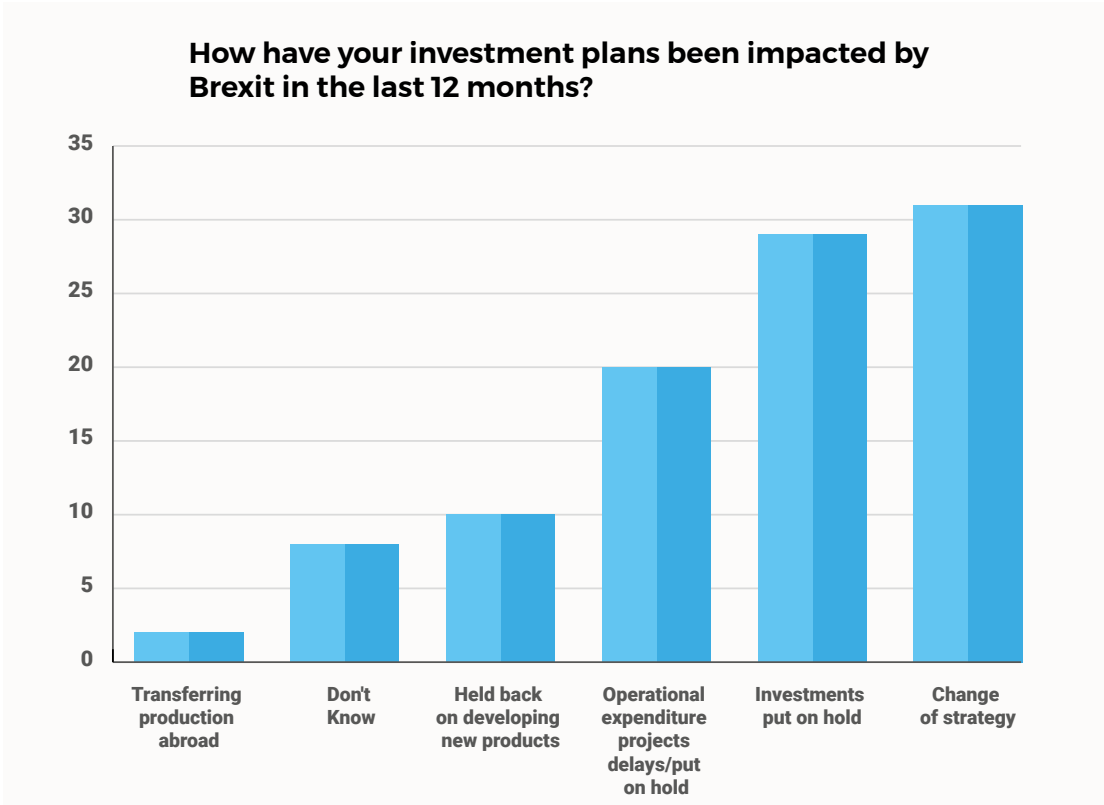
In March 2018, exactly half (50%) of respondents stated that Brexit had not impacted their investment plans over the previous 12 months. Fast forward a year from then and now two thirds (62%) say that Brexit is having an impact on their investments plans.



As March 29th approached, and then April 12th, Brexit became a true material risk for companies, forcing them to make decisions in relation to levels of spend. No clear trends emerged by company size in relation to this – it's clear that the uncertainty surrounding Brexit is having an impact on future planning for all companies within the food and drinks sector.

There is strong inter-connectivity across the range of impacts Brexit is having on investment plans. For example, if a company decides to spend less on R&D, this could be viewed as an investment put on hold, a change of strategy, holding back on developing new products and/or operational expenditure projects put on hold.

It's noteworthy that even amidst all the challenges that Brexit poses, only 2% are considering transferring production abroad. This may be due to competitiveness support systems in place in Ireland for food and drink manufacturers to launch new business ventures, innovate and grow.



Note: respondents could select more than one option

CHANGE OF STRATEGY

Close to one third (31%) of companies have identified a change of strategy due to Brexit (versus 24% in March 2018). Certain businesses have made a deliberate strategic decision to reduce activity in the UK and target revenue growth in alternative markets. This option may not be viable for companies that manufacture short shelf life products, or whose product range is specific to UK consumer taste preferences. Related to the strategy of deleveraging from the UK, a cohort of companies have accelerated the pace of their new markets projects. In some cases, companies are having to respond to a change in customer ordering patterns, as customers are lowering volumes and / or delaying orders.

OPERATIONAL & CAPITAL SPEND ON HOLD

29% have put investments on hold, and 20% have either delayed or put operational spend on hold. These results are relatively consistent across sector and company size, except for the 39% of companies in the €1m - €100m range who have put investments on hold. One of the reasons for this is lack of certainty.

During Bord Bia interviews, many companies commented that they are not confident making significant spending decisions until there is more clarity around the outcome of Brexit. Equally, there are some exceptions to this feedback, with a small number of companies continuing significant expansion plans and new factory builds.

Currency volatility has impacted some company's ability to spend. Due to adverse currency conversion, they have less disposable Euro to spend, and as a result have had no option but to reduce operational spend.

A further complication reported by some companies, is that it is becoming more difficult to secure finance for capital investment. Some lenders are nervous given the uncertainty around Brexit.

Lean is very much back on the agenda for businesses, as they seek to make operations as efficient as possible to create capacity and drive productivity.

PEOPLE IMPACT

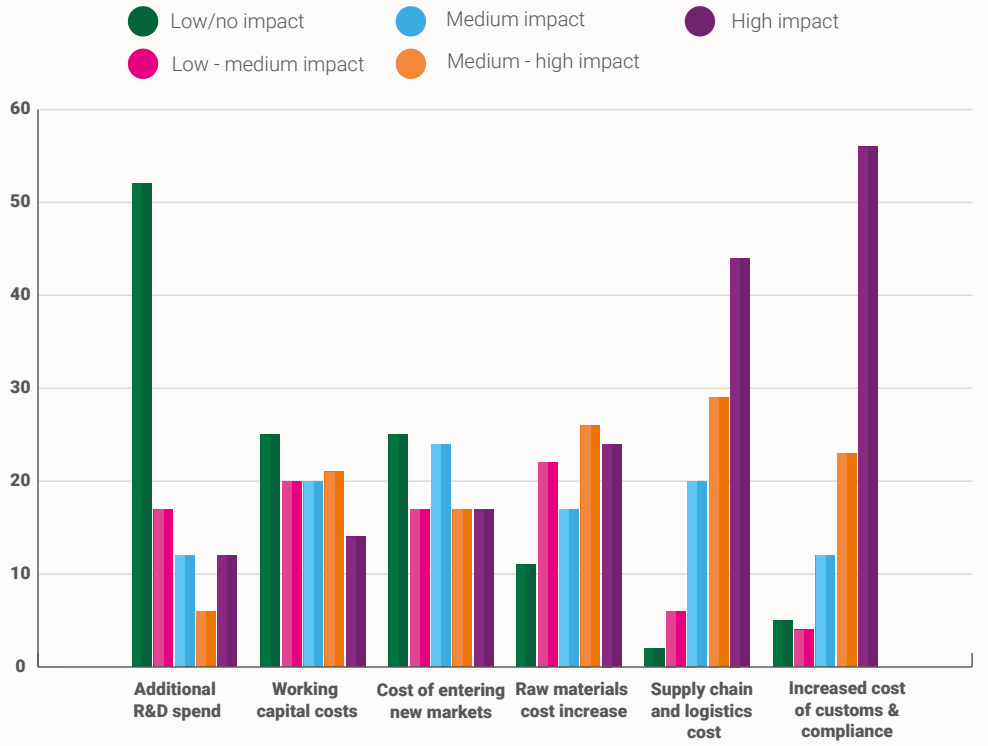
According to Bord Bia interviews, many companies have charged a member of their senior leadership team with ownership of Brexit planning. In most cases, this individual has then created a cross-functional Brexit taskforce.

Brexit has been a time-consuming issue for businesses to deal with. Many companies have had to divert key staff time from activities that would enable strategy execution and drive growth into Brexit planning projects. This point is supported by feedback from the Bord Bia client meetings, with many companies citing the opportunity cost in relation to employee time spent on Brexit.

CHANGES TO COST BASE AS A RESULT OF BREXIT

There is an expectation that Brexit will add significantly to the cost of doing business, through cost in customs and compliance as well as supply chain and logistics. Unfortunately, many of these costs can be quite high and, in most cases, are unavoidable.

What elements of your cost base will be most impacted by Brexit?



Supporting the data above, 44% believe that supply chain and logistics costs will have a high impact on their cost base. The cost of stock holding in the UK has also been cited during the Bord Bia client meetings as having a material impact on the operating cost base. As referenced elsewhere in this report, price and availability of warehousing and cold storage capacity in the UK is proving a challenge for some companies. If companies make the choice to avoid the landbridge, the cost of routing direct to mainland Europe is more expensive, which was also highlighted during the Bord Bia meetings.

Similarly, there is a view that a risk exists regarding customs agents who may be in short supply once Irish food and drink manufacturers trade with the UK as a third country. The cost of engaging customs professionals also adds to the cost based, as evidenced by the 56% of respondents who cite the increased cost of customs and compliance as having a high impact.

PROTECTING CASH FLOW & PROFITABILITY

In a Hard Brexit, it is expected that additional tariffs will be applied to goods being exported to the UK. The importer will be required to pay any tariffs within days of offloading the imported goods. This is likely to place an increased burden on the importer's cash flow.

The importer can consider setting up a duty deferment bond underwritten by the Surety market. The payment of any additional tariffs can then be delayed until the goods have been resold.

The increased costs associated with customs will undoubtedly put a strain on many businesses cash flow and their ability to pay suppliers. Credit Insurance can also be used to insure the receivables of the business and provide suppliers with more detailed insight as to how their customers are performing financially.

IMPACT OF BREXIT ON OPERATING PROFITS

Brexit will undoubtedly impact company bottom line and profitability. Most companies have forecast a range of Brexit scenarios, and from Bord Bia interviews it is clear that Irish companies have a good understanding of the financial impact of each scenario. In a post Brexit environment, the first goal for many companies is to continue as a profitable business, despite additional costs incurred.

Given that certain sectors operate to tight margins and in a very sensitive competitive environment, it is not surprising that nearly half (45%) expect Brexit to cost them in the region of 1% to 10% of their profitability.

During Bord Bia interviews, many highlighted the fact that they have already incurred a level of cost in preparing for Brexit that is difficult to return from the market. Examples of spend include the incremental cost of stockholding and hiring professional advisors (tax, customs, supply chain).



45%

45% OF RESPONDENTS EXPECT BREXIT TO COST THEM IN THE REGION OF 1% TO 10% OF THEIR PROFITABILITY.

KEY TAKEAWAYS

There is strong evidence of company investment in preparing for and understanding Brexit. 89% of companies have identified their Brexit-related risk and currency exposures (up from 77% in 2018).

There has been an increase over the last year in companies who are hedging their Sterling exposure as a tool to help manage volatility, with two thirds of respondents declaring that they have a hedging strategy in place. Most of these companies have a horizon of one year or less.

Two thirds of companies' investment plans have been impacted by Brexit, whether by a change of strategy, or a delay to capital and operational expenditure. Businesses are being careful about taking decisions that have a material cost attached – although there are a very small number of companies who are currently progressing new builds / factory extensions.

One of the most common changes in strategy in relation to the UK market is, whether to maintain the status quo from a volume perspective, or to make a deliberate decision to seek out alternative markets.

Estimating the financial impact of Brexit is challenging due to the uncertainty around the outcome; however almost half of the respondents (45%) expect Brexit to reduce their EBITDA by 1% - 10%.

There is no doubt that Brexit will impact the cost base of Irish food and drink companies, which will have a knock-on effect on profitability. While many line items in the profit and loss account are likely to increase, those causing most concern are the costs associated with customs and controls, and supply chain and logistics costs.

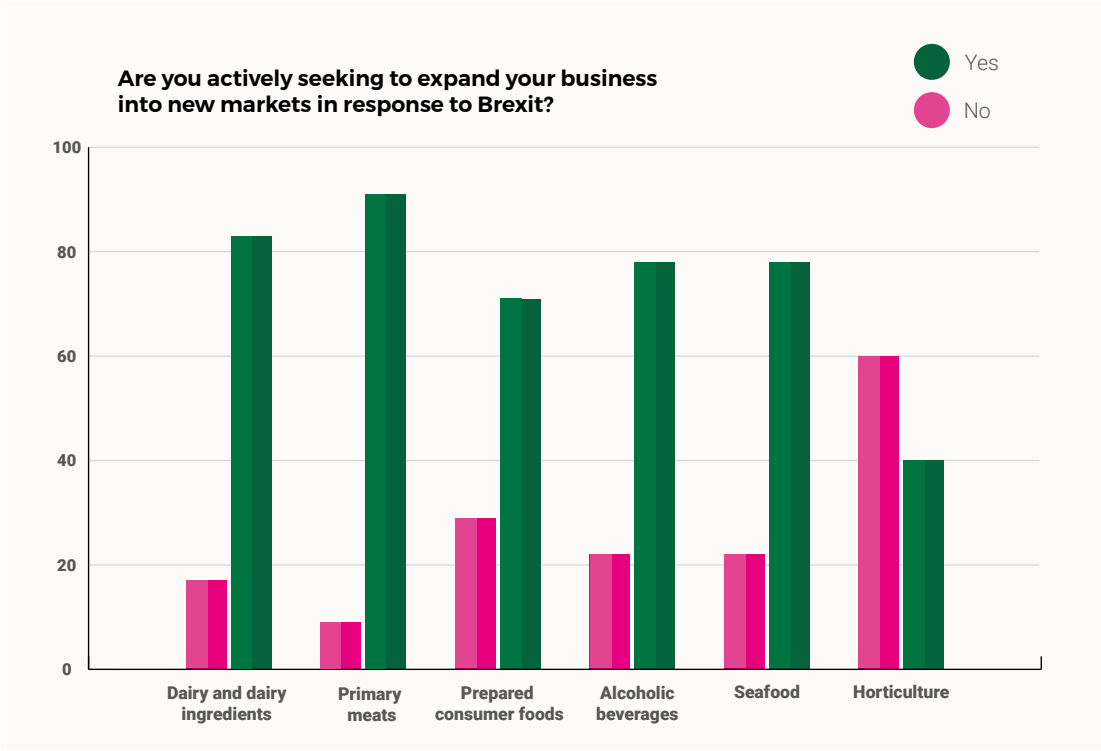
MARKET DIVERSIFICATION

AS THE FUTURE TRADING RELATIONSHIP WITH THE UK REMAINS UNCERTAIN, COMPANIES ARE IDENTIFYING GROWTH OPPORTUNITIES IN MARKETS FURTHER AFIELD. THIS NEW BUSINESS IS BEING WON DESPITE SEVERAL CHALLENGES PRESENTED BY MARKET DIVERSIFICATION AND A GENERAL PERCEPTION THAT THE COST OF DOING BUSINESS MAY BE HIGHER.

NEW MARKETS

Most companies, no matter how small or large, have market expansion strategies. Whilst overall export trends indicate a higher move towards international markets in recent years, almost three quarters (74%) of Barometer respondents are actively seeking to expand into new markets in response to Brexit specifically.

This response is particularly high amongst larger companies (with turnover >€100m) with 80% saying they are actively looking to access new markets in response to Brexit, with this being most acute in primary meat.



Anecdotal evidence suggests that the Prepared Consumer Foods sector is nervous about expanding into markets beyond the UK. The UK is often a 'first' export market, as it has similar consumer trends and taste profiles to Ireland. However, it is encouraging to see that 7 out of 10 manufacturers are now looking to expand into new markets. It is not surprising that almost all Primary Meats companies are considering new markets, due to the high export dependency this sector currently has on the UK and a potentially high tariff regime in a Hard Brexit scenario.

A small number of businesses who participated in the Barometer survey have made the decision to maintain and defend their position in the UK market as a sole strategy, rather than pursuing a market diversification strategy. Others have commented that while targeting new markets was always part of their strategy, the Brexit scenario has accelerated the pace of new market focus.

Some companies have reported that they are seeking to achieve growth in new markets on the back of an existing strong relationship in the UK. This is one of the benefits of supplying multinational customers.

GROWTH BEYOND THE IRISH & UK MARKETS

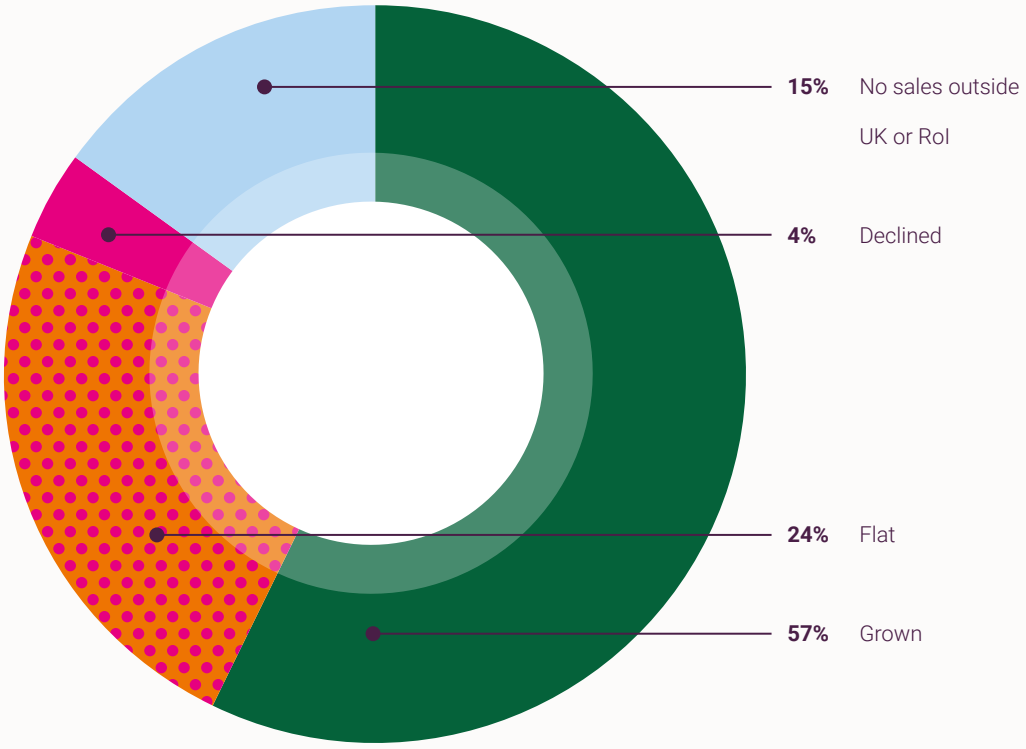
Promisingly, the data demonstrates evidence of growth in markets beyond the UK over the last 12 months. More than half (57%) of companies report growth, with a further 24% reporting stable sales in non-UK and non-Republic of Ireland markets.



57%

57% OF COMPANIES REPORT GROWTH, WITH A FURTHER 24% REPORTING STABLE SALES IN NON-UK AND NON-REPUBLIC OF IRELAND MARKETS.

How have your non-UK and non-RoI sales performed in the past 12 months?

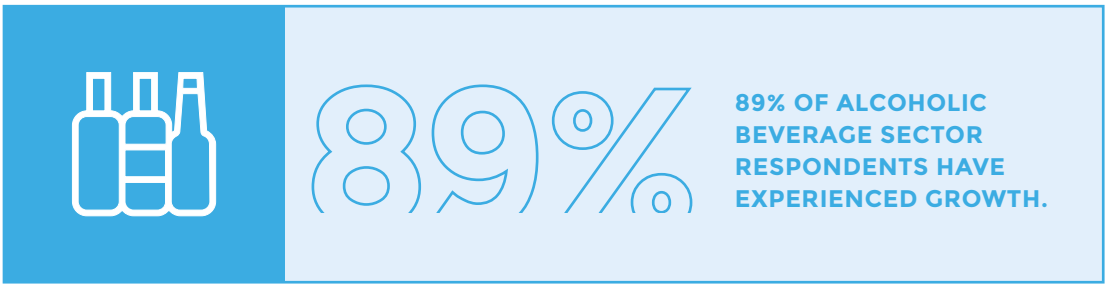


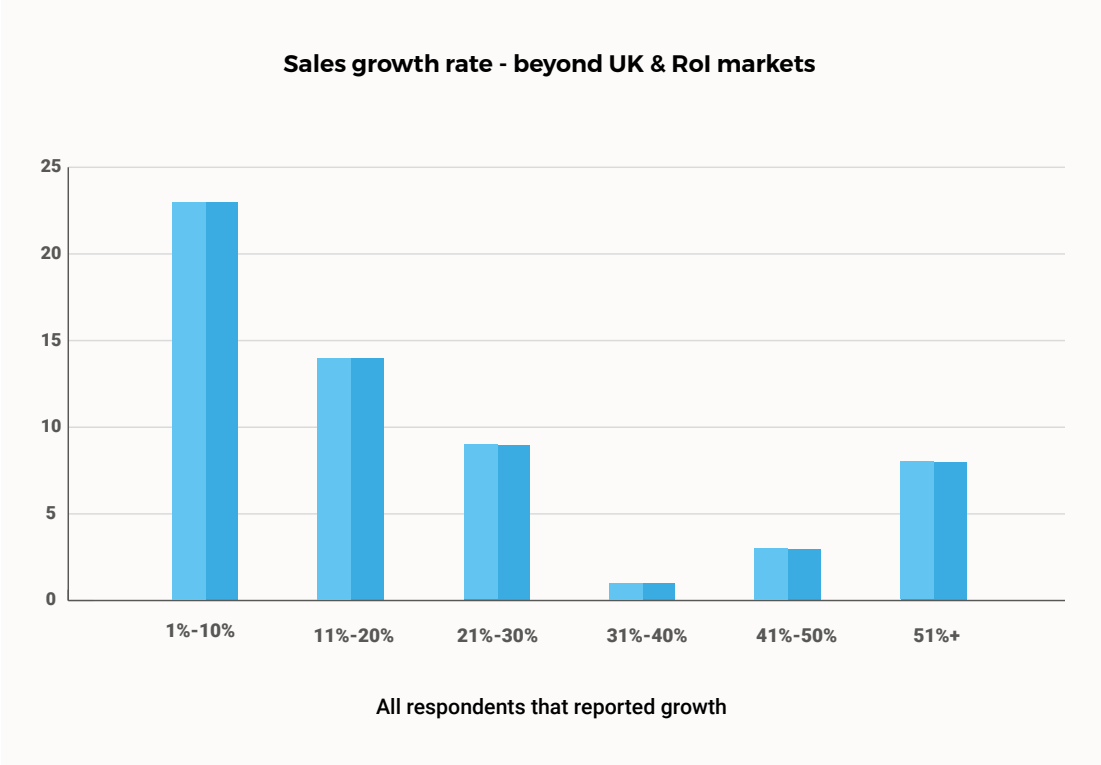
Of those that have grown revenues, the quantum of growth is highly significant:

Most of the companies reporting growth in the 51%+ range are a mix of early stage companies, predominantly from the Prepared Consumer Foods and Alcoholic Beverages sector, with turnover levels of less than €10m.

Looking at the data through a sector lens:

+ **The global footprint of the Dairy & Dairy Ingredients sector continues it's expansion drive, with 92% of respondents in this sector reporting growth. 58% of these companies report 1-10% growth, with a further 34% reporting 11- 30% growth.**
+ **89% of Alcoholic Beverage sector respondents have experienced growth. 44% report growth exceeding 30%, with much of this growth coming from companies with relatively low turnover.**
+ **82% of Primary Meat sector respondents have experienced growth.**



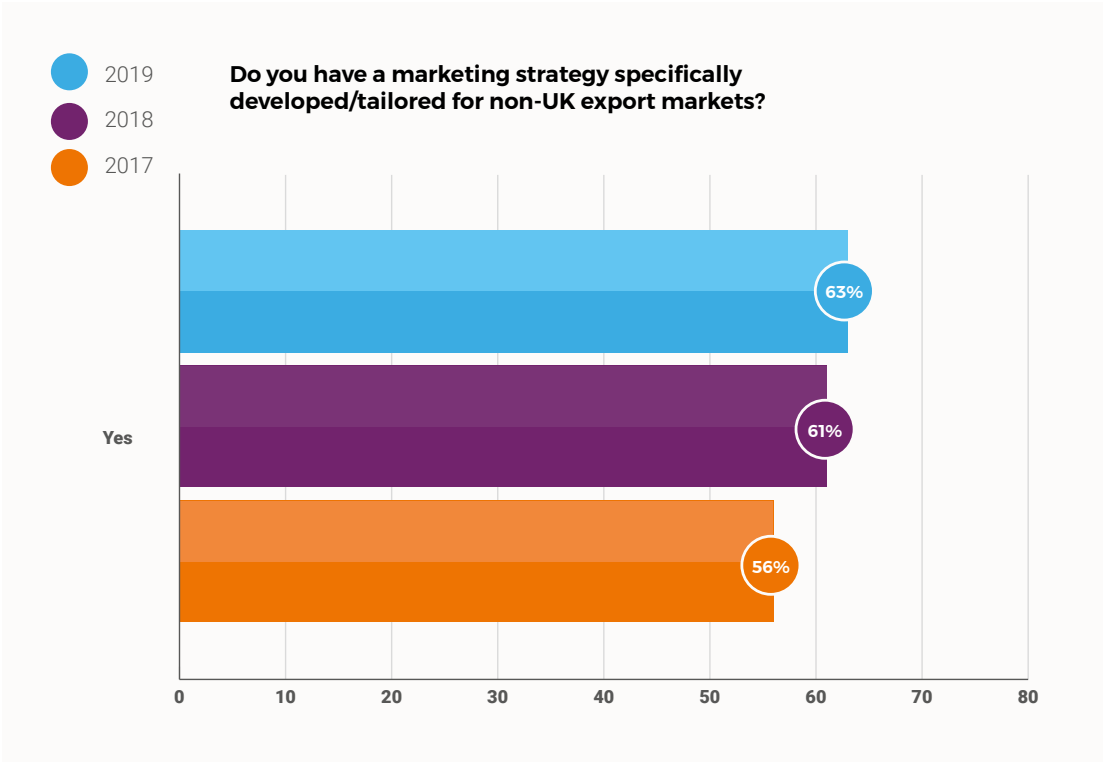


MARKETING STRATEGY

Increasingly, companies understand the importance of a robust commercial marketing strategy to continue penetration and grow in new markets. This is unchanged whether selling business to consumer or business to business. Likewise, it is vital when considering a branded or an own label product – in either case a plan is needed.

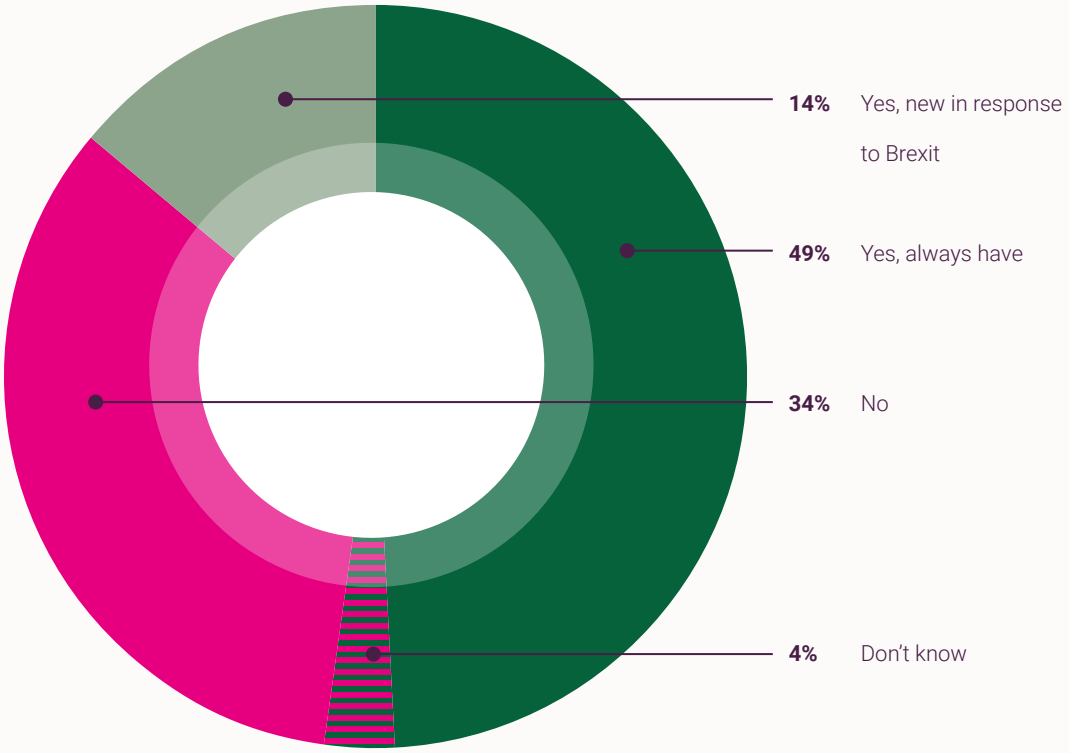
A compelling commercial proposal combines business and marketing plans, leveraging unique understanding of the customer and other partners and creates a powerful selling story. Businesses can use this story to build their brand and communicate benefits to the consumer.

A well-structured story should also inform ways to market the product with appropriate channels of marketing and target markets being revealed as the story is written. Taking the time to engage meaningfully in this process has often been the difference between success and failure for companies in a competitive environment.



One in six companies (63%) have a marketing strategy specifically developed/tailored for non-UK export markets, compared to 61% in 2018, and 56% in 2017. Interestingly, 14% have developed this strategy specifically in response to Brexit.

Do you have a marketing strategy specifically developed/tailored for your non-UK export markets?

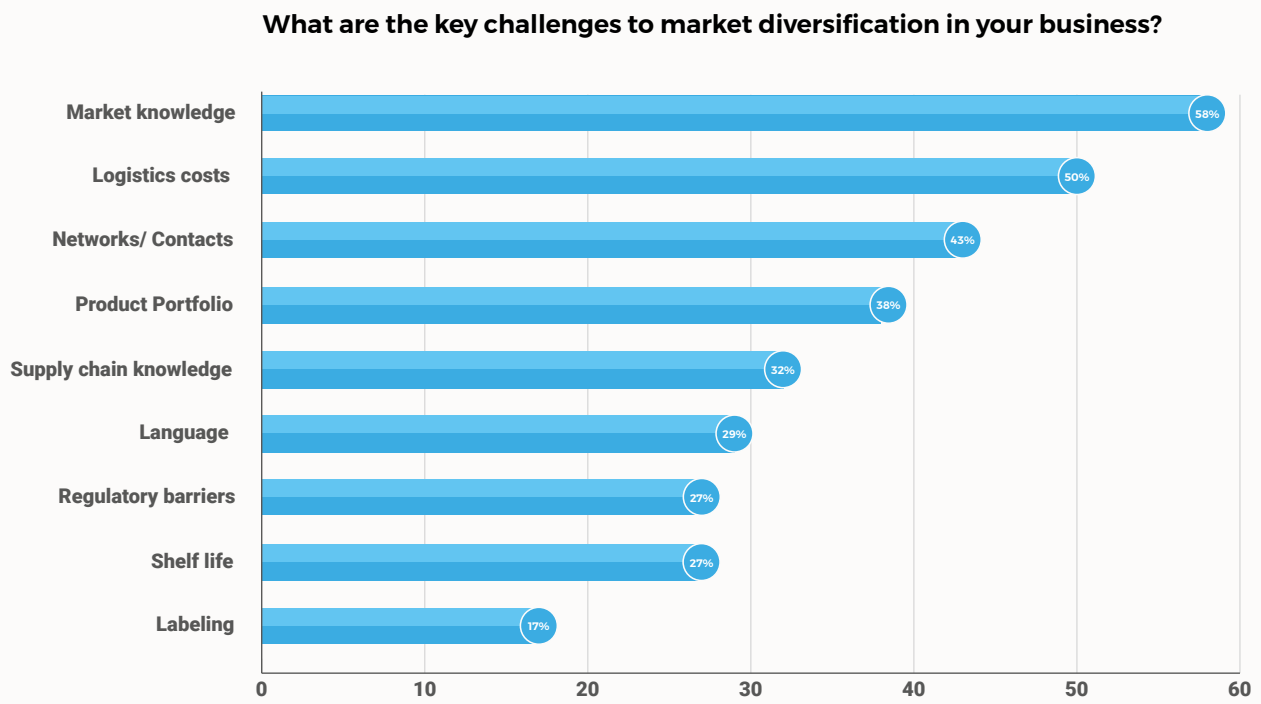


Most large companies (85%) with turnover more than €100m have a commercial marketing strategy in place.

Some companies have reported that they have customer strategies rather than national or regional market-based strategies, but they are using these formal plans to grow in new markets. Others are actively working with national distributors in several markets, as a means of growing market share, and to lessen the potential impact of Brexit on their UK revenue.

CHALLENGES TO MARKET DIVERSIFICATION

Whilst Brexit has prompted Irish food and drink manufacturers to consider alternative markets, new business is hard won and there are some challenges to succeeding at this.



Market Knowledge or lack thereof is cited by 59% of respondents as a challenge to market diversification. This is a top 3 challenge regardless of size. Logistics costs (49%), networks/contacts (43%), product portfolio (39%) and supply chain knowledge (33%) all featured prominently.

In tandem with the 29% of respondents who identify language as a challenge, companies similarly identified the need to understand local culture and business practices.

There was some divergence in priorities when the data is analysed by turnover levels. Regulatory barriers are cited as a key challenge by the larger companies with turnover of €100M+. This may be due to such companies having a greater awareness of (or focus on) such issues. Logistics costs (33%) and supply chain knowledge (14%) feature less prominently for the larger companies than they do for all other companies.

Company Turnover	< €1m	€1m - €10m	€11m - €100m	€100m+
Challenge #1	Market knowledge	Market knowledge	Logistics costs	Regulatory barriers
Challenge #2	Networks/ contacts	Logistics costs	Market knowledge	Market knowledge
Challenge #3	Logistics costs	Supply chain knowledge	Shelf life	Networks/ contacts

Market diversification is a medium – long term strategy, and progress can be slow and frustrating. Cost to service new markets is also a factor, and some companies highlighted that in a competitive marketplace it may be difficult to pass on those incremental costs.

Companies of all sizes report that they find trade fairs crucial for writing new business. Even if new contracts are not signed at these events, the market research findings gained can provide significant value. By continuing to network and attend trade fairs, they now feel better prepared for future export conversations and opportunities.

A cohort of companies are looking to diversify by growing revenue in new channels, rather than pursuing a new markets strategy.

Bord Bia provides a range of support services to assist clients in overcoming the challenges to market diversification. Market insights and data are provided by Bord Bia's Thinking House using a combination of online resources, workshops and consultations. Business lead generation is developed through Bord Bia's network of 15 overseas offices, its trade show calendar and Ministerial led trade missions. Supply chain, logistics and regulatory barrier challenges are addressed through its suite of Capability Development services.

KEY TAKEAWAYS

Given our island location on the edge of Europe, Irish companies with a growth focus are export dependent. Irish food and drink products were exported to over 180 countries in 2018 and while markets near to home have traditionally been go-to 'first' export platforms, the ambition of the sector is clear.

Exports to EU member states other than the UK exceeded €4bn in 2018 for the second year running, a 1% increase on the 2017 value. The rest of the world has been the focus of exceptional growth in Irish food and drink exports over the last eight years. In 2010, €1.8bn, or 24% of total export, was exported to countries outside of the EU. In 2018, that figure has increased to €3.45bn, which represents 29% of our total export value.

For many Irish food and drink companies, market diversification was always a key priority. Three quarters of companies are actively pursuing a new markets strategy. Ideally, and as recognised by 63% of companies, it is critical to have a marketing plan in place and specifically tailored for that marketplace.

There is a myriad of challenges to market diversification, including market knowledge, logistics costs, regulatory barriers, developing networks and contacts, and supply chain knowledge.

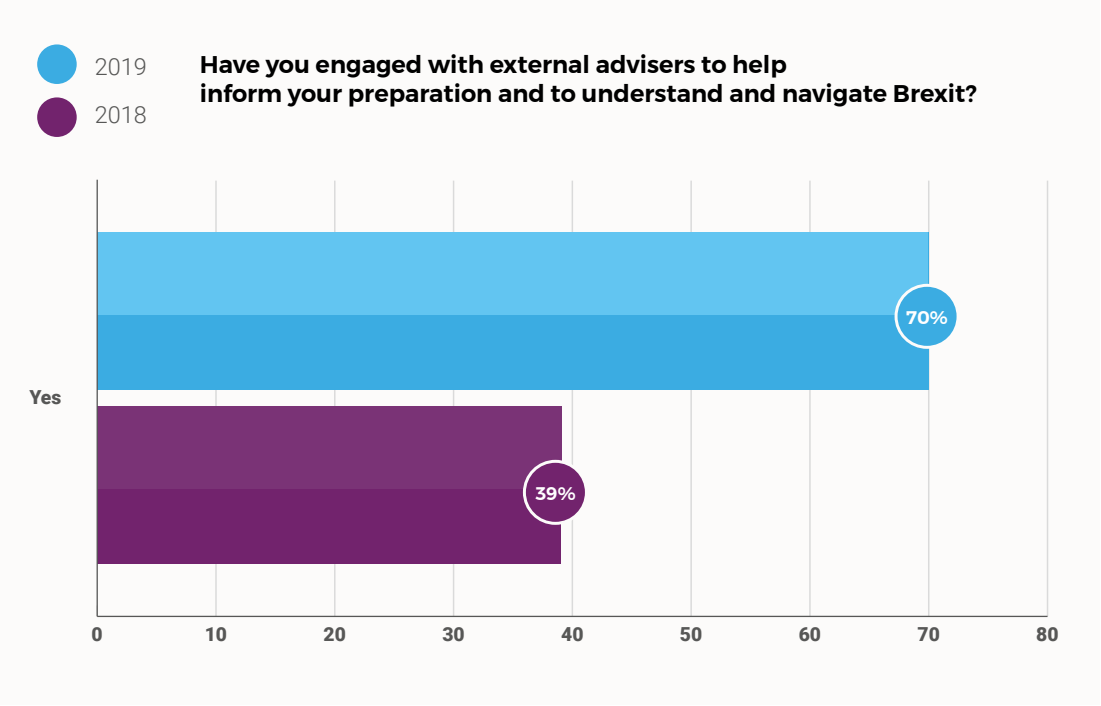
Bord Bia assists clients in overcoming these challenges through its network of overseas offices, customer engagement, trade fair schedule and Ministerial led Trade Missions.

EMERGING RISKS

AS THE DATE FOR THE UK'S DEPARTURE FROM THE EU APPROACHES, PREPARED AND PROACTIVE FOOD AND DRINKS MANUFACTURERS ARE LOOKING AHEAD WITH A VIEW TO UNDERSTANDING NEW AND EMERGING RISKS THAT MAY BE ON THE HORIZON.

ENGAGEMENT WITH EXTERNAL ADVISERS

According to the Brexit Barometer, 70% of respondents have actively engaged with external advisers to better understand the challenges and risks that Brexit has created. This enables them to make better informed decisions regarding their Brexit planning. It is a significant increase from last year's figure of 39%, indicating a shift in attitudes as most Irish food and drink businesses now recognise the benefits of engaging with external advisors. External advisers that companies have consulted include commercial banks, lawyers, tax advisers, customs experts and so forth.



Unsurprisingly, the larger companies lead the way with 83% of participants with turnovers of between €11M and €100M stating that they have engaged with external advisers. In comparison, of those companies with turnovers of less than €1M, just half have sought external advice. In line with analysis earlier in the report, smaller businesses have less resources, both time and financial, to invest in external advisory services.

TOP BREXIT RELATED EMERGING RISKS

Looking to the future, the top ten future Brexit related risks identified by respondents, in order of priority, are outlined in the below table.

Rank	Risk
1	Economic performance / risk of recession
2	Competitiveness
3	UK consumer confidence
4	Ferry capacity
5	Changes to food safety standards
6	Availability of customs agents
7	Allocation of state aid for the agriculture sector
8	Food labelling rules
9	New market entrants
10	Irish consumer confidence

All sectors identified 'economic performance / risk of recession' as one of their top three Brexit related risks, except for Primary Meats, which prioritises the 'allocation of state aid for the agriculture sector' due to the risk exposure of a high tariff regime impacting the entire supply chain. Dairy & Dairy Ingredients, Primary Meats and Prepared Consumer Foods sectors ranked 'competitiveness' within their top two Brexit related risks. This suggests that these sectors feel more exposed to additional Brexit related costs, which could put pressure on their margins and/or their ability to continue to supply the UK market on a profitable and sustainable basis.

Top Three emerging risks by industry sector

Rank	Dairy & Dairy Ingredients	Primary Meats	Prepared Consumer Foods	Alcoholic Beverages	Seafood	Horticulture
1	Competitiveness	Allocation of state aid for the agriculture sector	Competitiveness	Economic performance /risk of recession	Economic performance /risk of recession	UK consumer confidence
2	Economic performance /risk of recession	Competitiveness	Economic performance /risk of recession	UK consumer confidence	Changes to food safety standards	Ferry capacity
3	Changes to food safety standards	Ferry capacity	UK consumer confidence	Ferry capacity	Ferry capacity	Economic performance /risk of recession

When the data is analysed by company turnover range, economic performance, competitiveness and UK consumer confidence feature heavily in the table of the top three emerging risks.

Some outliers included larger companies (€100M + turnover) ranking 'allocation of state aid for the agriculture sector' as their number two risk and companies with turnovers of €1 - €10m identifying 'changes to food safety standards' as their number three risk.

It is interesting to note that 'economic performance / risk of recession' and 'UK consumer confidence' are related risks. If UK consumer confidence plummets, it will have a knock-on effect on economic performance and increase the risk of recession. The opposite also applies in that if the UK economy is growing and thriving, consumers are likely to be more confident in their spending.

Top Three emerging risks by company turnover range

Rank	Less than €1m	€1m - €10m	€11m - €100m	€100m+
1	Economic performance / risk of recession	Economic performance / risk of recession	Economic performance / risk of recession	Competitiveness
2	UK consumer confidence	Competitiveness	Competitiveness	Allocation of state aid for the agriculture sector
3	Competitiveness	Changes to food safety standards	UK consumer confidence	Economic performance /risk of recession

ECONOMIC PERFORMANCE / RISK OF RECESSION

Throughout this report there is evidence of strong levels of Brexit planning by Irish food and drinks manufacturers. However, the performance of the UK economy is a macro factor, outside of the control of companies, which could impact their performance. Economic forecasts from organisations such as the IMF, the OECD and the Bank of England predict that the UK economy will suffer when the country leaves the EU.

To date, despite the uncertainty of the past three years due to the Brexit negotiations, the UK economy is preforming relatively well. According to the ONS, inflation remains close to the Bank of England's target of 2%, with CPI at 2.1% in April 2019[14], and GDP is growing, albeit slowly[15]. However, there are indications that the economy's current stability is fragile; consumer and business confidence remains low, and Brexit-related uncertainties have meant that businesses are holding back investment until there is clarity on the UK's future trading arrangements[16].

In the UK grocery market, retailers have been taking measures to prepare for Brexit, such as stockpiling, simplifying imported ranges of products, and undertaking research in order to understand how their customers will react to difficult choices if products are out of stock or if their disposable income is negatively affected[17]. A key concern for UK retailers in regards to the economic impact of Brexit is the sterling-euro and sterling-dollar exchange rates. According to Kantar, leading UK retailers are working in three ways to protect themselves against future devaluation of the pound. These include creating currency hedges with suppliers and banks, setting aside additional cash to insure against unexpected scenarios and establishing temporary sourcing arrangements that would cut out elements of the supply chain where suppliers pass on higher exchanges directly into the Cost-of-Goods[18]. Stockholding has also taken place over the past 12 months in anticipation of a Hard Brexit.

While the economic performance of the UK may be out of the control of Irish food and drink companies, prudent businesses will take precautionary measures to protect themselves as best they can against the impact Brexit may have on the economy.

COMPETITIVENESS

Competitiveness is ranked highly as a Brexit related risk by Irish food and drink companies. A myriad of factors can impact a company's competitiveness, such as new trade costs, regulatory costs, the need for upskilling on new business processes and consumer preference. However, Brexit has introduced new risks, which may have an impact on a company's ability to be competitive within the UK market.

The UK grocery market is a highly competitive market given the number of suppliers that are competing for their share of the £190.3bn[19] market. Given that the big four retailers control 68.2% of UK grocery market , they have significant bargaining power when it comes to dealing with suppliers and managing price increases. Brexit will lead to increased costs, due to supply chain and logistics costs, as well as potential custom and duty costs, and UK retailers will be in a strong position when it comes to negotiating with their suppliers regarding these increases.

The threat of new non-EU entrants in the UK market is one of the key risks to competitiveness that Brexit has created. Should there be a no deal Brexit and the tariff scheduled published by the UK government in March 2019 was implemented[21], the same tariffs would be applied to Irish products as they would to products from non-EU countries, where the cost and standard of production may be lower. This would be particularly abrasive to Irish food and drink companies' competitiveness with the UK market.

Other threats that Brexit has created which may impact companies' competitiveness is the need to up skill staff or hire new talent to manage the new systems that may be required after Brexit, such as customs and controls. This will lead to increased costs, which may have a negative impact on a company's competitiveness.

Whether there is a deal or not, Brexit will create friction in an environment where there was previously seamless trade. This will induce higher costs, due to increased supply chain, logistic and potential tariffs costs, which will in turn erode Irish companies' competitiveness within the UK market.

Bord Bia's client company interviews identified a variety of opinions on competitiveness. On the one hand, certain companies felt that Brexit magnified an existing and already challenging competitive environment. On the other hand, some had the view that competition is a fact of life in business, and Brexit is another competitive threat companies need to manage.

UK CONSUMER CONFIDENCE

UK consumer confidence has remained at a low of -13 since February 2019, a point higher than -14 recorded in January and December, according to GfK.[22] GfK also outlined that in April, for the first time, Brexit became the number one concern for consumers, ahead of 'having enough money to live right and pay the bills'.[23] Although nominal wages are increasing and employment is at a record high, Brexit has kept consumer confidence down. This highlights the negative impact that the uncertainty and political turmoil created by Brexit is having on the economy,

UK consumer confidence is an important risk for Irish companies because it is intrinsically linked with the UK's economic performance. Consumption drives economic output and is therefore an important indicator on an economy's performance. When consumer confidence is low, consumers hold back on making purchasing decisions, which will in turn have a negative impact on the growth of an economy.

[14] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/april2019

[15] https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/march2019

[16] OECD, 'United Kingdom: Economic Forecast Summary', OECD Economic Outlook, Issue 1, 2019

[17] Kantar, 'How will Brexit affect UK supermarkets', March 1 2019, [https://uk.kantar.com/public-opinion/politics/2019/how-will-brexit-affect-the-uk-high-street/]

[18] Kantar, 'The impact of Brexit on UK grocery industry and shoppers', 2019, [file:///C:/Users/alryan/Downloads/Kantar_Brexit_White_Paper_2019_V8.1.pdf]

[19] https://www.igd.com/articles/article-viewer/t/uk-food-and-grocery-market-to-grow-148-by-282bn-by-2023/i/19052

[20] https://www.kantarworldpanel.com/en/grocery-market-share/great-britain/snapshot

[21] https://www.gov.uk/government/publications/temporary-rates-of-customs-duty-on-imports-after-eu-exit/mfn-and-tariff-quota-rates-of-customs-duty-on-imports-if-the-uk-leaves-the-eu-with-no-deal

[22] GfK, ' Consumers keeping calm in April amid the Westminster carry-on, April 30 2019, [https://www.gfk.com/en-gb/insights/press-release/consumers-keeping-calm-in-april-amid-the-westminster-carry-on/]

[23] GfK, 'Brexit climbs to #1 concern in UK for first time', April 1 2019 [https://www.gfk.com/en-gb/insights/press-release/brexit-climbs-to-1-concern-in-uk-for-first-time/]

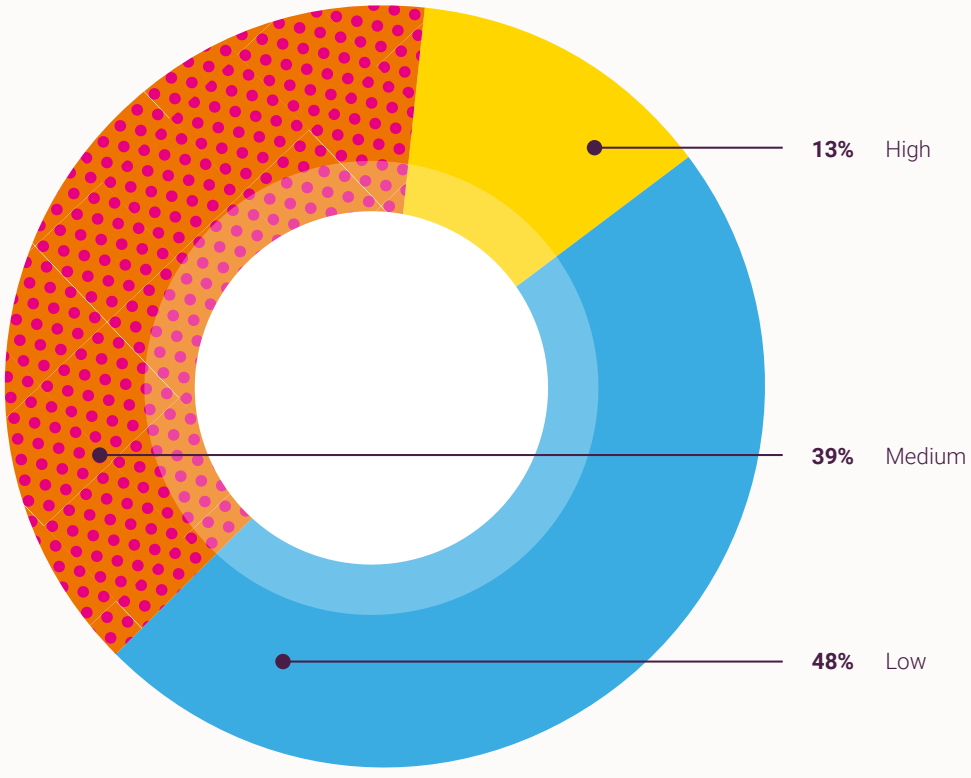
NON-UK EXPORTING COMPANIES

OF THE 130 COMPANIES THAT ENGAGED WITH THE 2019 BAROMETER, 23 ARE CURRENTLY NOT EXPORTING TO THE UK. THESE ARE MAINLY PREPARED CONSUMER FOODS (PCF) AND SEAFOOD BUSINESSES. TYPICALLY, THESE COMPANIES ARE TRADING IN THE IRISH MARKET, AND MAY BE USING THE UK LANDBRIDGE AND / OR ARE CONSIDERING EXPORTING TO THE UK MARKET.

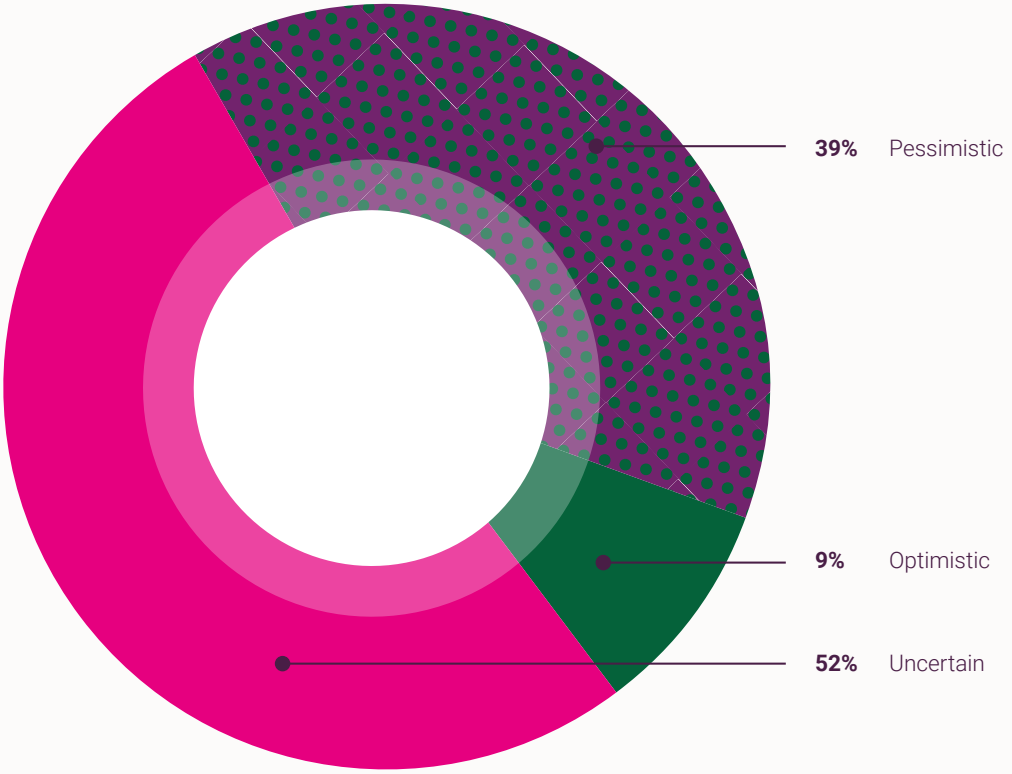
IMPACT OF BREXIT

Of the 23 companies not currently exporting to the UK, only one in 10 (13%) believe Brexit will have a high impact on their business. Almost half (48%) think Brexit will have a low impact, and the balance (39%) are forecasting a medium impact.

What is the likely impact of Brexit overall on your business?



How optimistic or pessimistic are you about the impact of Brexit?



In common with the 107 companies who are currently exporting to the UK, half are uncertain about the impact of Brexit. 39% are pessimistic.

Just over half (52%) of the companies not exporting to the UK have developed an informal Brexit plan whilst the other half have not. Only one in 10 companies (13%) have engaged with external advisers to help inform any Brexit preparation and to understand and navigate Brexit.

UK LANDBRIDGE CONCERNS

Almost half (44%) of the respondents are concerned by the impact of the UK landbridge on their exports to other markets, and these companies all operate in either the Seafood or the PCF sectors.

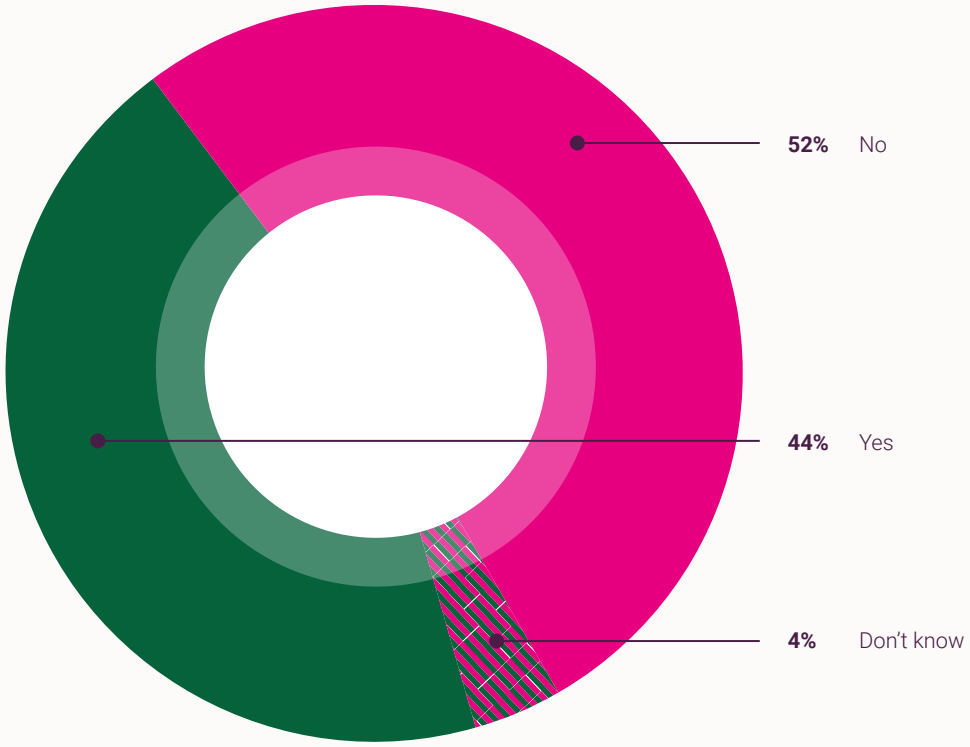
52%

52% OF THE COMPANIES NOT EXPORTING TO THE UK HAVE DEVELOPED AN INFORMAL BREXIT PLAN.

44%

44% OF THE RESPONDENTS ARE CONCERNED BY THE IMPACT OF THE UK LANDBRIDGE ON THEIR EXPORTS TO OTHER MARKETS.

Are you concerned by the impact of the UK landbridge



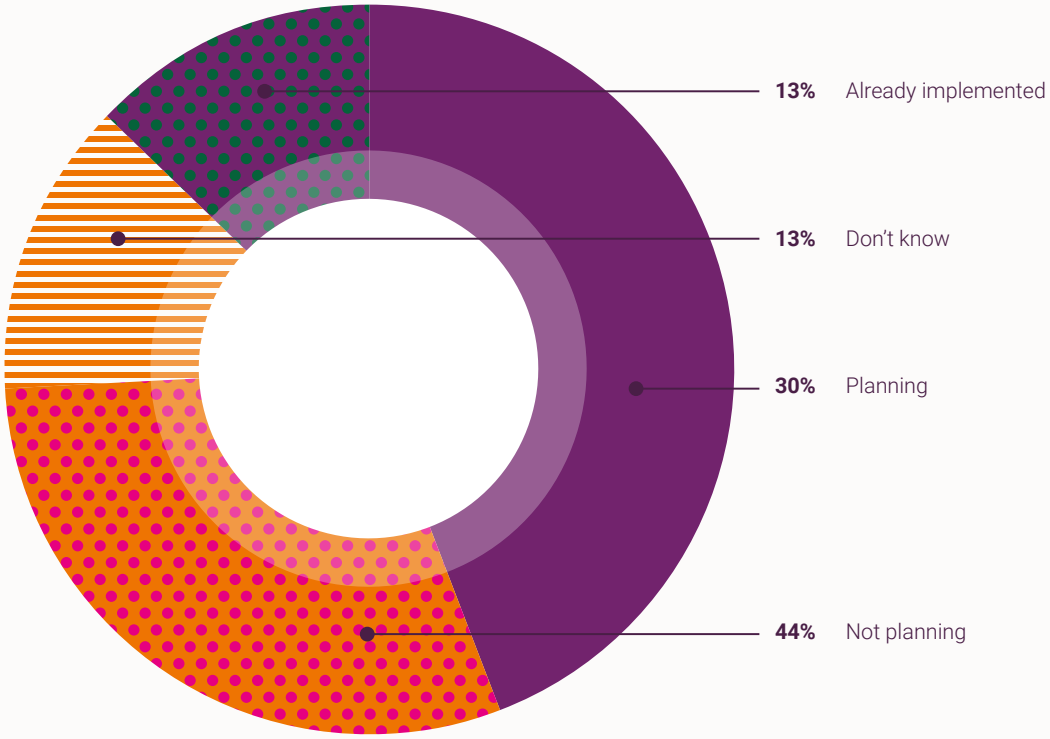
65% of respondents are importing via the landbridge, and this is either raw materials, ingredients or packaging from mainland Europe and beyond.

One third (35%) weren't sure if their imports had to pass through the landbridge, highlighting the need for a supply chain mapping exercise as soon as possible. Otherwise these businesses run the risk of encountering unexpected delays which could have a serious impact on their business.





Have you planned alternative routes to avoid the UK landbridge?



Almost half (43%) are planning or have already implemented alternative routes to avoid the landbridge. Of those remaining who are affected by the landbridge (whether via exports and / or import alternatives should be considered given the uncertainty that remains.

EMERGING RISKS

Looking to the future, the top three Brexit related risks identified by these food and drinks manufacturers, in order of priority, are:

Rank	Companies exporting to the UK	Companies not exporting to the UK
1	Economic performance / risk of recession	Economic performance / risk of recession
2	Competitiveness	Irish consumer confidence
3	UK consumer confidence	Changes to food safety standards

Economic performance / risk of recession is the highest ranked emerging risk, as is the case with companies exporting to the UK. Irish consumer confidence features highly as a risk, which is not surprising, given that it's likely most revenue generated by this cohort is derived from the RoI market. This risk rating is supported by Irish consumer confidence levels, which fell from 108.1 points in March 2017 to 93.1 in March 2019[24].

Non-UK exporters rank changes to food safety standards as an emerging risk that gives them cause for concern. There is ongoing speculation around a divergence in UK food safety standards post Brexit, and this could be the reason for this risk rating highly. When the UK leaves the EU, the rules of the Codex Alimentarius Commission[25] (which are set by the World Health Organisation and the UN Food and Agriculture Organisation) would apply if the UK decides not to continue to comply with EU standards. There is a view that the Codex requirements are less stringent than those of the EU.

Please refer to the Emerging Risk section of this report for more insight on these risks.

KEY TAKEAWAYS

Even for companies not currently exporting to the UK, many are impacted by UK activity, in areas such as imports of raw materials and packaging, use of the landbridge to access continental customers, as well as interlinked logistics and supply chain dependencies. Therefore, it is vital such companies have mapped their supply chains.

The outcome of the Brexit negotiations is causing a level of uncertainty and pessimism among these non-UK exporters, however just 13% believe Brexit will have a high impact on their business.

[24] https://www.esri.ie/publications/consumer-sentiment-index-march-2019

[25] http://www.fao.org/fao-who-codexalimentarius/en/

METHODOLOGY

This report is based on data from Bord Bia's Brexit Barometer. This web-based survey addressed both qualitative and quantitative Brexit-related risk issues.

In addition, Bord Bia and Aon conducted 59 face-to- face interviews with companies in Ireland across a two-week period (55% of all survey respondents who export to the UK) to gather insights into company activities as they prepare for Brexit. These interviews addressed topics including customer relationships, supply chain, customs and controls, market diversification, financial resilience and emerging risk.

Aon conducted this survey on behalf of Bord Bia and collected and tabulated the responses. Bord Bia & Aon risk and industry specialists provided supporting analysis and helped with the interpretation of findings.

All responses for individual companies are held confidentially, with only the consolidated and anonymized data being incorporated into this report. Percentages for some of the responses may not add up to 100 percent due to rounding or respondents being able to select more than one answer. All financial amounts shown are in euro (€).



Rialtas na hÉireann
Government of Ireland

BREXIT ANALYSIS & PLANNING DOCUMENT

Please note this document is part of ongoing Brexit analysis and scenario planning for input into larger Government deliberative processes. Unless explicitly referenced by Government decision, any proposal contained in this document does not represent Government policy and should not be represented as such.

Bord Bia
Irish Food Board