Contents

Executive Summary

Sectoral Performance

- Competitive pressures continue to moderate the rate of growth in exports of Irish food, drink and horticulture. Total exports grew by just under one per cent, to **€7.1 billion** in 2005, as sterling depreciation and price deflation suppressed returns by up to four per cent in the industry's largest market.

- This was a notable performance in the circumstances by the agri-food industry which is Ireland's largest indigenous sector. It accounted for **9% of Ireland's Gross Domestic Product in 2004** and 8% of industrial employment. Its regional distribution and low import content further serve to underscore the value of the industry to the total economy.

- Exports of **prepared foods**, following a strong performance in the previous year, stabilised in 2005 at €1,520 million. The sector, which has the highest long-term growth potential, had to cope with strong downward price pressures, increased price promotional activity, and growing competition from Continental European suppliers in its largest market, the UK. Further retail consolidation during the year has accentuated competition in the UK retail sector while growth in grocery sales has also moderated by comparison with previous years.

- **Meat and livestock** exports, with a combined export value of €2,130 million in 2005, accounting for some 30% of total exports, were two per cent higher than in 2004. This reflected higher exports of pork and bacon and of live animals. Exports of beef, which accounts for two thirds of total meat and livestock exports were slightly higher while the value of lamb exports declined.

- Lower cattle supplies for processing, down 6.5 per cent on 2004, were offset by higher carcase weights and a three per cent improvement in prices to leave the total value of **beef** exports slightly up, at €1,340 million. The shift to Continental EU markets continued, with volumes rising by 11%. Exports to non-EU markets now account for less than 8 per cent of the total compared with over 50 per cent some five years ago.

- The value of **pigmeat** exports increased by an estimated 11 per cent to €230 million during 2005. Much of this growth was driven by higher exports of fresh pork products. **Poultry** in contrast increased largely due to higher earnings from further processed products.

- The decline in **sheepmeat** values meanwhile reflects weaker returns from all markets, which more than offset the impact of higher carcase weights on increasing volume.

- Strong world dairy markets helped contain the decline in the value of **dairy** product exports, due to lower rates of casein aid and refunds, to just 2 per cent, worth a total of €1,820 million in 2005. The prospects for exporters appear more challenging in 2006 due to an expected weakening in world markets as supplies from Australia and New Zealand are set to increase.

- Continued structural adjustment, involving the relocation of production, this time back to Ireland, supported a recovery in **beverage** exports in 2005. Total exports from the sector are estimated to have grown by 5.8 per cent to €1,075 million. There were strong performances in the cider, beer and spirits categories while on the non-alcoholic side water exports also did well in 2005. Investment in leveraging distribution, innovation and branding will remain key to driving growth in 2006.

- Export markets for **edible horticulture and cereals**, principally the UK, remained highly competitive in 2005 and values fell by over 4 per cent as a result. Depreciation in sterling and price deflation in the market added to the sector's difficulties. The mushroom category dominates the sector and competition from Dutch and Polish produce in particular was intense. The key to success lies in a continued shift towards larger production units which can compete successfully with Continental suppliers.

- Exports from the **amenity** horticulture sector remained largely unchanged at just under €17 million. Sales of hardy nursery stock were affected by a flat UK retail market as garden centres were hit by sluggish consumer spending. Sales of Christmas trees and foliage, flowers and bulbs performed reasonably well. Prospects for 2006 are broadly positive for all categories, while a good spring is critical for sales of hardy nursery stock.

Consumer Trends

- Recent Bord Bia research confirms that personal health and wellbeing continues to be a dominant driver affecting consumer choice. This is evidenced by 75% of British consumers agreeing with the statement "Good food can enhance body and mind" and an even higher figure of 86% by Irish consumers. (PERIscope 2005)
- Convenience and the demand for quick options are catalysts behind a switch from cooking from scratch to using ready prepared ingredients and ready to eat foods. In Britain, 77% of all adults do not prepare from scratch on a daily basis, with the corresponding figure in Ireland at 65%. This is further endorsed when one considers that 65% of British consumers use ready prepared ingredients at least weekly, with the corresponding figure for Ireland at 44%. (PERIscope 2005).
- Snacking and grazing is also becoming more prevalent, as on average, Europeans eat more than 4.5 meals per day (Datamonitor 2005); that's significantly more than the traditional 3 'proper' meals a day. This is supported by Bord Bia research which found snacking is an accepted part of eating habits with almost 90% of Irish consumers agreeing that they regularly treat themselves to snacks. (Snacking 2005)

Global economy

- Looking ahead to 2006, the prediction is of some convergence in growth rates, as economies growing above trend rates (e.g. US, China) will see growth moderate, while those below trend growth will see rates increase (e.g. United Kingdom and the euro zone).
- The **euro/sterling exchange rate** is of critical importance to the Irish food industry, because of both the size of the UK market and competition from British produce. The euro appreciated significantly against Sterling in the five years from 2000, by approximately 12 per cent. Sterling has depreciated in 2005 by nearly 3 per cent, however current projections are of a new Sterling appreciation although it is expected to be small.
- The prospect also remains of a significant US dollar depreciation.

Industry issues

- The recent agreement reached at the WTO Ministerial Conference in Hong Kong proposes the ending of export subsidies by 2013. The industry's reliance on these subsidies has diminished and will continue to do so (although the timing remains to be determined), however the upcoming negotiations around market access are set to be more significant into the future.
- According to the Commission, the EU offer on access could see imports of beef rise by 160% from 0.5 million tonnes to 1.3 million tonnes, representing a gain in market share up from 7 per cent to 19 per cent. EU production and prices would fall by 10 per cent.
- Whatever the eventual outcome of the latest WTO round, the timeframe for trade liberalisation is becoming ever shorter and the window of opportunity to prepare for increased competition correspondingly narrower. The need to achieve greater efficiencies, improved scale, and build investment in innovation and marketing are assuming a new urgency if the industry is to successfully meet the challenge.
- Irish food and drink manufacturers identified a number of market related challenges in a recent Bord Bia industry survey:
  - Seventy seven per cent expect "stronger competition in existing markets" to have a "High" or "Very High Impact" on their business over the next twelve months. Companies cited new competitors from both Continental EU and lower cost countries outside the EU.
  - Sixty eight per cent rate "increasing retailer power" as a development that will have a "High" or "Very High impact" on their business in the next twelve months. Companies mentioned the continuing drive to rationalise ranges taking out smaller brands as they develop their private label ranges.

- "Price deflation" is seen as having a "High" or "Very High Impact" by 61 per cent of Irish food and drink manufacturers on their business over the next year. As well as reducing prices in 'real' if not absolute terms in annual negotiations, companies report that the demands for participation in promotions is accelerating,.

- Despite this difficult environment, there are significant opportunities for growth:
  - a domestic market that is expected to remain in a strong expansionist phase in the period ahead
  - building on strong positions across most categories in the UK market
  - the continuing development of the New Accession countries
  - the rapid growth projected in the Asian region
  - a growing interest on the part of consumers in the EU in the provenance and authenticity of the foods they are eating
  - one manifestation of the increased interest in health and well-being is greater propensity to purchase products with natural ingredients, a category in which Ireland ought be well positioned.

Bord Bia Initiatives

- Bord Bia is continuing to re-position itself in the context of this rapidly changing and challenging environment. Over the past twelve months we have been reconfiguring our programmes and re-prioritising resources in the marketplace to continue to match the opportunities and needs of industry.

Bord Bia priorities and initiatives for 2006 will include:

- **Official Sponsor of the Ryder Cup**. The event reaches an international audience estimated at one billion, making it one of the top three events in the world sporting calendar. Bord Bia will leverage its sponsorship on behalf of industry to raise the profile of "Ireland - The Food Island", attract key international buyers, showcase the best of Irish food, drink and horticulture, and integrate it with appropriate promotional programmes. The association will re-inforce the positioning of Irish provenance as a source of quality, naturally based products.

- The **International Speciality Food Forum** will be held at the Royal Hospital, Kilmainham in May. It is designed to assist speciality food companies expand their market presence in Ireland and the UK. Some 80 Irish companies will participate along with 150 invited buyers in pre-arranged, scheduled meetings, seminars and a gala dinner. These retailers are responding to the demands from their customers for authentic products and indulgent experiences.

- The **European Beef Promotion** will be rolled out for its second year. It will build on the successful promotion in 2005 when 40 retailers in 10 EU markets, reaching some 100 million consumers participated in a focused promotion, featuring on-pack offers, designed to build sales and loyalty to the Irish beef brand. The clear identification of this beef as Irish affords an opportunity to communicate the story of its distinctive production.

- The **Food Dudes** programme will be rolled out in the first year of a three year initiative designed to increase consumption of fruit and vegetables among schoolchildren. It is targeted to reach 30,000 children in 150 schools over the full duration. The domestic market is critically important for much of our horticultural produce.

- A **Food Trade Delegation to India** will be part of the Official Trade Mission led by An Taoiseach, Mr. Bertie Ahern, T.D. in January. Irish food and drink companies will participate in the programme which includes a Bord Bia stand at IFOWS (the Indian international food and drinks show) in Delhi. Bord Bia participation follows similar involvement in the delegation to China in 2005 and the subsequent establishment of a representative presence in the region, in Shanghai. These activities support those companies interested in developing business in the region.

- **The Brand Forum** will continue to champion the branded route to market for Irish companies. The forum meets four times a year in Dublin and twice outside it. New initiatives are in place for 2006 to incorporate workshops, publications, study tours and mentoring. Brands provide an opportunity for companies to differentiate themselves by building their own consumer franchise and mitigate many of the pressures identified earlier.

- **Féile Bia**, an initiative designed to bring greater transparency of the origin and traceability of meat and eggs in foodservice, has been extensively reviewed and will be re-launched in 2006. This scheme enables both Irish consumers and visitors be assured as to the origin of these products when eating out.
- **Foresight4FOOD** is a new initiative to encourage Irish companies to market-test new product concepts and improve their prospects of success once launched in the marketplace. This pilot scheme is confined to research amongst Irish consumers, but will be rolled out to other markets if successful.
- **The Garden Centre Awards** will take place in Dublin Castle in February. They are an All-Ireland programme hosted in the north and south in alternate years to encourage best practice presentation of amenity horticulture in Ireland. The awards include the best garden centres, north and south, and this year will also feature awards for garden nurseries.
- The **Strategic Network Alliance** features leading Irish food and drink manufacturers cooperating in a joint programme with Bord Bia to identify new ways of securing sustainable business in Continental European markets. This is a means for Bord Bia to work with industry leaders to identify routes into the Continent which to date has seen mixed success.

The Economic Environment

1.1 The Global Economy

The global economy exhibited robust growth in 2005, although at a more moderate level in comparison to 2004. The International Monetary Fund (IMF) estimate global output growth for 2005 to be 4.3 per cent, down from 5.1 per cent in 2004. Table 1.1 shows recent IMF growth estimates with predictions for 2006. Of the world's major economies, the US and China continued to exhibit strong growth in 2005, while Europe's recovery continues at a markedly slower pace. Looking ahead to 2006, the prediction is of some convergence in growth rates, as economies growing above trend rates will see growth moderate, while those below trend growth will see rates increase.

Strong growth was achieved in 2005 despite high commodity prices and rising energy costs. Notably, high oil prices have not resulted in significant inflationary pressures, as non-oil inflation remained low in the major economies. This price stability coupled with historically low interest rates provided benign conditions for continued growth in 2005.

Despite the current price stability, the OECD has cautioned that it may take longer for the full inflationary effects of high oil prices to emerge. Even though oil prices are not expected to rise in the medium term, second round inflation could still threaten economic growth.

A second significant threat to the growth is the US current account deficit. Despite recent reform of the Chinese exchange rate mechanism, the trade imbalance between the US and China is likely to persist for the medium term. A sudden readjustment of this imbalance is a serious threat to growth.

Table 1.1: Growth Rates, Ireland and Major Economic Regions, 2003-2006

	2003 %	2004 %	2005 %	2006 %
World	4.0	5.1	4.3	4.3
Ireland	**4.4**	**4.5**	**5.0**	**4.9**
US	2.7	4.2	3.5	3.3
UK	2.5	3.2	1.9	2.2
Eurozone[1]	0.7	2.0	1.5	1.8
China	9.5	9.5	9.0	8.2

Source: World Economic Outlook; September 2005, IMF

[1] *Eurozone refers to the twelve European states in the Euro currency area.*

1.1.2 Ireland in the Global Economy

The Irish economy continues to grow rapidly. Table 1.1 shows the 2005 Irish growth estimate to be above the global trend and in particular to exceed European growth by a considerable margin. The European Commission estimates that real GDP growth in Ireland to be 4.4 per cent in 2005, with forecasts of 4.8 and 5 per cent in 2006 and 2007 respectively. This is in stark contrast to predictions of 1.5, 2.1 and 2.4 per cent in the same years for 25 European Union member states.

Domestic demand continues to be the key driver in the Irish Economy, estimated to account for all of GDP growth in 2005. Private consumption is estimated to have grown by 4.9 per cent in 2005, up on 3.8 per cent the previous year. Consumer confidence fluctuated in 2005 as oil prices rose, but increased on 2004 levels. Higher private consumption growth is predicted for 2006 and 2007, continuing an upward trend in consumer spending since 2002. Maturing SSIAs are likely to contribute in part to some increased spending in late 2006 and 2007. Despite rising in December 2005, Eurozone interest rates are expected to remain low for the medium term, lending stability to the still booming Irish property market and facilitating further credit expansion.

Net exports are estimated to have had a negative effect on Irish growth in 2005. This is a result of the strength of Ireland's domestic economy relative to its key European trading partners. While it is expected that net exports will contribute to growth in 2006 and 2007, domestic demand is predicted to remain the dominant driver of growth.

The main threats to Irish economy are external. The US current account deficit is expected to exceed 6 per cent of US GDP in 2005. A disorderly unwinding of the deficit by a sudden Dollar depreciation or marked reduction in US demand would impact heavily on Ireland's open economy. Poor growth among Ireland's principal trading partners also poses a threat. The reduced UK growth witnessed in 2005 may be of concern, although expectations are of a return to stronger growth typical of recent years. Uncertainty regarding European, particularly German, recovery persists. The first ECB interest rate rise in five years in the final quarter of 2005 signalled renewed confidence, however unresolved political questions regarding structural changes to the German economy remain unanswered.

Internal threats to the Irish economy stem mainly from factors that could curtail domestic demand. A sudden downturn in property values could have a serious adverse wealth effect on demand. The threat to employment growth of a subsiding construction boom has also been cited as a potential problem for the Irish economy. Wage inflation remains a perennial threat to Irish competitiveness. The 2006 round of public sector pay benchmarking will be an important determinant of Irish cost competitiveness.

1.2 Ireland's Competitiveness

1.2.1 Exchange Rate Movements

The Euro Sterling exchange rate is of critical importance to the Irish economy, because of both the size of the UK market and competition from British produce. The Euro appreciated significantly against Sterling in the five years from 2000, by approximately 12 per cent, see Figure 1.2. Sterling has depreciated in 2005 by nearly 3 per cent, however current projections are of a new Sterling appreciation, but it is expected to be small.

As mentioned above, the prospect of a significant Dollar depreciation remains the most dramatic exchange rate threat. Such a change would have implications directly for the competitiveness of Irish exports, but possibly more damagingly, an erosion of competitiveness could stem the flow of US investment in the Irish economy. The Irish Central Bank notes that such a reduction in US FDI could have serious negative consequences for Irish employment, damaging the domestic demand driver of current growth.

1.2.2 Labour Costs

Unit labour costs are a measure of the labour costs per unit of output and are calculated as the ratio of total employee compensation to GDP. Changes in unit labour costs are indicative of inflationary pressures due to wage increases. Table 1.2 below shows unit labour cost growth from 2001 to 2004 and estimates for 2005 and 2006. Irish unit labour cost growth was high in 2004, but is expected to moderate in 2005 and 2006, reducing to the Eurozone average by 2006.

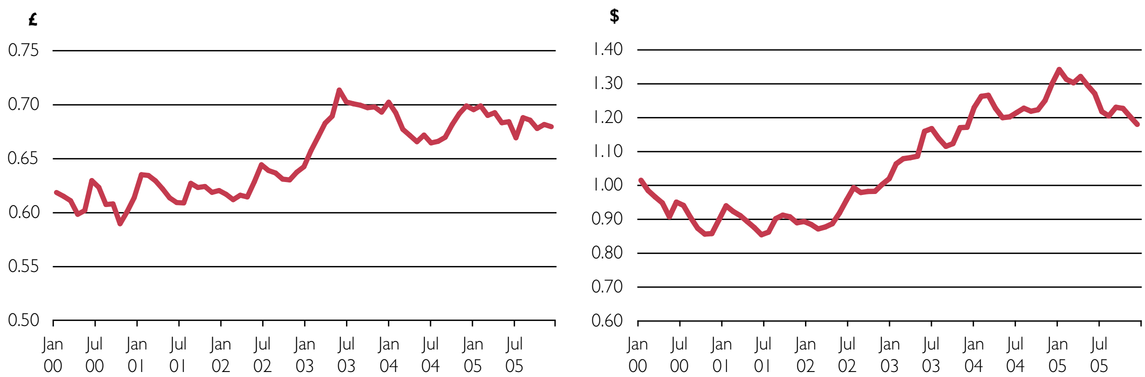
Table 1.2: Unit Labour Cost Growth, Ireland and Major Economic Regions, 2001-2006

	2001 %	2002 %	2003 %	2004 %	2005 %	2006 %
Eurozone	2.3	2.5	2.1	0.9	1.3	1.2
Ireland	**4.2**	**0.8**	**3.1**	**4.1**	**1.9**	**1.2**
UK	3.6	2.4	3.2	2.0	2.3	2.7
US	1.7	1.6	2.3	1.6	2.2	2.4

Source: Economic Forecasts; Autumn 2005, European Commission, Economic and Financial Affairs

Ireland's buoyant economy has created large employment growth in recent years, facilitated by increased participation and record immigration. Recent CSO data show immigration in the 12 months to April 2005 of approximately 70,000 people. This period roughly coincides with the first year of the enlarged European Union. Notably, 38 per cent of the immigrants are from the 10 new EU accession states. It is likely that this increased labour supply has restrained wage growth in the services and construction sectors, resulting in the improved unit labour cost figures for 2005. It is also hoped that the conclusion of the latest round of

Figure 1.2: Sterling and US Dollar/Euro Monthly Average Exchange Rates 2000-2005



benchmarking in 2006 will further reduce wage inflation. Wage inflation stood at 5.5 per cent in 2004 and is predicted to fall to 5 and 4.5 per cent in 2005 and 2006 respectively.

1.3 Developments in Key Markets

The UK and the Continental EU are key markets for Irish food and drink exports and the following sections analyses developments in their respective economies.

1.3.1 The UK Market

The UK economy weakened in 2005, with growth dipping below 2 per cent, see Table 1.1. Consumption growth in 2005 was also low in comparison to recent years, as consumer confidence wavered as a result of rising interest rates and a tempering in the property market. Strengthening domestic demand is expected to be the main driver of GDP growth in 2006 and 2007, albeit primarily through government spending, as private consumption growth is predicted to be moderate. Continued price stability, low unemployment and strong investment growth are also expected to contribute to stronger growth in 2006 and 2007, in line with the rest of Europe.

UK import growth fell in 2005 as a result of weak domestic demand. The European Commission forecasts further reductions in import demand growth in 2006, before rising again in 2007.

The conclusion regarding the UK market is that while GDP growth is expected to strengthen in 2006, it may be 2007 before conditions for Irish exports to the UK improve.

1.3.2 The Continental European Market

Economic conditions in Continental Europe improved markedly in 2004, and although 2005 saw slower growth of just 1.6 per cent, it is widely expected that growth will accelerate moderately through 2006 and 2007.

Export growth is expected to provide the impetus for much of the recovery in Continental Europe, while domestic demand is projected to make a more moderate contribution to growth. Private consumption growth was low in 2005, and is not predicted to increase until 2007. Until then growth in investment spending is expected to account for increased domestic demand. Poor consumption growth is largely a consequence of low consumer confidence due to high oil prices and perceptions of employment prospects. It is hoped that by 2007 improved employment growth will stimulate greater consumer confidence, boosting private consumption.

Continental European inflation was not pronounced in 2005 despite the significant increases in energy costs. Furthermore price stability is predicted to continue as Eurozone inflation is projected to fall from 2.5 percent in 2005 to 2.2 and 1.8 per cent in 2006 and 2007 respectively. Favourable financing conditions, improving business confidence and an improved real exchange rate situation mean the prospects for Continental European growth are good, despite weak private consumption growth and high unemployment.

Continental European import demand is forecast to grow well as a result of economic recovery in 2006 and 2007, however the prospects for food imports may not be so strong.

The conclusions regarding Continental European export growth are similar to those of the UK, while GDP growth is projected for 2006, it may be 2007 before private consumption growth will result in improved export conditions, in particular for the food market.

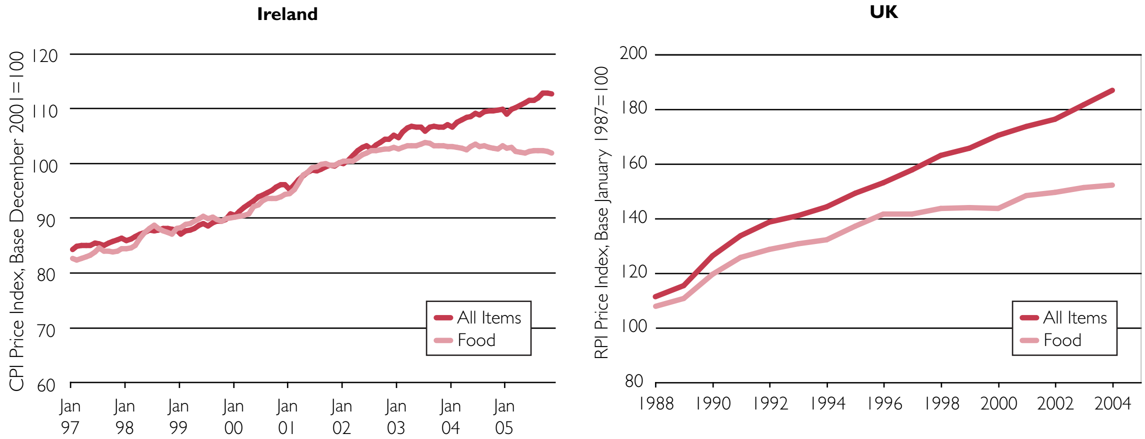
1.4 Structural Issues Affecting the Irish Food Industry

1.4.1 Retail Pricing

As the downward pressure on retail prices is passed onto the suppliers, costs are becoming increasingly important. Margins have been reduced as a result of this price competition.

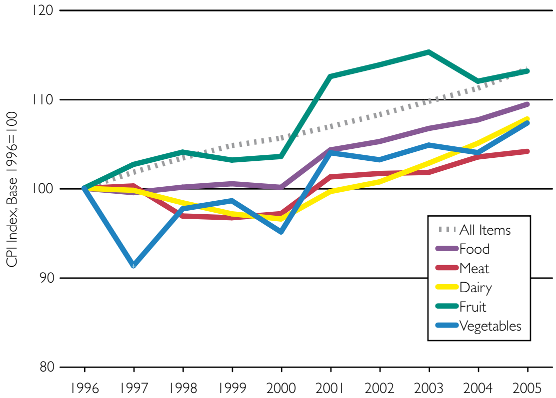
Long term retail price trends in the UK shows the cost of food to be rising less than other consumption goods, especially since 1995, see Figure 1.4.1. Specific product groups have seen prices increase by even less, suggesting the increased pressure on supplier margins in those sectors see Figure 1.4.2. Meat, dairy produce and vegetables have all be running below the main CPI food index since 1996. Meat in particular has consistently shown poor price growth. Vegetables show more erratic price increases over the period illustrated. Fruit is the only food group to see price increases above the all items index.

Figure 1.4.1: General and Food Price Increases, Ireland CPI Index 1997-2005 and UK RPI Index, 1988-2004



Irish long-term price trends illustrate the same divergence between general consumer and food prices since 2002, see Figure 1.4.1. Irish food prices have been stagnant since 2003.

Figure 1.4.2: UK Food Price Increase by Sub Group, CPI Index 1996-2005



1.5 Significance of the Irish Agri-Food Sector

While the contribution of the agricultural sector to GDP continues to decline relative to that of the service sector in particular, it nevertheless remains more important in the Irish context than in other EU Member States. In 2004, the agri-food sector contributed 9.4% of Irish GVA at factor cost and employment in the sector is estimated at 8.5% per cent of total employment in 2005. Such figures understate the contribution of the agricultural sector in a number of important respects:

- Agriculture sector exports make a more substantial contribution to overall Irish exports, both directly as an input to processed food exports; and
- Because of the dispersed nature of sector output, its contribution to regional balance and local and rural development is critical.

While the agriculture sector is in relative decline, the food and beverages manufacturing sector continues to perform well.

The importance of the Irish food industry in terms of linkages to the domestic economy is demonstrated by Table 1.5 below. This shows the input ratios and value added for output from key sectors in the Irish economy. The food and beverage industry's heavy reliance on agricultural produce illustrates high utilisation of domestically produced factors. Such linkages to domestic production are beneficial as they contribute towards domestic demand and reduce import dependence. This is evidenced by the relatively low proportion of imported inputs in the food and beverage sector, far below the ratio of the office machinery and computers sector. Table 1.5 also shows how the Irish food and beverage industry uses relatively large amounts of labour inputs, contributing to labour demand. The value-added figures in Table 1.5 show the Irish food industry to be relatively productive, especially in relation to other high profile sectors of the economy.

Table 1.5: Input Ratio and Value Added in Irish Manufacturing and Retail Sectors

Sector	Agricultural Produce	Inputs % Labour	Imports	Value Added %
Food and Beverages	**40.1**	**11.4**	**23.6**	**29.4**
Printing and Recorded Media	-	10.7	36.6	21.3
Office Machinery and Computers	-	4.0	70.0	18.2
Chemical Products and Manmade Fibres	0.1	4.6	34.6	43.8

Source: CSO 1998 Supply and Use Input and Output Tables, October 2004

The Marketing Environment

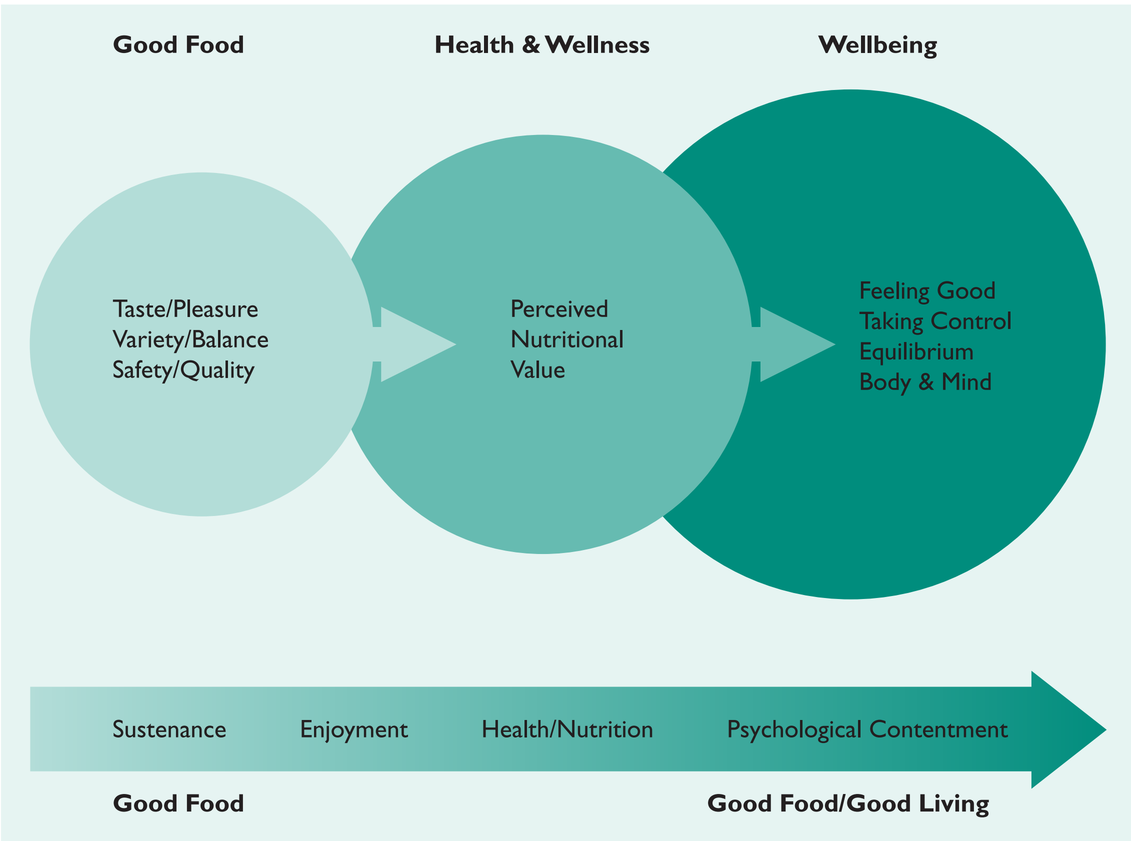
Consumer Trends & Retailer Initiatives Shaping the Food Industry

More and more consumers are busier than ever. With longer working hours, more time spent travelling and the increasing pressure on time caused by the increase in mobile technology, consumers are developing 'split personalities' as their needs change drastically depending on whether they are in frenetic weekday or relaxed weekend mode. This 'Jekyll & Hyde' mentality impacts on consumer eating and drinking behaviour which has led to a polarisation in consumer choice between value & premium products and similarly between health & indulgence and convenience & experience. Snacking and grazing is also becoming more prevalent, as on average, Europeans eat more than 4.5 meals per day (Datamonitor 2005); that's significantly more than the traditional 3 'proper' meals a day.

Here we look at the trends that are defining consumer choice in the marketplace, and the retailer solutions to them.

Health & Indulgence

Health is high on the agenda for many consumers, with personal health and wellbeing the dominant trend affecting consumer choice over the past year. The saying "You are what you eat" has become widely adopted. There has been an evolution of food over the last few decades in consumers' minds. Whereas in the distant past food was simply for sustenance and enjoyment, consumers over the last decade have acknowledged the need for food to not only maintain their normal health, but also to help reduce the risk or delay the onset of some diseases such as cardiovascular disease and cancer. More recently consumers have even gone one step further, seeking food to optimise their performance and wellness. Today food is recognised as a key determinant to one's overall physical and emotional wellbeing.



Source: Based on a Nestle presentation

Confirmation of this trend prevailing amongst Irish consumers is found in results of Bord Bia PERIscope research conducted earlier this year:

Level of consumer agreement with the statements…	
A good diet can help your mental health	86%
Good food can enhance body and mind	86%
I consider what I eat to be really important for my wellbeing	68%
I eat to enrich/enhance mental alertness and spiritual wellbeing	68%

Source: Bord Bia PERIscope 2005

Retailers across the globe have recognised and responded to consumers' desire for healthier eating and food that contributes to overall wellbeing. There are copious examples of healthy eating initiatives, changes to product formulations, product labelling and product range introductions. Below is just a flavour of what is happening in our export markets and further afield, they serve to highlight the pro-active approach of the retailer and indicate that the trend of health and wellbeing is here to stay for some time.

In the UK, Wal-Mart owned Asda announced plans in September to remove salt from its entire range of canned vegetables. The move is part of an on-going campaign called the Asda Food Pledge under which the retailer is committed to making all of its own label food and drink healthier, with no compromise to the price, taste or quality of the product. Also in the UK, Tesco announced its own "signpost system" which will display the amount of grams of salt, fat, saturated fat, sugar and calories contained in hundreds of its own label foods. It believes it will help shoppers assess the nutritional value of products and will be easier for customers to make healthy choices as they shop. In addition to this Tesco tested a dietary consultation service in five supermarkets under the Tesco Personal Shopper Service. Customers could book a free 30 minute appointment with a registered nutritionist who advised on dietary issues and guided them around store. Also in the UK, Sainsbury in April followed the example set by Tesco earlier in the year by putting a glycaemic index (GI) logo on its packaging. The move was part of the retailer's pledge to make health a key differentiator in its offer. The GI logo sits alongside its 'Wheel of Health' front-of- pack labelling. Albert Heijn in the Netherlands announced in September the introduction of a "healthy choice" symbol to its private label range. The Healthy Choice Clover emblem will be displayed on products that meet certain criteria, such as those with a low saturated fat, sugar and salt content, or this high in fibre.

In the USA, Safeway announced in September several health and wellness initiatives aimed at helping shoppers make healthier and more nutritious choices. Measures include the implementation of nutritional icons on its private label products; the expansion of Safeway's 'Eating Right' product line; the integration of natural/organic food products in store aisles and the testing of healthier choices at check-out stands. Also in the USA, c-store chain 7-Eleven is offering its first proprietary line of fitness and nutrition products, sold from October under the Formula 7 brand name.

The counterpoise to the health and wellbeing trend is consumers' desire for indulgence. As a society, we increasingly look to our food and drinks to deliver a 'hit' or a benefit. In this case, it is pleasure. The explosion in indulgence can best be shown in Ireland by the growth of private label gourmet ranges, by the increasingly diverse types of ethnic food now available and finally by the nation's more recent love of cookery and TV chefs.

Treating & pleasure becomes more important at the weekend as consumers feel that as they have 'been good' during the week, they can reward themselves by enjoying foods that focus on self-indulgence rather than function. This dichotomy in behaviour helps to drive foods with a strong pleasure dimension, as consumers look for taste premiums in the prepared foods sector, especially in confectionery, snacks, desserts and ice cream. The indulgence trend is expressly advantageous for Irish artisan and speciality food producers of premium foods. A focus on taste leads consumers to be willing to pay more for their pleasure.

Value & Premium

A similar dichotomy in trends is emerging in the polarisation of value and premium products. Armani meets Aldi in the trend that Datamonitor calls 'income complexity', as consumers curb spending in some areas so that they can splurge on others. This means that traditional consumer segmentations that take income into account are becoming less relevant – a highly paid professional may be just as likely to buy value / low cost products in some sectors as a consumer with a much lower household income.

'Premiumisation' occurs as an increasing number of people become aware of and interested in high quality premium products. The food consumers choose to eat increasingly represents a conscious way to communicate individual lifestyle and identity, in the same way as choice of clothes, furniture and cars. This has consequences for the food and drink market in that manufacturers must offer more products of a greater variety to attract all population segments.

While the premium segment of the food and drink markets is growing, discount retailers are also experiencing growth. Since the early 1990s the number of discount stores across Europe has doubled to around 30,000. In fact, these days it is becoming cool to be canny when it comes to bargain hunting with low-priced clothes retailers such as Zara and H&M and low-cost airlines such as Ryanair going from strength to strength, as consumers become more decisive about what they are prepared to compromise on.

At an industry conference in May, Tesco acknowledged the threat that is posed to the retail sector by the global growth of the discount sector. It stated that it needs to be good on the lines stocked by discounters globally, but also go beyond that to "become a wide-range discounter". The development and expansion of private label economy lines has been retailers' main comeback at the rise of the discounters, giving price conscious shoppers the chance to buy low price products as part of their weekly shop. Examples include Tesco's Value range, Sainsbury's re-launch of its Basic brand in January and Wal -Mart Asda's SmartPrice line. The success of SmartPrice is thought to be a contributing factor to the slower-than-expected growth of hard discounters in the UK.

Albert Heijn at the start of the year announced it would further slash prices on additional product lines so refuelling the local price war that had been going on for nearly a year. Albert Heijn started the first round of price cuts in October 2003 to win back market share lost to German discounters such as Aldi and Lidl. In France, Auchan's hypermarket division has said it will greatly reduce the number of branded products in its stores from the 1st of January 2006 onwards. Auchan has attributed the large reduction in brands in its stores to the strong growth of the discounters as well as the expansion of private labels and economy lines.

Coinciding with the main retailers embracing the discounter threat, hard discounter Aldi has had to modify its traditional strategy which proved to be successful for a very long time. It has recently expanded its product offer with new private labels and is now aiming to sell more manufacturers' branded products, primarily confectionery. In order to compete with other supermarkets it believes an increased stock of branded items could win customers who so far have not shopped at Aldi because of the low range of branded items and lack of choice.

Convenience & Experience

Convenience continues to be a strong driver of consumer choice. Convenience and the demand for quick options that fit with pressurised lifestyles are clear catalysts behind a switch from cooking from scratch to using ready prepared ingredients and ready to eat foods. Below we see evidence of this from recent Bord Bia research:

Convenience Society

62% of Irish consumers agree with 'I don't like spending too much time on cooking'

39% of Irish consumers view cooking as a chore

35% cook from scratch on a daily basis

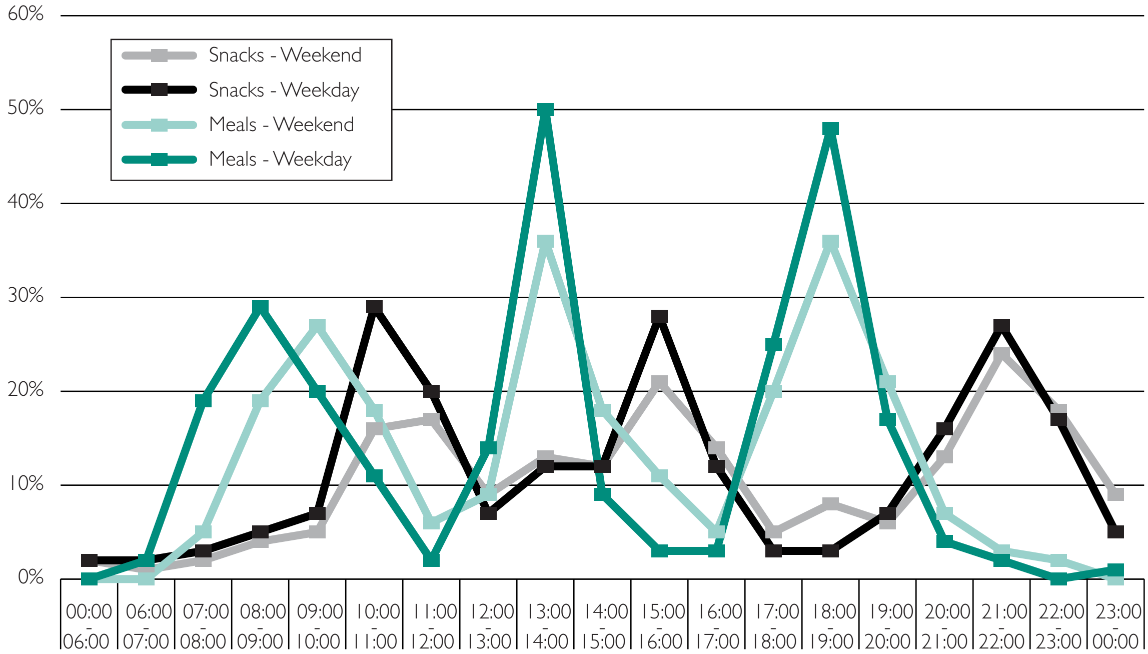
44% use ready prepared ingredients on a weekly basis

47% of Irish consumers agree with 'We use a lot of ready to eat foods in our household'

Source: Bord Bia PERIscope 2005

Consumers consider their time to be at a premium and today have more lifestyle choices and more options to fill their leisure time. The implications for food and drink products are two fold; on the one hand there is

Snacking Routine



Source: Bord Bia Research 2005

an increased demand for easy meal solutions, greater occasions of snacking and on-the go consumption, eating out of home, and eating "out" at home with prepared ready meals more regularly. On the other hand is the desire and aspirations of experiences and quality of life.

A growing consumer behaviour resulting from the convenience trend is that of snacking. In Bord Bia research conducted earlier this year, snacking was found to be an accepted part of eating habits with almost 90% of Irish consumers agreeing that they treat themselves to a snack every now and then. Younger people, especially men, were more likely to agree that they ate on the move due to time pressures. In terms of actual behaviour, the majority of the population is keen to maintain regular eating patterns and snacking plays a strong part in this, especially during the more routine-driven weekdays.

The chart above highlights the entrenched snacking routine for Irish consumers. During the week, the pattern of snacking occasions falls between main meal occasions, during mid morning, mid afternoon and later on in the evening. At the weekends, the mid morning 'snacking peak' has become a little flatter, likely reflecting the later breakfast and reduced impetus to snack during this time period.

Data from TNS Family Food Panel 2004 in Britain suggests that if the current trends in convenience continue, in ten years time snacking and informal meals will account for 70% of all eating occasions.

The counterbalance to convenience and snacking is the increased demand for products and shopping experiences that leave a lasting impression and create an experience for the consumer. This manifests itself in food and drink by consumers seeking gourmet experiences, cookery courses and wine tastings; and by aspiring to replicate celebrity chefs at home, including purchasing their branded cookware and tableware. The Slow Food Movement is another example of the challenge to convenience; it promotes the "dinner table as the centre of leisurely pleasure and social interaction" as a reaction to fastness, and signals consumers' pursuit of experience and quality of life.

Summary

The implication of the health and indulgence, value and premium, and convenience and experience trends side by side for food and drink companies is that they can target the same consumer with different offerings depending on their state of mind. Products can be tailored to best meet the needs of the consumer in each mindset. These trends however need not be mutually exclusive. Manufacturers that can meet an indulgence and health benefit is likely to do well – but only on the basis that it fits with the simplicity trend – confusing multiple benefits put consumers off.

As time goes on, consumers are becoming more and more complex. Understanding their 'debit / credit' behaviour and what they are willing to compromise on, and when, will provide inspiration for product and brand development. One consumer may present a range of opportunities for a brand and getting under the skin of the consumer to identify how their needs can be met in different areas of their life will be essential.

Sectoral Review and Outlook

Overview

Irish food exports were stable in value terms in 2005. This was an impressive performance in what was an extremely difficult trading environment. Irish exporters had to cope with a combination of a strong euro exchange rate against sterling and price deflation in most of their major markets. Despite these difficulties ***the value of Irish food and drink exports rose by 0.7% to €7.079bn.***

Category	2004 €m	2005 €m	2005/2004 % +/-
Dairy Products & Ingredients	1,860	1,820	-2.2%
Prepared Foods	1,521	1,521	0.0%
Beef	1,330	1,340	0.8%
Beverages	1,016	1,075	5.8%
Seafood	370	360	-2.7%
Poultry	247	250	1.2%
Pigmeat	208	230	10.6%
Sheepmeat	175	172	-1.7%
Edible Horticulture & Cereals	179	172	-4.1%
Live Animals	120	138	15.3%
Total food & drink	**7,027**	**7,078**	**0.7%**
Amenity Horticulture	16.2	16.8	3.7%

Meat and Livestock

The combined value of meat and livestock exports was €2,130m in 2005, up two per cent on last year. Beef exports were stable at €1,340m, sheepmeat exports fell by two per cent to €172m while **pigmeat exports were up 11 per cent** in 2005 to €230m. There was a strong performance by the live cattle export sector, with the value of exports increasing by 25% to €81m.

Species	2004 €m	2005 €m	2005/2004 % +/-
Total	*2,080*	*2,130*	*+2.4*
Beef	1,330	1,340	+0.8
Pigmeat	208	230	+10.6
Sheepmeat	175	172	-1.7
Poultrymeat	247	250	+1.2
Live Animals	120	138	+15.3

Beef

The year began well for Irish exporters with very tight supplies of beef across the EU leading to strong demand and price increases in most of our markets. However, conditions became more competitive during the summer months due to increased supplies of Brazilian beef throughout the UK and mainland Europe. Beef markets stabilised later in the year due to improved demand and the lack of Brazilian beef following a partial EU ban from areas affected by foot and mouth.

Despite a decline of seven per cent in export cattle supplies ***the value of beef exports was marginally higher*** at €1,340bn. Higher carcase weights boosted export volumes by almost five per cent leaving total beef exports at an estimated 487,000 tonnes compared to 497,000 tonnes in 2004. There was also a three per cent increase in the value of exports reflecting higher cattle prices during the year.

Beef Exports

2004	2005	2005/2004 % +/-
1,330	1,340	+0.8

The UK continued as the primary export market for Irish beef. Exports to the UK are estimated at 260,000 tonnes for 2005, accounting for 53 per cent of the total. This is just three per cent back on that of 2004 despite the return of over 30 month beef to the UK food chain from 7th November 2005. The position of Irish beef in the multiple retail sector remains strong at 22 per cent of total beef sales. This is likely to continue even with the return of cow beef, as there will be a continuing shortage of prime beef due to herd re-building on British farms.

Exports of Irish beef to Continental EU markets increased by 19,000 tonnes (+11%) to 192,000 tonnes in 2005. The principal markets are France, Italy, the Netherlands and Sweden with growth recorded in all four this year. The French market growth has been significant, resulting in an increase of 16,000 tonnes to 40,000 tonnes this year. ***Further growth was recorded in sales to Italy to 42,000 tonnes, which remains our largest Continental market.*** This has grown from 11,000 tonnes in 2001 and is now significantly ahead of the previous peak of 30,000 tonnes in 2000. Growth has been fuelled by improved supplies of cattle suited to the Italian market, many of which are finished by producers in contract arrangements with processors. The Netherlands proved a more competitive market in 2005 and trade declined slightly to 40,000 tonnes. Sweden continues as a good market for both prime and manufacturing beef and our trade improved to 28,000 tonnes. Trade was also well maintained to Spain, Portugal, Denmark and Belgium. Exports to the CEEC States were back this year primarily due to the lower returns available in comparison to other EU member states.

Exports of Irish beef to International markets declined in 2005. With better markets in the EU the volume available for International markets was lower and overall trade declined to 35,000 tonnes, back 20,000 tonnes on 2004. ***Russia remains as the principal market*** with a full year's exports to Algeria lifting their trade to 7,000 tonnes of chilled beef from just under 1,000 tonnes in 2004.

Prospects for 2006

Improved cattle supplies at the higher carcase weights will result in higher production and exports in 2006. Beef exports could top the half million tonnes mark, or back to the levels achieved in the year 2000. Forecasts for EU-15 beef production point to a deficit of 350,000 tonnes between production and consumption in 2006 even allowing for more cow beef supplies in the UK.

Arising from increased cow beef supplies in the UK there will be less demand for imported beef. As a result exports to the UK are set to decline by around 25,000 tonnes in 2006. With increased production this will result in more beef becoming available for other markets. There is likely to be little growth in sales to International markets which ought to mean a sizeable increase in sales to Continental EU markets.

The extent of the current EU ban on Brazilian beef will largely determine the market returns from Europe in 2006. A quick delivery to Europe of any backlog could cause market disruption at any time during the year. A date has not been finalised for the resumption of UK beef exports and this also has the potential to increase competition on Continental EU markets. Strong EU beef consumption should however provide the basis for stable trading conditions in 2006.

Pigmeat

The value of Irish pigmeat exports increased by an estimated 15 per cent to €240m during 2005. Although pig numbers were down, average carcase weights were up. Imports for the first half of 2005 were up 33 per cent facilitating increased exports. Export volumes for the year rose by approximately 10 per cent to 105,000 tonnes.

Shipments increased to all our major International markets. The domestic market was very competitive in 2005 due to the presence of increased volumes of imported pork from mainland Europe.

Average Irish pig price per kg d.w. for the year, at €1.31, represents a decrease of 1.5 per cent on last year's price of €1.33.

Pigmeat Exports (€m)

2004	2005	2005/2004 % +/-
208	230	+11%

The Irish market now accounts for just under 50 per cent of Ireland's total pigmeat production of 200,000 tonnes, with demand mainly for leaner products such as pork loin chops and back bacon.

The UK and Germany remained the two most important export markets for Irish pigmeat exports, with volumes increasing to an estimated 50,000 and 12,000 tonnes respectively. Overall exports to the EU-15 countries increased marginally on 2004 levels with exports to Denmark, Italy and Belgium showing some growth.

Japan was the best-performing International market with Irish pigmeat exports rising by almost 40 per cent to over 11,000 tonnes, due to an expansion in the range of products Ireland is selling into Japan. Exports to Russia were significantly down on 2004 levels to an expected 2,000 tonnes in 2005. The fall in exports to Russia was the result of certification issues encountered with EU pigmeat at the beginning of the year, which have now been resolved after a lengthy period. Competition from Brazil and Canada also affected Irish exports to Russia. Exports to the US showed marginal growth, with export volumes amounting to 5,000 tonnes.

Prospects for 2006

Irish pig supplies are forecast to stabilise in 2006 with throughput remaining at similar levels to 2005 at approximately 2.65 million head. With EU production levels expected to remain stable throughout the year and preliminary forecasts indicating a strengthening in

EU prices, Irish pig prices are expected to be similar to 2005. The outbreaks of Avian Flu in Romania, Turkey and Croatia and Foot & Mouth Disease in Brazil may also have a positive impact on demand for pigmeat worldwide.

Pigmeat exports to the EU are likely to come under pressure in 2006 due to an increase in intra-EU exports. Exports to the UK, our biggest export market, will be affected by increased competition from supplies from Holland, Denmark, France, Germany and Spain. However, with pig supplies falling in the UK, this market will remain our most important export market.

On International Markets, increased competition from non-EU suppliers such as Brazil and Canada, and the ongoing strength of the euro against the US Dollar will continue to affect Irish exports to Russia. Exports to markets such as the USA and Japan will remain strong as a result of a wider product range being exported to these countries. Ireland is also expected to gain access to the Chinese market, which has significant potential, in 2006.

Sheepmeat

Irish sheepmeat exports increased to almost 58,000 tonnes as export throughput was maintained with higher lamb carcase weights in the first half and an extra 11 per cent of cull ewes processed. ***The value of Irish sheepmeat exports declined by an estimated two per cent*** during 2005 to €172m, reflecting weaker market returns.

Sheepmeat Exports (€m)

2004	2005	2005/2004 % +/-
175	172	-2

The Irish market accounts for 30 per cent of sheepmeat output, making it the second most significant market, after France. Lamb consumption in Ireland was maintained at 21,500 tonnes in 2005.

The French market continues to take almost 60 per cent of total exports at 32,300 tonnes. Irish sheepmeat exports to the UK grew further during 2005 to an estimated 14,900 tonnes. This trade consists principally of mutton for the manufacturing sector facilitated by a rise of over 12 per cent in mutton production in Ireland. Other markets include Germany at 2,500 tonnes, Italy at 1,300 tonnes and Portugal at 1,300 tonnes. Market diversification continued in 2005 with Irish sheepmeat exported to Sweden increasing to 2,000 tonnes and Denmark and Holland being maintained. Trade with the international markets of Algeria and Tunisia were also maintained.

Prospects for 2006

The strong level of sales at export meat plants during the autumn of 2005 and the higher cull ewe disposals are expected to affect lamb availability in 2006. For the year as a whole, sheep throughput is expected to decline by around 4 per cent. With less cull ewes in the mix, sheepmeat exports could decline by over five per cent.

French import requirements look set to be maintained during 2006 as production continues to decline and consumption only slowly declines, which should help demand for Irish lamb in what is our largest market.

New Zealand is expected to remain highly price competitive and Irish exporters will again be faced with New Zealand chilled product especially for early summer trade to France. Reports from New Zealand suggest that there may be little further growth in fresh chilled sales to EU markets due to the higher costs associated with the product not being realised with higher returns.

Poultry

The value of the Irish poultrymeat exports in 2005 increased by an estimated €3 million to €250 million. Exports of processed poultry meats and prepared products made up nearly two-thirds of the total poultry exports during the year. ***The UK continues to be the main market for Irish poultry exports***, accounting for approximately 80 per cent of total exports.

Poultry Exports (€m)

2004	2005	2005/2004 % +/-
247	250	+1.1

Imports continue to keep the sector very competitive; however there was a slight fall in imports during 2005, which slightly eased the pressure on the domestic market. The decline in imports was mainly due to the EU ban imposed on imports from many Asian markets in 2004, due to outbreaks of Avian Influenza. Prices were steady in 2005 but increasing costs, such as oil prices, have kept margins very tight for growers.

Outbreaks of Avian Influenza, which were confirmed in Turkey, Romania and Croatia in October 2005, had a destabilising effect on the European market. Consumption in a number of EU markets fell by 10-20 per cent for a period, following widespread fears of a human influenza pandemic. The Irish market remained relatively stable and the industry, together with relevant authorities, implemented measures to prevent an outbreak occurring here.

Prospects for 2006

The ban on Asian imports of poultry meat will continue into the foreseeable future as Avian Influenza continues to be a problem in the region. This will continue to ease the pressure of imports in the domestic market.

Live Animals

Live Cattle Exports

Irish live cattle exports increased by over 40 per cent to an estimated 184,000 head during 2005. The value of those exports increased by 25 per cent to €81m. There was increased trade in store cattle of 15-18 months old to both Italy and Spain. These exports have more than trebled in 2005. ***Trade to mainland European markets doubled during the year*** to 145,000 head reflecting the good market demand for live cattle and the high cattle availability prevailing in Ireland.

Exports to the Netherlands, Italy and Spain all increased substantially and made up over three-quarters of the total exports. On the other hand exports to the UK, principally Northern Ireland, performed poorly during 2005, with exports down 40 per cent on 2004. Exports to International markets, principally the Lebanon, at almost 10,000 head were back by about 2,000 head due to the presence of competitive Brazilian cattle on the market and lower refunds.

Prospects for 2006

Irish live cattle exports during 2006 are expected to be similar to 2005 levels.

There is likely to be a continuing strong demand for cattle in Spain and Italy with the feedlot sector needing cattle. The Dutch market also looks set to remain stable with a steady demand for calves for the veal sector. The export of calves from Britain could restrict Ireland's trade to the Netherlands, but should not restrict trade to Italy and Spain.

The key issue for Ireland is the ability of Irish cattle to compete on price with other suppliers. Trade to the Lebanon is unlikely considering the withdrawal of export refunds since 23rd December 2005. Trade will also be dependent on continued shipping access to Continental Europe, which worked very well in 2005.

Live Animal Exports (€m)

Species	2004	2005	2005/2004 % +/-
Total	*120*	*138*	*+15*
Cattle	65	81	+25
Pigs	49	52	+7
Sheep	6	5	-16

Dairy Products and Ingredients

This category is comprised of dairy products such as butter, cheese and milk powders, as well as processed products that include dairy products such as casein, infant food and chocolate crumb.

Export Performance in 2005

2004	2005	2005/2004 % +/-
1,860	1,820	-2

World dairy markets were strong in 2005 with good demand for dairy products in import markets fuelled by firm oil prices, growth in emerging economies and westernization of diets. Nonetheless, it is estimated that there was a slight decrease of approximately 2 per cent in the value of Irish dairy and ingredient exports to €1.82bn in 2005. ***Substantial reductions in casein aid along with cuts in export refunds have had quite a large part to play in this slight decline in value*** although volumes have increased. Indeed, favourable market conditions for casein in particular have helped to lessen the severity of these cuts in support in the first half of the year at least. The second stage of the CAP Mid-Term Review (MTR) took effect on 1st July 2005 although there was a lag in the effect of these cuts on market prices which meant these largely impacted the last quarter of the year.

Export values of casein, cheese and infant food were particularly strong in 2005

Prospects for 2006

Further cuts in export refunds will occur in 2006 as part of the original Mid-Term Review. The implications of the Hong Kong WTO agreement may not be clear until April, but are not likely to have any impact in 2006. The third of four stages of MTR will be implemented on 1st July 2006.

World markets are expected to weaken in 2006 due to a greater supply of milk and dairy produce from Australia and New Zealand and the recovery in dairy exports from Argentina among other factors. All of the above point to more challenging prospects for exporters of dairy products and ingredients in 2006. However, it is estimated that Ireland's milk supply will increase in 2006 which should lead to a rise in Irish export volumes.

The growing consumer awareness and demand for health, nutritional and functional foods provide an opportunity for dairy and ingredient companies to increase their returns through added value exports. In 2006, Bord Bia will work closely with the industry to provide up to date market information and intelligence and to provide new customer introductions at industry trade exhibitions including Vitafoods International in Geneva, Health Ingredients Europe in Frankfurt, and the Institute of Food Technologists show in Orlanda, Florida.

Prepared Foods

This category consists of a wide range of primary products which have been further processed and includes ready-to-eat foods, confectionery and bakery products. While total export volumes showed some increase, the value of prepared foods exports was unchanged at €1.521bn in 2005.

The prepared foods category faces a number of challenges. The most serious of these ***is price deflation across the entire sector***. This has been worsened by increased competition from mainland European suppliers in the key UK market. These European suppliers have also made it extremely difficult for Irish companies to compete in mainland European markets which are already suffering from price deflation and a growth in the share of the retail market held by discounters.

Other difficulties confronting Irish prepared foods companies include ***the euro/sterling exchange rate, which has undermined the competitiveness of Irish companies*** in the sector and margin pressure from retailers who are selling more product under promotion.

Export Performance 2005

The UK remains the most important market for Irish prepared foods exports. In the UK price deflation and the large proportion of product being sold under promotion are the major issues. This challenging environment means ***that Irish prepared food companies must continually work at containing their costs***, a situation that is unlikely to change any time soon as the takeover of Safeway by Morrison resulted in further consolidation of the UK food retailing sector with just four major players now remaining.

The UK grocery market is growing more slowly than in recent years. Exports of frozen products were up in volume terms in 2005 but the overall value of frozen food exports to the British market was unchaged as a greater proportion of such products were sold on promotion.

The controversy generated by TV chef Jamie Oliver on the quality of UK school dinners and the on-going obesity debate means that prepared food producers must respond to consumer demand for healthier, more wholesome foods. In response manufacturers are broadening their range of premium, more authentic and regional food offerings to try to regain lost margins. Continuing the trends of previous years, manufacturers are launching new products offering benefits in terms of health options, indulgence and convenience.

Exporters are also finding conditions extremely difficult in mainland European markets. This is due to greater competition both from within the domestic markets and from lower cost producers in the accession states. Both hard and soft discount retailers have also been growing strongly in most European markets and Irish manufacturers need to embrace this as an opportunity.

Prospects for 2006

The outlook for 2006 remains challenging. The sector is responding with higher investment in new product development in order to launch new products to attempt to regain lost margins. In addition some companies are trying to increase their euro sales by targeting other markets within the eurozone. For many however, the UK will continue to be the main focus with companies trying to differentiate their offering in response to continued price pressures. ***If their pace of innovation falters prepared food companies will find their products being commoditised*** and the value will quickly pass from the producer to the retailer and consumer.

Bord Bia works with Irish prepared food companies to help instil a culture of constant innovation. It is only by doing so prepared food suppliers can earn a satisfactory return in a deflationary retail environment.

Beverages

Irish exports of beverages benefited from strong performances from cider, beer and spirits while on the non-alcoholic side water exports also did well in 2005.

The environment in which drinks companies must do business is changing. **There is a far greater awareness of the need for responsible drinking**. In the UK the introduction of tax stamps in mid-2006 will effectively act as a non-tariff barrier. This new initiative comes at a time when the power of the multiples in the UK drinks market is increasing due to the consolidation of the number of players leading to downward price pressure.

Export Performance 2005

The US spirits market displays great potential with overall consumption increasing. Irish whiskey is performing very well, albeit from a low base led by the leading brands. A leading US distribution company has recently announced the launch of an Irish whiskey which will lead to increased awareness of the category. Continental European markets are still a challenge for Irish drinks producers but selected markets are performing well for some companies while exports to emerging markets are also growing creating long-term opportunities.

Pricing is becoming a critical issue in the water category. Volumes are growing but margins are lower and manufacturers' profitability is being affected as a result. This is also the case in juices where the base raw material is a commodity product. There is a consolidation of suppliers taking place with the large players getting larger and the smaller players being squeezed out of the market, resulting in little middle ground.

Companies are increasingly turning to added-value products in order to improve margins, for example juice-based drinks, new and innovative pack sizes and packaging formats such as pouch packs in order to move up the value chain.

The soft drinks market is becoming more fragmented with an ever wider choice of products available to the consumer. Growth is being driven by innovation in the category with consumers expecting and demanding more variety. Traditional soft drink products such as carbonates are in decline. The market for functional drinks continues to prosper, as consumers become increasingly aware of the virtues of healthy products. Manufacturers continue to introduce lo-cal, sugar free and "lite" variants to address the concerns consumers have on health and obesity issues.

Prospects for 2006

For those companies willing to make the investment in branding distribution the US market is likely to deliver further export growth in 2006. Some key European and emerging markets are also likely to show growth in the coming year.

Edible horticulture and cereals

Mushrooms are by far the largest source of exports from this category. While there was some increase in wheat exports to Northern Ireland to meet shortages, this was offset by a decline in the euro value of mushroom exports.

It was a challenging year for Irish mushroom producers, who export 80% of their output to the UK. There was further consolidation within the industry with the trend towards a smaller number of larger growers continuing. The UK market continued to be the most important outlet for Irish mushrooms however ***competition, particularly from Dutch and Polish produce, continued to be intense.***

Prospects for 2006

This is likely to be another tough year for the mushroom industry. The consolidation throughout the industry seen in recent years is set to continue into 2006. The key to future success lies in larger production units which can compete successfully with Dutch and Polish mushrooms in the key UK market.

Bord Bia will continue to assist the industry in the UK during the coming year through the provision of market information and by identifying future trends. We will also contribute to discussions with key customers to help devise ways of developing the market in the future.

Amenity Exports

Hardy Nursery Stock

Exports remained unchanged during for 2005 at €16.8m in what was a difficult year. The UK retail market remained flat and ***garden centres were hit by sluggish consumer spending***. The increased sales generated in previous years by TV gardeners – such as Charlie Dimmock and Diarmuid Gavin – appear less evident.

Sales of plants through UK garden centres are under pressure from other outlets such as DIY centres, supermarkets and cash & carries. This in turn has hit the demand from UK nurseries for Irish plants with many of them sourcing product from mainland European nurseries instead.

Prospects for 2006

A good spring will be crucial as sales lost early in the year cannot be recouped in later months. An increased concentration on the Northern Ireland market has begun to show results and sales in the North are likely to increase in 2006. Overall, exports are unlikely to increase as many nurseries focus on the domestic market.

Foliage, Daffodil Flowers and Bulbs

These categories recorded a slight increase in exports to €4.8m in 2005. Daffodil sales performed well with both cut flower exports and bulbs recording an increase. ***Foliage sales were also up by about 10% in 2005.*** Unfortunately many newly-recruited farmers in the south-east lost the "single payment", which they receive under the CAP, when they planted foliage on their tillage farms. Bord Bia is endeavouring to resolve this problem in conjunction with the Department of Agriculture and so remove this barrier to increased foliage production.

Prospects for 2006

Sales of Irish bulbs are likely to increase in 2006 following the decision of several Dutch agents serving the American market to stock them. This is a new departure which Bord Bia will assist wherever possible. A possible threat is the increased incidence of sudden oak disease which could affect foliage sales if plant health restrictions are imposed.

Christmas Trees

Small price increases were secured on export markets and while volumes remained static a slight increase in overall sales value was achieved. ***The reduction in harvesting of lower quality trees also helped to stabilise the market*** and overall sales rose to €5.2m in 2005

Prospects for 2006

Prospects for 2006 are good with several growers expecting to have larger quantities of high-quality trees ready for harvest. The over-supply of Danish trees is no longer a major issues and exports are expected to increase to €5.7m in 2006.

Amenity Export Values

	2004	2005 est.	Comment	Outlook 2006
Hardy Nursery stock	€6.8m	€6.8m	Another year of unfavourable weather conditions and instability in key UK wholesale markets dampened enthusiasm for Irish grown plants and Irish exporters performed well to maintain export sales levels	€6.8m
Christmas Trees	€4.8m	€5.2m	While harvestable quantities levelled off in 2005 small price increases and the reduction of inferior grades of trees augurs well for the future	€5.7m
Foliage, flowers and Bulbs	€4.6m	€4.8m	Despite the difficulties associated with the small supply base, foliage sales were strong and the emphasis on value-added and innovation continues to pay dividends	€5.3m