

Performance & Prospects

Export Review and Outlook 2007/2008
Food, Drink & Horticulture



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Bord Bia
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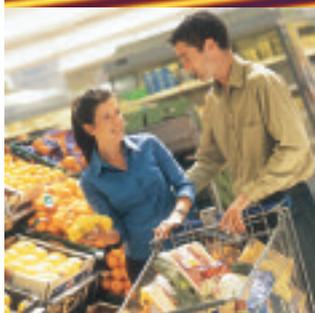
Performance & Prospects

Export Review and Outlook 2007/2008
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Executive Summary

The growth in Irish food and drink exports continued in 2007 with a rise of five per cent, leaving the value of trade at over €8.62 billion. This follows double digit growth in 2006 when exports exceeded €8 billion for the first time.



Sectoral Performance

- Irish food and drink exports put in another excellent performance in 2007, **rising by a further estimated €414 million to reach €8.62 billion. This represents a rise of five per cent on 2006 levels when exports exceeded €8 billion for the first time.** This performance took place against a significant strengthening of the Euro against both the US dollar and Sterling, rising ingredient costs and ongoing pressure on operating costs.
- **A rise of almost 50 per cent in exports to Asia saw the value of trade to the region reach €400 million. This leaves exports 80 per cent ahead of 2002 levels.** As a result, the 2009 target for food and drink exports to the region has been met two years ahead of schedule. The growth in trade reflects the rise in the value of dairy and beverage exports to the region and a marked diversification by the industry to a wider range of Asian countries.
- **During 2007, further market diversification was evident in exports, particularly within the prepared foods category.** There was strong growth recorded in exports to Continental and Northern European markets. This reflects a drive by the industry to increase its customer and market portfolio.
- The **combined value of meat and livestock exports is estimated at almost €2.38 billion in 2007. This represents a decline of three per cent on 2006 levels.** Lower beef, pigmeat, sheepmeat and live cattle exports more than offset a recovery in poultry shipments.
- **The value of Irish beef exports fell by two per cent to an estimated €1,570m in 2007. It is estimated that over 98 per cent of exports in value terms were destined for EU markets.** Higher than anticipated disposals combined with a rise in carcase weights boosted availability to 523,000 tonnes. However, a sluggish EU beef market put pressure on Irish cattle prices, which recorded a fall of over two per cent. Shipments to Continental EU markets recorded their sixth successive year of growth while trade to the UK also increased.
- A difficult market environment for pigmeat combined with a modest fall in pig supplies resulted in the **value of Irish pigmeat exports falling by five per cent in 2007 to an estimated €212m.** Pig prices were over five per cent lower at €1.33/kg.
- A jump of three per cent in Irish poultry production, helped by a seven per cent rise in broiler output combined with higher prices boosted the value of Irish poultrymeat exports. **Total shipments are estimated to have reached €253m in 2007, which represents a rise of five per cent on 2006 levels.**
- The volume of sheepmeat exports is estimated to have fallen by almost nine per cent to around 49,000 tonnes cwe. Lamb prices showed some modest improvement during the year, rising by two per cent to €3.53/kg. As a result, the value of **sheepmeat exports in 2007 was eight per cent lower at an estimated €174m.**
- The **value of Irish livestock exports fell by 30 per cent in 2007 to an estimated €170m.** This was largely due to lower live cattle exports, which more than offset an increase in pig exports to Northern Ireland while live shipments of sheep also declined.
- **The dairy sector put in an excellent market performance in 2007 with exports growing by an estimated 13 per cent to reach €2.36 billion.** Trade was boosted by a significant strengthening in global prices for dairy commodities and ingredients. All major product categories showed higher export values, which more than offset the absence of export refunds in the second half of the year.
- **The overall export performance of the prepared foods category remained strong during 2007, showing a growth of six per cent in exports at €1.815 billion.** Positive trends continue to be most evident in the pizza, luxury chocolate confectionery and frozen bakery sectors. Export values were boosted by the ongoing product innovation and market diversification evident within the Irish industry. This helped offset significant competitive challenges in the form of other European suppliers, rising ingredient costs and the strength of the Euro.
- **Beverage exports put in another strong performance in 2007, driven by considerable growth in liqueurs, whiskey and beer exports. The value of exports recorded growth of over five per cent to an estimated €1.45 billion.** In terms of non-alcoholic beverages exports, rising raw material costs affected fruit juices while mineral water exports slowed.
- **The value of edible horticulture and cereal exports increased by an estimated 18 per cent in 2007 to €259m** reflecting improved market returns for Irish mushrooms and a strong export market for Irish cereals. Retail sales data from the UK shows a turnaround in the mushroom market with increased frequency of purchase combined with higher prices boosting the value of the market. The poorer summer weather stimulated demand for mushrooms and this combined with lower supplies from other European suppliers helped boost the market. However, rising production costs continue to be an issue for the sector.
- The value of **amenity exports eased slightly in 2007** in what proved to be a challenging year with only Christmas tree growers making noticeable increases in export sales.

In Brief Sectoral Performance



Value of Exports
5% higher to €8.62 billion



Since 2005, exports have increased by almost
€1.2 billion



Growth led by
Dairy, Prepared Foods & Beverages



Exports to Asia rise by almost
50% to reach 2009 target



Increased market diversification
of exports evident.

Consumer Trends

- Throughout 2007, Irish food and drink companies have responded to challenges and innovated in many ways - by introducing new products or making incremental changes to their existing products, services or processes on a regular basis; by moving into new markets; adopting new technologies or changing their business models.
- The Bord Bia Consumer Lifestyles Programme was launched in 2006 to provide an ongoing source of insight around consumer trends. Six global trends have been identified through an understanding of the macro forces shaping the lives of consumers around the world such as social, technological, economic, environmental and political factors as well as on the ground consumer and brand behaviour. These trends remain resonant today; however some themes within each trend are becoming stronger and more widespread in consumer behaviour, or are morphing to present new angles and opportunities.
- In addition, Bord Bia's Food and Drink Industry Awards took place in November 2007 in recognition of the efforts being made by Irish Food and Drinks manufacturers. As a testament to the level of innovation occurring in Ireland, over 200 entries from large and small companies were considered for six awards based on these trends.

International Economy Prospects

- The international economy has seen a continuation of recent trends in 2007, growing at above 5 per cent despite considerable instability developing in financial markets from mid year. The IMF, in its *World Economic Outlook September 2007* projects that growth will slow only slightly in 2008, to around 4.8 per cent, despite the uncertainty. The past 5-year period of growth sustained at above 5 per cent represents the longest boom since the 1950s. Half of current global growth is taking place in China, India and Russia.
- Annual growth in the Eurozone slowed to 2.5 per cent in the second quarter of 2007, following the downturn in the US, before rising marginally to 2.6 per cent in Q3. Rising interest rates have seen housing markets cool in many countries, although markets in a number of countries still appear overheated, and further adjustments are expected. Inflation has generally remained below 2 per cent in 2007, but energy and food prices contributed to a surge in the last third of the year, with inflation reaching 3.0 per cent.
- 2007 saw the major currencies continue trends observed since early 2006. The Euro has appreciated against both the US dollar and Sterling, particularly in the last third of 2007. By mid December the Euro had strengthened by 11 and 7 per cent against the US dollar and sterling respectively since the start of 2007. This adds further competitive pressure for Irish exporters when operating in these markets or competing with products from the UK or the United States. However, most other International suppliers' currencies have also strengthened against the US dollar.

In Brief Consumer Trends



Irish companies continue to respond to **market challenges** in **innovative ways**



Bord Bia **Consumer Lifestyles Programme** helps drive product development initiatives



Inaugural **Bord Bia Food and Drink Awards** held in 2007 to recognise efforts of Irish manufacturers.

In Brief Economic Environment



Global economic growth remains strong, driven mainly by **China, India and Russia**



Food prices beginning to react to rising **International commodity prices**



The **strength of the Euro** impacting negatively on competitiveness in key markets



Rising production costs and inflation also impacting on operating environment.

International Food Prices

- A feature of the global economy in 2007 has been the rise in food commodity prices, albeit with a certain amount of volatility. The rise in prices has been driven by growing demand in large emerging economies reflecting increased income levels, falling international food stocks and policies favouring biofuel production in developed countries. As a result, demand is rising faster than supply for some key products, most notably dairy.
- The IMF expects commodity food prices to fall slightly in 2008. It expects the price of cereals and vegetable oils to ease in 2008 while meat prices grow modestly, principally in relation to pork and beef.
- International food commodity prices are a key variable for the Irish agri-food sector, as the sector is so strongly export-oriented. Higher prices are a positive for the products involved, but there are also costs, as feed inputs to the primary agriculture sector and raw material costs for the food processing industry become more expensive.
- Consumer food prices have been rising in Ireland's main export markets, in tandem with commodity prices. Overall, food prices in October 2007 were four per cent ahead of year earlier levels in the Euro zone. However, individual country trends vary:
 - Spain ↑ 6 per cent
 - Germany, UK ↑ 5 per cent
 - Ireland, Italy ↑ 4 per cent
 - France ↑ 2 per cent
- To date the strongest rise in food prices has been evident in the dairy and bread/cereal categories, which have recorded growth rates of 8 and 5 per cent respectively in the Euro zone.
- Trade indications suggest that further price increases are likely in early 2008 in an attempt to cover the higher production costs due to rising ingredient and energy costs.

Industry Issues

- Competitiveness is an issue that affects the entire Irish economy, but in particular the Food and Drinks sector given its international exposure. The slowdown in the general economy means that future growth will not be as strong and attention has refocused on the need to improve Irish competitiveness. At the same time higher costs & inflation, the strength of the Euro impact negatively on competitiveness.
- The National Competitiveness Council's 2007 report *Ireland's Competitiveness Challenge and Benchmarking Ireland's Performance* highlights that the average rate of wage inflation in Ireland has been over 1½ times the Euro zone average in recent years. Also, the cost of utilities, such as electricity, telecoms and water have also increased reflecting higher international energy prices and domestic cost structures.
- The scope to drive productivity in the F&D sector differs somewhat from other sectors. While there is scope for ongoing product innovation at the consumer end, the market is highly competitive, and capturing extra value is a challenge. At the producer end, higher quality in terms of traceability, product differentiation, animal welfare and environmental programmes are being pursued.
- The anticipated continued strength in commodity prices will benefit some producers and processors. However, it will increase costs for producers that are more reliant on animal feed inputs. It will also result in higher ingredient costs for valued added processors, including baby food manufacturers, confectioners and brewers/distillers. The net impact of higher commodity prices will depend on the capacity to pass price increases on.
- Reform of the EU's Common Agricultural Policy is an ongoing process – decoupling and the Single Farm Payment have been major changes in recent years. A CAP "Health Check" is scheduled for 2008, and in preparation for these discussions the European Commission has recently published a series of reform recommendations. The proposals include a change in the single farm payment system and suggestions to prepare for the abolition of dairy quotas from 2015.
- Already the EU Commission has suggested a two per cent increase in dairy quotas for the 2008/09 year in response to the strength in the global dairy market.

- In response to increased demand and rising food prices, it is proposed to abolish 'set-aside' for at least one year, in order to allow farmers to increase cereal production. However, some method of preserving the environmental benefits of the set-aside scheme will be sought.
- WTO negotiations continue, although no signs of an imminent deal exist. However, there is likely to be a further push for an agreement in early 2008. If agreement is not reached at this point, it is likely to be at least 2009 before discussions recommence due to a series of presidential elections in key WTO member countries.
- Irish food and drink manufacturers identified a number of market related challenges in doing business in Britain and Northern Ireland in a recent Bord Bia industry survey:
 - 76 per cent stated that difficulty in securing a price increase was having a very high/high impact on their business. In 2006 54 per cent of companies stated that price deflation was having a high/very high impact on their business.
 - 71 per cent said that increasing retailer power was having a very high or high impact on their sales. The corresponding figure in 2006 was 62 per cent.
 - 75 per cent of companies felt that intensity of competition was having a very high/high impact on their sales. In 2006, 56 per cent of companies cited stronger competition in existing customers as having a very high/high impact.

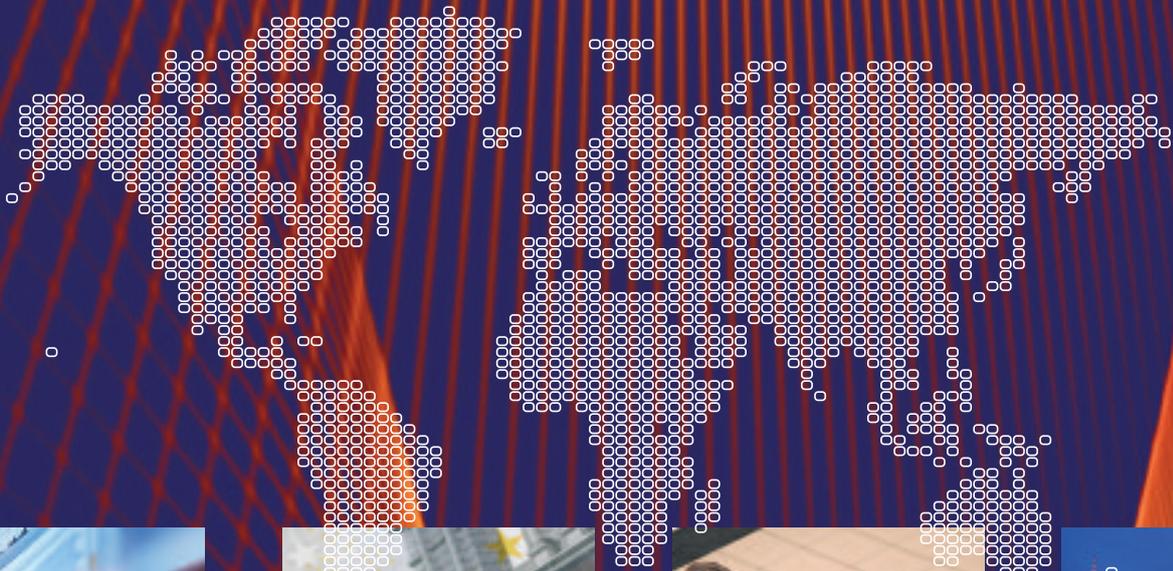
Bord Bia Initiatives

- The **Marketplace Roadshow** follows on from the Marketplace event held in Dublin in May 2007. Marketplace provided a showcase for Irish Food and Drink companies to demonstrate to over 200 international buyers the range and quality of Irish food products available. The Marketplace roadshow provides an opportunity to build on the event and consists of two modules aimed to assist Irish companies develop their strategies in relation to key markets, starting with the Netherlands and Belgium. The first module was held in November 2007 and will be followed up by the second module in February 2008. This will focus on one to one meetings between suppliers and potential customers.
- **Bloom** will take place again in the Phoenix Park from the 29th May to 2 June 2008. This follows on from the successful 2007 show, which attracted more than 50,000 visitors. Bloom combines the skills of Ireland's top designers and horticulturalists with Ireland's speciality and artisan food producers to create a consumer showcase for the best in ornamental and edible produce. With stunning gardens, a unique food market, thousands of plants and flowers and a number of interactive show features this show will inspire consumers, profile our top clients, increase public awareness and ultimately increase consumer spend on gardening and plants.
- **Bord Bia Vantage** is a new range of Bord Bia services for small businesses. These services have been designed in partnership with small business owner managers and trade customers. Bord Bia Vantage aims to deliver pragmatic, meaningful and relevant assistance for market growth. It offers its services through three channels, namely Vantage Point, Vantage Plus and Vantage Partner,
- **The Brand Forum** will continue to develop the branded route to market for Irish companies. The forum meets four times a year in Dublin combined with two regional meetings and features addresses from world class speakers. Other services provided by the Brand Forum include workshops, customised services, trend newsletters and a showcase book for Irish Food and Drink brands.

- **Market Knowledge.** Recognising the needs of Irish companies for in-depth market intelligence in developing sales both on the domestic and export markets, Bord Bia has a comprehensive market research programme planned for 2008. These include:
 - Study of opportunities for Irish dairy exporters in Europe, Asia and Russia
 - Continental PERIScope
 - Needs State Segmentation
 - Consumer Lifestyle Trends
 - Sustainability
 - Weekly FoodAlert
 - Distribution on the Continent
- **Foresight4FOOD,** is an initiative to encourage Irish companies to market test new product concepts and improve their prospects of success once launched in the marketplace. Bord Bia aims to act as a facilitator in the innovation process of Irish Food and Drink companies. This will be achieved by offering two core innovation services, namely:
 1. Feeding the insights from Bord Bia's Consumer Lifestyle Trends programme into client companies' new product development at idea generation stage, and
 2. Utilising the Foresight4FOOD research programme to assess and confirm that new ideas have commercial potential.
- The **Food Dudes** programme will be extended further in 2008. The programme aims to reach 3,500 schools and 445,000 children over a five year period.
- **European Meat Forum** – This event will aim to raise the profile of Ireland as a source of premium meats by focusing on leveraging our close relationship with leading Chef's and food writers. The event is targeted at over 100 key buyers and will communicate the image and capability of Ireland to produce premium and niche products of a world class standard.
- **Beef Expo Ireland** - The first major International Conference and Show of pedigree beef cattle in Ireland, which will be held in Kilkenny in October 2008. The event will be co-ordinated by Bord Bia. The event will provide a unique opportunity for Irish pedigree livestock farmers, who consistently breed top quality animals, to inform international buyers on the progress being achieved in cattle breeding in Ireland and will provide the opportunity to showcase the quality of cattle available in this country.

The Economic Environment

A feature of the global economy in 2007 has been the increase in food commodity prices. The rise in prices has been driven by growing demand in developing economies reflecting increased income levels, falling international food stocks and policies favouring biofuel production in developed countries.



The Irish Agri-Food Sector

The Irish Agri-food sector is a vital element of the Irish economy, notable for the high level of domestic inputs and embeddedness. Table 1.1 summarises some key statistics for the sector in 2006, distinguishing between primary agriculture and food processing (which includes both food and beverages).

Table 1.1: Key Economic Statistics for Irish Agri-food Sector, 2006

	Primary Agriculture	Food Processing	Agri-Food Total
Gross Value Added (GVA)* €M	3,504	8,380	11,885
Total employment '000s	110	55	164
% age of Total GVA	2.3%	5.5%	7.8%
% age of Total Employment	5.4%	2.7%	8.1%
% age of Merchandise Exports	5.8%	3.8%	9.6%

* estimated.

Source: Department of Agriculture & Food, Fact Sheet of Irish Agriculture October 2007, CSO QNHS, National Income & Expenditure 2006

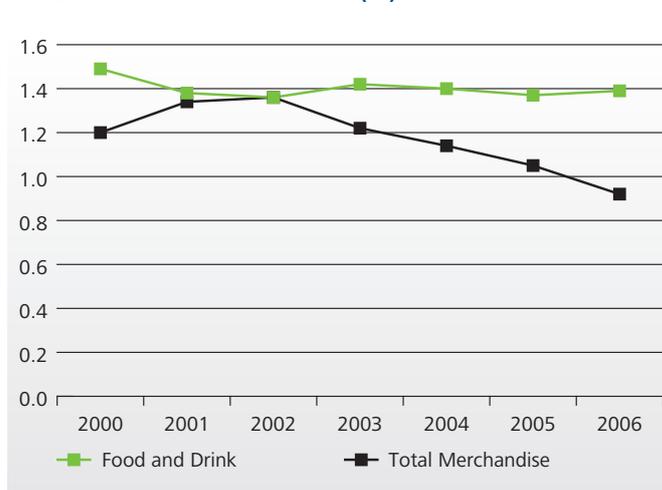
Primary agriculture is more labour-intensive (and more export intensive) than the Food Processing sector. The food processing sector generated around 23 per cent of the total industrial output in 2006.

Exports are vital to the sector, and represented just under 10 per cent of total merchandise exports in 2006. The UK was the main destination, accounting for 45 per cent of the total; 31% went to Continental EU markets with the remaining 24 per cent going to non-EU markets.

When the indigenous nature of the sector is considered the role of the food and drinks sector within the Irish economy is further highlighted. Forfas estimate that 54 per cent of total indigenous exports consist of food and drinks. Another important characteristic of the sector is its regional spread. While the sector only accounts for roughly 10 per cent of manufacturing units in Dublin and the Mid-East region, the figure is as high as 21 per cent in the South-West, and over 18 per cent in the Border and South-East.

In terms of global trade, Irish exports of food and drink as a proportion of total of world trade in these products has been maintained over recent years while merchandise exports from Ireland have been losing share of total world trade. This trend is highlighted in the following chart:

Ireland's Share of World Trade (%)



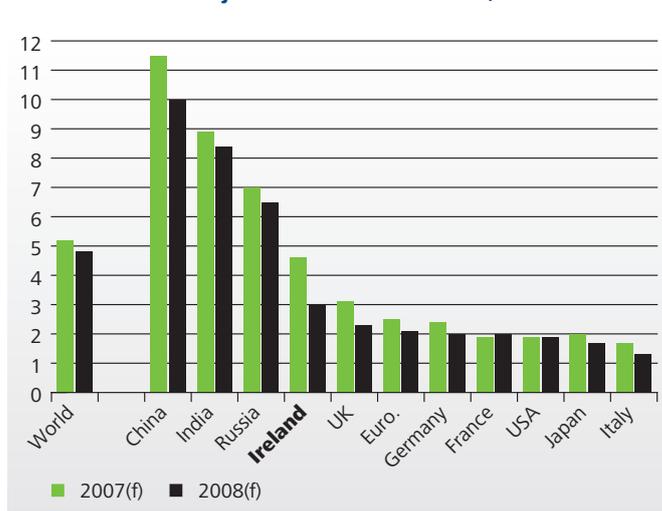
Source: WTO

International Economic Prospects

The international economy has seen a continuation of recent trends, growing at above 5 per cent in 2007, despite considerable instability developing in financial markets in mid-2007. The IMF, in its *World Economic Outlook September 2007* projects that growth will slow only slightly in 2008, to around 4.8 per cent, despite the uncertainty. The past 5-year period of growth sustained at above 5 per cent represents the longest boom since the 1950s.

However, as the chart below demonstrates, most of this growth is coming from the three large emerging economies – China, India and Russia. Between them, they account for around half of current global growth. Growth prospects in the developed world are by contrast much more modest.

GDP Growth in Major Economies & Ireland, 2007 – 2008



Source: IMF World Economic Outlook October 2007 Update

Furthermore, it must be acknowledged that the balance of risks for the international economy is on the downside:

- Increased instability in world financial markets, following the 2007 crash of the US sub-prime mortgage market.
- High prices and volatility in energy and food commodity markets.
- Large currency adjustments.
- Persistent large global imbalances.

GLOBAL FINANCIAL INSTABILITY

Beginning in late 2006, a crisis in the US sub-prime mortgages market has generated a chain reaction of instability in global financial markets. A combination of falling house prices and unemployment in the US caused a large number of defaults on sub-prime mortgages. Far from being confined to the US, a wide range of institutions globally held mortgage-backed securities, and were thus impacted by the crisis in the US.

Uncertainty about the final size of losses, and when and where they will be revealed, will likely continue to keep market sentiment and conditions unsettled in the short term. The appetite for risk in general has declined, driving up the cost of borrowing. The negative effects have fed through to stock markets and pension funds with resultant impacts on consumer confidence, already buffeted by the housing market slowdown.

Recovery from past financial market crises has relied upon reinstalling business and consumer confidence and the successful application of monetary policy. The monetary authorities have shown themselves to be prepared to ease monetary conditions to counter the difficulties in the market, but the restoration of confidence may take some more time.

RISING INFLATION – LED BY FOOD AND OIL PRICES

Oil prices continue to break records, rising to all-time highs in September 2007 due to restricted output from OPEC countries in the face of strong demand and lower than expected non-OPEC output. Geopolitical instability continues to be an issue. The onset of winter has pushed up prices to new record levels. While some easing might be expected in the coming spring, the recent experience of high and volatile oil prices shows no sign of abating.

General inflation has, until recently at least, been muted in the advanced economies, despite pressure from rising food and oil prices. Emerging and developing economies, however, have been affected, in part reflecting the strong growth of domestic demand in these countries.

Some evidence of stronger inflation in the advanced economies has also started to emerge: Euro area inflation surged to 3.0 per cent in the last third of 2007, having been below 2 per cent for the earlier part of the year.

PERSISTENT GLOBAL IMBALANCES

The U.S. current account deficit is projected to decline slightly to 5.5 per cent of GDP in 2008, due to the depreciating U.S. dollar and more moderate growth in world demand. Notwithstanding this, no further significant improvements are expected – the IMF estimates that by 2012 the US deficit will be equivalent to 1.5 per cent of global GDP. In the context of recent financial market instability, such a heavy American reliance on external finance may exacerbate the consequences of investors losing confidence in US securities.

The other big global imbalance is China's trade and current account surplus. This has widened sharply – it is projected at 12 per cent of Chinese GDP in 2008, remaining at a high level through the medium term. The Chinese surpluses are being exacerbated by the continuing undervaluation of the Yuan, which gives an artificial boost to Chinese exports while making the produce of other countries less competitive. There is evidence that other Asian countries are being forced to keep the values of their currencies low so as not to lose competitiveness vis à vis China.

STRENGTHENING EURO AFFECTING COMPETITIVENESS

2007 saw the major currencies continue trends observed since early 2006. The Euro has appreciated against both the US dollar and Sterling, particularly in the last third of 2007. While this should help the US economy to tackle its deficits, it will make life more difficult for producers in the Euro zone, including Ireland.

US Dollar Vs Euro, 2007



Source: European Central Bank

Sterling Vs Euro, 2007



Source: European Central Bank

Developments in Key Markets for Irish Food & Drinks

The UK, continental EU, US and Asian markets represent the key destinations for Irish food and drink exports. The EU accounted for roughly three-quarters of total exports in 2006 with the UK accounting for 45 per cent and a further 31 per cent going to Continental EU. In 2007, 42 per cent of exports are estimated to have gone to the UK, 31 per cent to the Continent and 27 per cent to International markets. The following section outlines the performance of their respective economies, highlighting Irish prospects.

UK

The UK economy appeared to cushion the impact of financial market instability, maintaining growth at 3.1 per cent throughout the first half of 2007, rising to 3.3 per cent in Q3. However, growth is projected to fall to 2.3 per cent in 2008, ending a trend of steady improvement over the last four years.

The adjustment reflects several factors:

- A predicted slowdown in the overheated UK housing market.
- The effects of tightened credit conditions.
- The rise of the Sterling against the US dollar hurting UK exports.

US

In the United States, annual growth averaged 1.7 per cent over the first half of 2007, down from 2.6 per cent in Q4 2006, before returning to 2.6 per cent in Q3 2007 (source: OECD). First half weakness was in response to volatility in financial markets. The IMF projects growth over the entire 2007 at 1.9 per cent, and for growth in 2008 to match this.

Despite the weak US dollar and increasing energy & food prices, core inflation has been contained at around 2 per cent throughout 2007. This reflects the overall softness of consumer demand, as disposable income is diverted to energy and food purchases. However, when food and energy costs are included, inflation is much higher, reaching 3.5 per cent in the year to October 2007.

EURO ZONE

Annual growth in the Euro zone slowed to 2.5 per cent in the second quarter of 2007, following the downturn in the US, before rising marginally to 2.6 per cent in Q3 (source: OECD).

Rising interest rates have seen housing markets cool in many countries, although markets in a number of countries still appear overheated, and further adjustments are expected.

Rising oil prices, tighter borrowing conditions and the US downturn are expected to constrain growth in 2008, which is expected to moderate from 2.5 per cent in 2007 to 2.1 per cent. Inflation has generally remained below 2 per cent in 2007, but energy and food prices contributed to a surge in the last third of the year, with inflation reaching 3.0 per cent.

EMERGING MARKETS

China's economy gained further momentum in 2007, growing by 11.5 per cent while India and Russia also maintained strong growth. As already stated, these three countries alone accounted for half of global growth over the past year. Chinese and Indian growth is being driven by the ongoing rapid opening and globalisation of their economies, while Russian growth is being driven more by high commodity prices.

Medium term prospects for all three remain positive, and demand for energy and commodities in China in particular is expected to continue growing strongly. Given rapidly rising (albeit unequal) income levels, the three are becoming increasingly attractive consumer markets.

International Food Prices

COMMODITY PRICES

A defining feature of the global economy over recent years has been increasing commodity prices, driven by economic growth, particularly in the large emerging economies but also in the developed world. This has been mainly reflected in metals and fuel prices with the trend exacerbated by geopolitical uncertainty and adverse weather concerns in some producing regions. Rising fuel prices themselves ripple through to all other commodity prices, through their impact on production and transport costs.

More recently, food commodity prices have also been rising, albeit with a good deal of volatility. This is a reflection of:

- Growing demand in large emerging economies reflecting increased income levels
- Falling international food stocks due to supply problems in a number of major producing countries and agricultural trade liberalisation
- Policies favouring biofuels in the developed world, in response to volatile energy markets and concerns around global warming.

The pro-biofuel policy is leading to the following implications for food commodity prices:

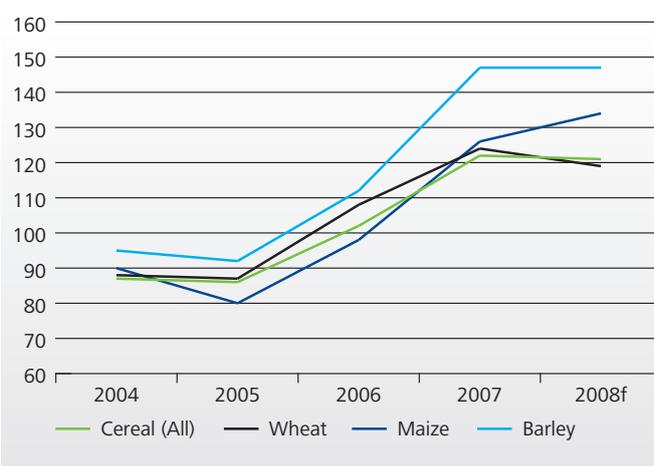
1. Demand for biofuel feedstock crops – soybeans, corn, rapeseed in Europe – is rising, leading to increased prices
2. This increased demand is causing a supply response, with producers switching to these crops and out of alternatives, notably food crops. Supply of the latter is falling as a result, thus leading to increased prices for these.

International food commodity prices are a key variable for the Irish agri-food sector, as the sector is so strongly export-oriented. In the first instance, higher prices are a positive, but there are also costs, as feed inputs to the primary agriculture sector and raw material costs for the food processing industry become more expensive. Prices have risen considerably during the current year, and future developments will be of considerable importance to the sector.

SHORT- TERM PRICE OUTLOOK

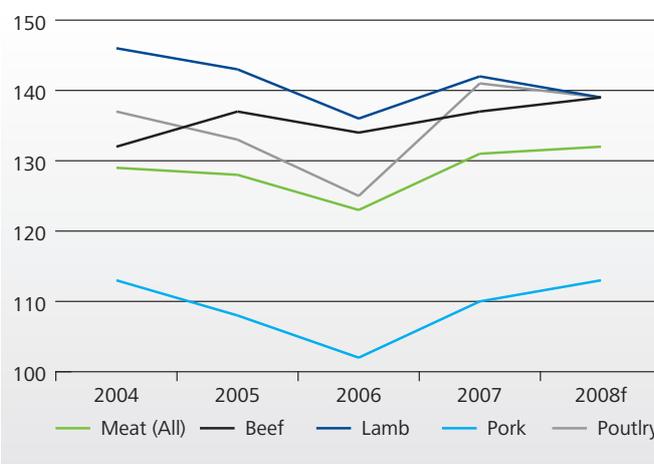
The following charts show recent price trends and 2008 forecasts from the IMF, for cereals, and meat as well as trends in dairy prices from the ZMP.

Cereals International Commodity Price Forecasts (Index 1995=100)



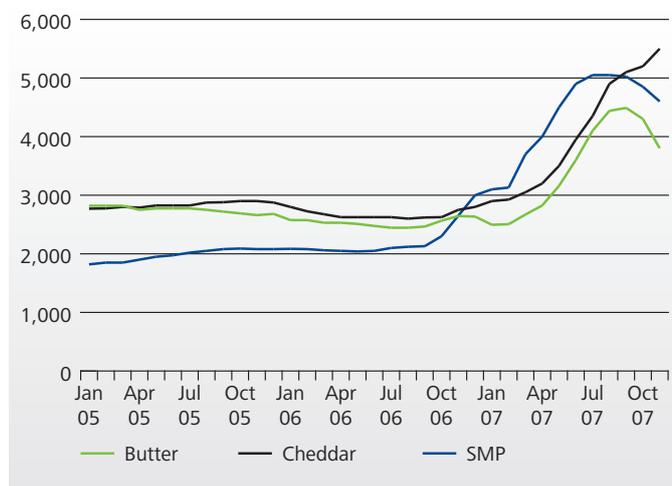
Source: IMF

Meat International Commodity Price Forecasts (Index 1995=100)



Source: IMF

World Dairy Prices (US\$ per ton), 2005 – 2007



Source: ZMP

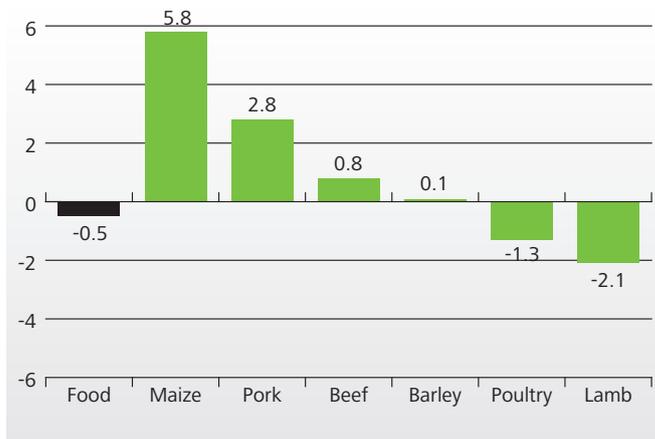
The sharp price increases during 2007, especially for cereals and dairy products is clear. Overall, the IMF expects commodity food prices to fall slightly in 2008.

The price of cereals and vegetable oils are expected to ease in 2008, but meat prices are expected to grow modestly. Among cereals, maize is expected to see slight price increases, while wheat prices are expected to fall slightly. Growth in meat prices are expected for pork and beef, while poultry and lamb prices are expected to moderate.

Dairy prices have seen perhaps the biggest increases among the food commodities in recent times. In the last twelve months, dairy commodity prices on the world market have more-or-less doubled, in US dollar terms. Increasing demand across the world combined with limited scope for increased production in the major producers have been the main causes. Prices have eased back over recent months but remain well ahead of historical averages.

The following chart sets out the percentage price changes expected by the IMF in 2008. It should be noted that many commodity prices are expressed in US dollar, and the Dollar's recent weakness has the effect of neutralising price increases, from an Irish perspective.

Food Commodity Expected Price Increases, 2008 Vs 2007 (% Change)



Source: IMF World Economic Outlook Databases

MEDIUM TERM OUTLOOK

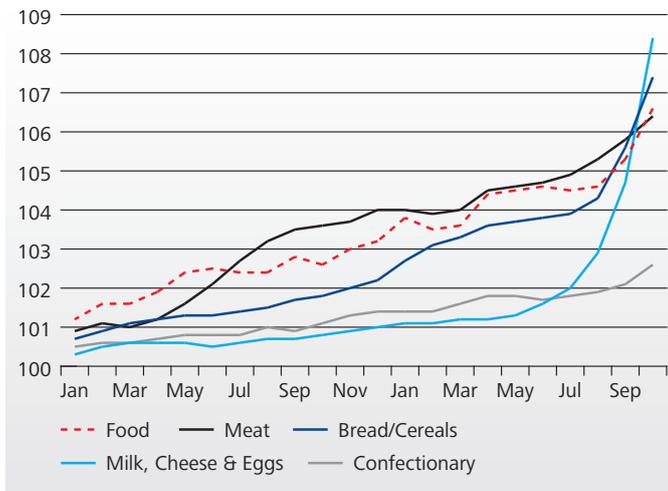
One concern in the medium term is that demand for biofuel products, in the wake of high and volatile oil prices, will continue to feed through to high food prices. Other factors likely to affect markets on an on-going basis include:

- (i) Rising world population and increasing prosperity, especially in the large emerging economies, will drive growing demand for food products.
- (ii) The agriculture industry worldwide should be able to adjust supply, albeit with a lag, to at least partly respond to increased demand.
- (iii) Longer term, climate change will change the output capacity of the agriculture sector in many parts of the world.

Consumer Food Prices

The price of consumer food products have been rising in Ireland's main export markets, in tandem with commodity prices. The following set of charts shows the position in Ireland, the UK, Germany, France, Italy and the Euro zone.

Euro zone Food Price Inflation, 2006 to date (Index: 2005 = 100)

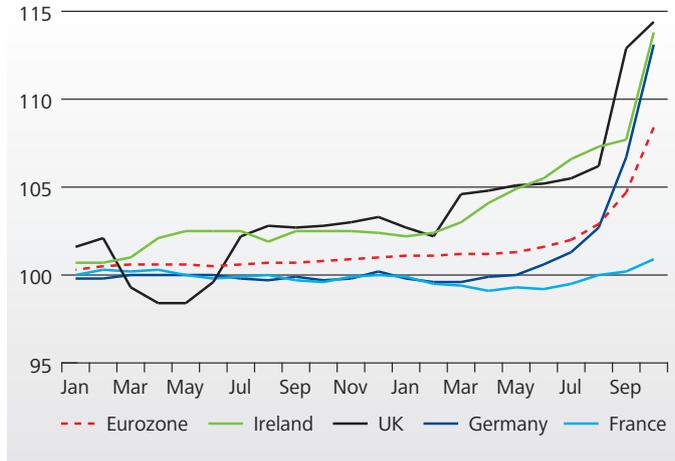


Source: Eurostat

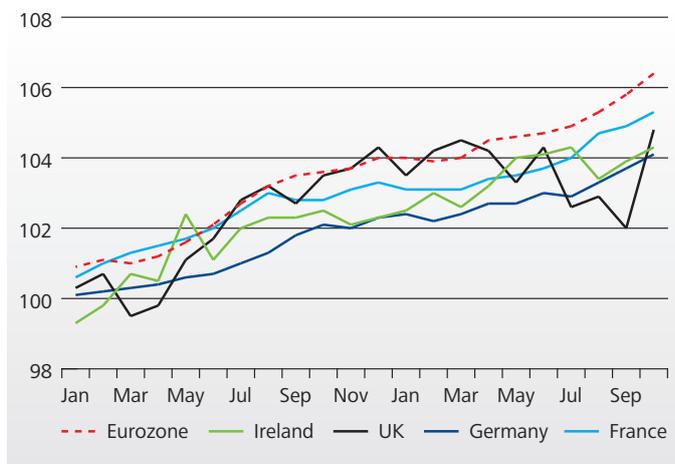
Food prices in general are on the increase across Europe, but recent sharp increases in the price of bread and dairy products are very clear in Ireland, the UK and Germany. It is reasonable to assume that they will manifest themselves in the other countries with a lag. While a strong rise in poultry prices has helped increased average meat prices, other meats have not kept pace with the rate of price increase evident for other items.

Consumer food price Indices (2005 = 100)

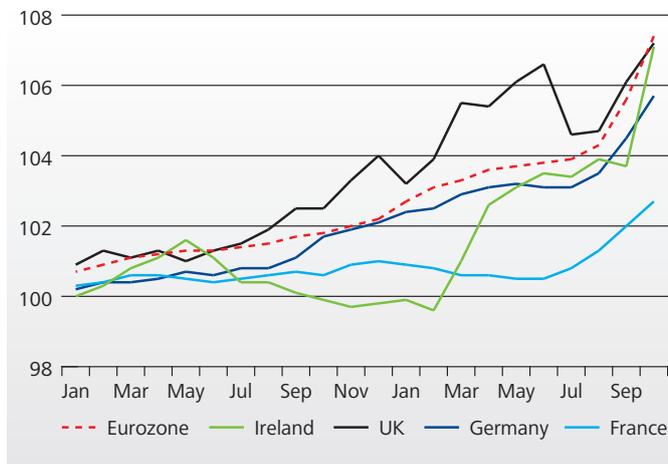
Dairy



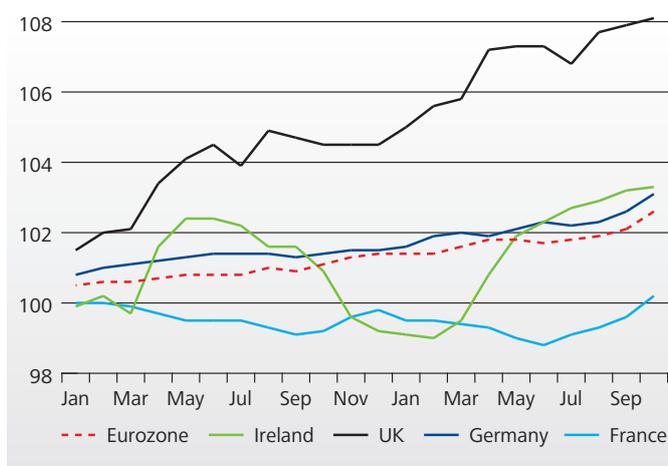
Meat



Bread/Cereals



Confectionery



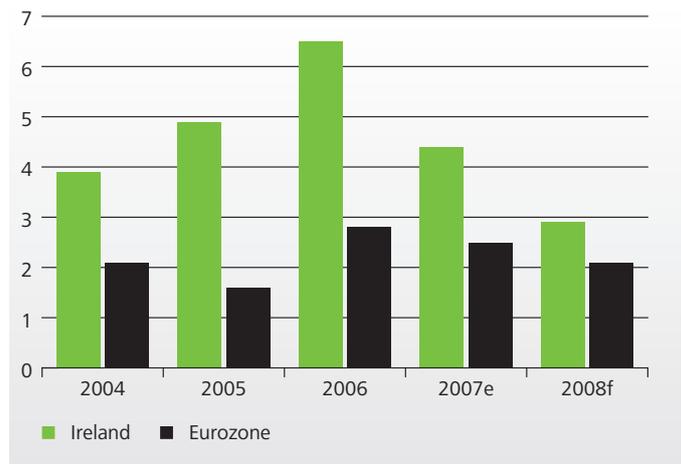
Source: Eurostat

The Irish Economy

The Irish economy is entering a more modest growth phase, following a period of sustained high growth. GNP grew by 6.5 per cent in 2006, slowing to an expected 4.4 per cent in 2007, and 2.9 per cent in 2008 (ESRI Quarterly Economic Commentary Autumn 2007).

All components of GNP performed strongly over the first half of 2007, with consumer spending up 6.1 per cent and investment and exports up 6.5 per cent and 7.1 per cent respectively. However, the second half of the year was affected in particular by the house-building slowdown and international financial market disruption. The strength of the Euro against the US dollar and Sterling combined with higher energy prices are expected to have a dampening impact next year. However, growth is expected to remain above that of most developed economies, albeit the gap will be lower than in recent years.

Irish GNP Growth vs. Eurozone GDP Growth, 2005-2008(f)



Source: ESRI, IMF

Recent Irish growth has been driven in large part by the booming residential sector and related consumer demand; however rising interest rates have cooled the market considerably. As a result, 2007 will be the first year since 1993 in which the number of residential completions will decline. The need for a correction in the housing market has been well-heralded, both in terms of the level of activity and of prices. A return to more sustainable levels, provided the adjustment process is smooth, should be a positive for the Irish economy in the medium term, notwithstanding short term disruptions.

The key challenge for the Irish economy will be maintaining and restoring competitiveness. This applies especially to the F&D sector, as discussed in the next section of this chapter.

Key Issues for the Food & Drink Sector

COMPETITIVENESS

Competitiveness is an issue that affects the entire Irish economy, but in particular the Food and Drinks sector given its international exposure. The slowdown in the general economy means that future growth will not be as strong and attention has refocused on the need to improve Irish competitiveness. At the same time a number of factors are impacting negatively on competitiveness, including:

- Higher costs and prices, and higher inflation, than in competitor economies.
- The strengthening of the Euro, most notably the US dollar and Sterling.
- High and rising labour costs, and dependence on migrant labour.

LABOUR COSTS

The Irish economy has been effectively operating at full employment for a number of years, despite a growing indigenous labour force and strong inward migration. As a result, wage levels and ongoing wage inflation have been stronger than in competitor countries. The National Competitiveness Council's (NCC) 2007 report Ireland's Competitiveness Challenge and Benchmarking Ireland's Performance highlights that the average rate of wage inflation in Ireland has been over 1½ times the Euro zone average in recent years. Notwithstanding the expected slowdown in the economy, the labour market is expected to remain tight in the coming years.

The response of the economy has been for the traded sectors to move up the value chain to drive productivity. This has seen a move towards high-end manufacturing and tradable services.

The scope to drive productivity in the F&D sector differs somewhat from other sectors. While there is scope for ongoing product innovation at the consumer end, the market is highly competitive, and capturing extra value is a challenge. At the producer end, higher quality in terms of traceability, product differentiation, animal welfare and environmental programmes are being pursued.

UTILITY & ENERGY COSTS

The cost of utilities, such as electricity, telecoms and water, is an essential element of competitiveness for industry. A major driver of these costs is of course international energy prices, but domestic cost structures are also relevant. There are ongoing moves to increase competition in the utility sectors in Ireland, but these are being limited by the small size of the market.

CONSUMER PRICES

Consumer prices are an issue as they are the most important driver of wage demands. The NCC 2007 report highlights that "Irish consumer price levels are almost 20 percent higher than the EU-15 average".

Increasing Commodity Prices

The expected continued strength in commodity prices will benefit some producers and processors. However, it will increase costs for producers that are more reliant on animal feed inputs. It will also result in higher ingredient costs for valued added processors, including baby food manufacturers, confectioners and brewers/distillers. The net impact of higher commodity prices will depend on the capacity to pass prices on, which will reflect the relative power of retailers.

These issues are not confined to Ireland. However, since commodity prices are on the increase across the board, it is more difficult for retailers to resist price increases.

Longer term, the strength in food commodity prices, as well as their volatility, reflects the gradual liberalisation and globalisation of food markets, and increasing linkages within the international food sector itself and with other economic sectors. Tariffs and subsidies have become less important, partly by default as high prices have reduced the need for them. Strategic food stocks have fallen considerably and have a reduced role in market support.

As a result, food markets are likely to see more volatility as producers are freer to react to international market trends.

For example, indications are that there will be a significant increase in planting of wheat for 2008, in response to the large price increases seen in 2007. The recent decision by the European Union to release land from its set-aside programmes and the move by other major producing countries such as India to encourage farmers to grow more wheat by raising wheat procurement prices, all add to this.

Policy Issues

Reform of the EU's Common Agricultural Policy is an ongoing process – decoupling and the Single Farm Payment have been major changes in recent years. A CAP “Health Check” is scheduled for 2008, and in preparation for these discussions the European Commission has recently published a series of reform recommendations. The “Health Check” is intended as a blueprint for streamlining and further modernisation, recognising the challenges and opportunities in an EU of 27 Member States. The proposals include:

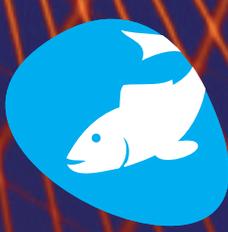
- Changing the Single Farm Payment (SFP) to make it based on farm size as opposed to historic production.
- Proposals to prepare for the abolition of dairy quotas from 2015. Already the EU Commission has suggested a two per cent increase in dairy quotas for the 2008/09 year in response to the strength in the global dairy market.
- A reduction of direct payments to farms receiving over a set amount annually has also been mentioned. Increased modulation will see this money transferred to the Rural Development Budget.

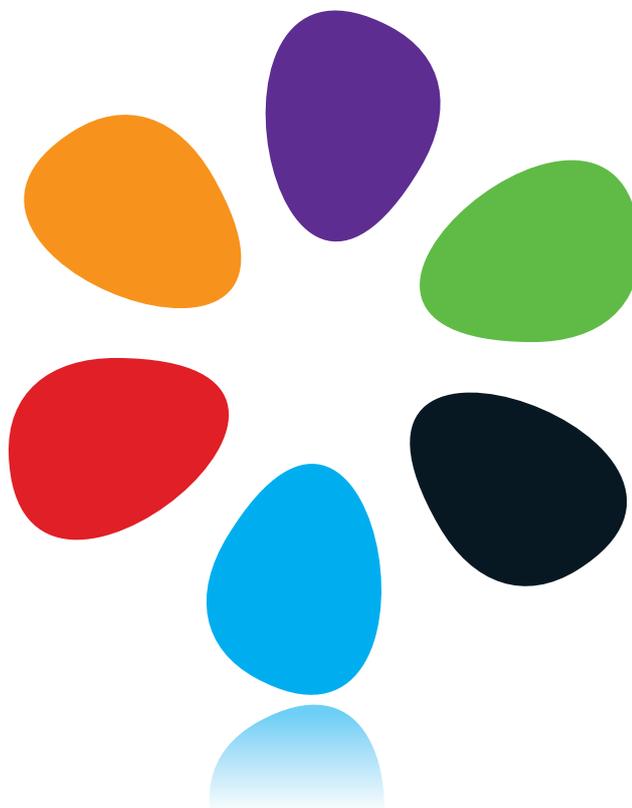
It is also intended that market support instruments, devised originally for a union of six members, will be adjusted in order to make them relevant to a union of 27 member states. The challenges presented by efforts at tackling climate change and the need to manage water resources are likely to be included in future cross compliance measures. Legislative proposals will be brought forward in the spring of 2008.

WTO negotiations continue, although no signs of an imminent deal exist. However, there is likely to be a further push for an agreement in early 2008. If agreement is not reached at this point, it is likely to be at least 2009 before discussions recommence due to a series of presidential elections in key WTO member countries.

The Marketing Environment

Innovation remains the key business process that enables Irish businesses to compete effectively in the ever challenging global environment. The secret of innovative food and drink companies lies in their capacity to understand and make sense of how consumers' needs and wants are changing.





Irish Manufacturers React to Global Consumer Trends

Most business leaders agree that in an increasingly competitive global economy, companies that fail to innovate will struggle to survive. Innovation is the successful exploitation of new ideas and is the key business process that enables Irish businesses to compete effectively in the ever challenging global environment.

Throughout 2007, Irish food and drink companies have responded to challenges and innovated in many ways - by introducing new products or making incremental changes to their existing products, services or processes on a regular basis; by moving into new markets; adopting new technologies or changing their business models. All of these responses required significant investment and an understanding of how to mitigate risk.

The secret of innovative food and drink companies lies in the capacity to understand and make sense of how consumers' needs and wants are changing, and ultimately to uncover latent consumer desires.

BORD BIA CONSUMER LIFESTYLE TRENDS PROGRAMME

The programme was launched in 2006 to provide an ongoing source of insight around consumer trends. These global trends have been identified through an understanding of the macro forces shaping the lives of consumers around the world such as social, technological, economic, environmental and political factors as well as on the ground consumer and brand behaviour.

The six trends identified remain resonant today; however some themes within each trend are becoming stronger and more widespread in consumer behaviour, or are morphing to present new angles and opportunities. Below we revisit each of the six trends, how they have evolved over the past year and how Irish industry has innovatively responded to them.

In addition, Bord Bia's Food and Drink Industry Awards took place in November 2007 in recognition of the efforts being made by Irish Food and Drinks manufacturers. As a testament to the level of innovation occurring in Ireland, over 200 entries from large and small companies were considered for six awards based on these trends.



LIFE ON THE GO

"I need to be able to cope with the demands of my busy day"

EVOLUTION OF TREND

The pace of life is accelerating and the boundaries between our working and leisure time are blurring. Many people feel overwhelmed, juggling their many roles and activities in their increasingly fast, flexible and pressured lives.

Time and energy have become more valuable resources as a result. The challenges of modern living continue to provide the energy behind this trend.

INDUSTRY RESPONSE

As a response, in 2007 we continue to see the emergence of solutions that meet the needs of the smaller urban household. Time and simplicity are of the essence, outsourcing and home delivery are becoming options for the masses.

Retail solutions that sit on the consumer's path are becoming more common place. Eating on the go is often a daily routine, products and packaging need to offer 'handy' solutions.

Demand continues for products that boost or sustain energy levels. Equally, consumers need both the physical and mental space to take time out. Products that simply give permission to consumers to indulge in time out increasingly resonate in 2007.

Also we see that time starved consumers struggle with the complexity of choice. A rising number of products offer clear coding to help consumers navigate the category or provide simple indications of the product's use.

FOOD & DRINK INDUSTRY AWARD WINNER

The winner of the "Life on the Go" Award, recognising a company that had successfully launched a product enabling consumers' to cope with the demands of their busy lifestyles, was Flahavan's Microwaveable Quick Oats from Kilmacthomas, County Waterford.



LIVING LIFE TO THE FULL

"I want experiences that help me get the most out of life"

EVOLUTION OF TREND

The demands and opportunities of modern life have made consumers' lives busier than ever before; free time has become an increasingly precious commodity to be savoured. Fuelled by greater knowledge, consumers are now seeking to enrich their lives with experiences - to replace the mundane with excitement, to explore the world, to push boundaries, to stimulate their senses and pursue their passions.

Rising affluence continues to provide the energy behind this trend. Many consumers are reaching a point of material saturation. Experience is becoming an everyday currency and an antidote to the more mundane pressures of life. Travel and migration are bringing a growing understanding of what the world has to offer.

INDUSTRY RESPONSE

The idea of fun is extending into all aspects of life and resonating with all types of consumers. Used well, play is becoming a powerful platform for engagement. Tastes are becoming more exotic. What was once a rare treat or an experiment into the unknown is becoming common place in everyday diets.

Contained within this trend is consumers' continuing to aspire to develop the expertise of professionals. Extra knowledge and skills have social kudos for today's consumer. We also see an abundance of products are appearing that stimulate the senses in new and different ways, both packaging and the products combine to offer a new sensation.

FOOD & DRINK INDUSTRY AWARD WINNER

Recognising a company that has within its portfolio a product that meets the consumer demand for new and exciting experiences to help them get the most out of life, the Bord Bia "Living Life to the Full" award went to Diageo, Dublin, for Baileys flavoured liqueurs.



MAKING A DIFFERENCE

"I want to feel good about the choices I make and do my bit when I can"

EVOLUTION OF TREND

News coverage of global issues and greater activism by those who are committed to bringing about good means that people are becoming more aware of the impact of their lifestyles on the wider world. Consumers are seeking ways to make a difference, meaning that companies and brands supporting good causes or with more environmentally friendly approaches are gaining support.

INDUSTRY RESPONSE

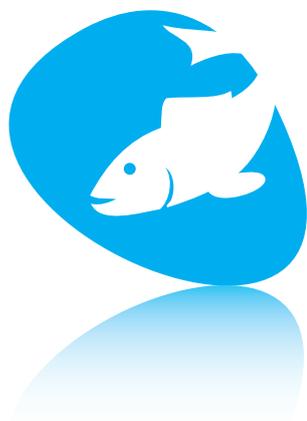
Over the past year this trend has been particularly dynamic. It has been driven not only by consumer demand but also major retailers, many of which have publicly announced ethical and environmental action plans. Good ethical standards and responsibility towards the environment are increasingly becoming an expected standard, as opposed to an added extra, for companies.

In 2007, packaging became a direct area for focus in this broader agenda. Reducing waste, recycling and biodegradability are becoming key considerations in the materials used. Fair Trade has continued to go from strength to strength. The Fair Trade symbol has become a mark of quality as well as good ethics. Other business models are also coming to the fore.

Supporting good causes is becoming common place; to be credible it is becoming more important to have a genuine reason to offer support and ensure a good cut of the profits make their way to the cause. Humane production continues to resonate as a theme across many different markets.

FOOD & DRINK INDUSTRY AWARD WINNER

The "Making a Difference" Award went to Glenisk, County Offaly for its organic yoghurt range.



QUEST FOR HEALTH & WELLNESS

"I want to manage or improve my health and wellness"

EVOLUTION OF TREND

Conflicting messages from once-trusted institutions and the media, along with the growth of alternative information sources have led people to take the lead in managing their own health and overall wellbeing.

With confusion and scepticism about which solutions might work, science and technology hold the key for some people. Others look to nature as their ally and are sceptical about the interventions of man. Modern day lifestyles coupled with an ageing population continue to make healthy living a greater challenge and a primary point of concern for consumers. Many consumers need help in both navigating the choices available and finding solutions that fit with their lifestyles.

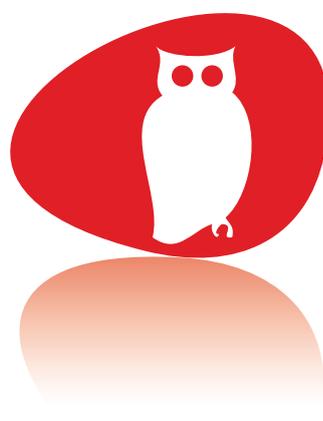
INDUSTRY RESPONSE

Food and drink items that highlight their boosting benefits, or look to enhance their effectiveness through a special ingredient are becoming common in everyday diets.

Mental health and agility have become stronger needs for both the young and old. More products are playing to this opportunity in 2007. Weight and diets remain a resonant theme in consumers' lives; opportunities exist to help consumers control calories, make them feel satiated or enhance aspects of their physical appearance. Pure and fresh is seen as a solution by many, with organic food also more popular.

FOOD & DRINK INDUSTRY AWARD WINNER

The "Quest for Health and Wellness" Award recognised Glanbia, Kilkenny for offering consumer solutions to manage overall health and wellness with their launch of Yoplait Essence.



SMART SHOPPER

"I like to make smart choices when I buy things and want to feel I'm getting a good deal"

EVOLUTION OF TREND

Growing market competition and greater access to information have given people increased power to compare prices, shop around and demand more for their money. The basics in life are getting cheaper while luxury items are becoming more accessible. Low cost and no-frills shops and products fuel value-hunting and consumers take pride in finding good deals.

INDUSTRY RESPONSE

Rising affluence continues to drive consumers' desire for more luxury in their lives; however growing knowledge of the market place and the ability to combine forces with other consumers means that consumers continue to strive for the best deal.

Consumers continue to look for value products that offer good performance while at the same time consumers' appetite for more premium everyday products continues to grow. Packaging often plays a key role in delivering a more luxury feel.

Consumers continue to share and leverage their knowledge of products and prices so that consumer approval remains a strong influence in purchase choices. They also continue to see value in different aspects of the product offer. A low price is not always essential when products save consumers time and energy.

FOOD & DRINK INDUSTRY AWARD WINNER

The "Smart Shopper" Award went to Irish Country Meats, Camolin, Co. Wexford, for their Ready to Cook Lamb Range.



THE REAL THING

"I am looking for the real thing; I care where it comes from and how it is made"

EVOLUTION OF TREND

In our increasingly commercialised and mass-produced world, a growing number of people are looking for companies and products they feel they can trust. Comfort and reassurance can come from products that have integrity, history and an honest approach to life.

Growing demands for transparency are increasing awareness around the issues presented by mass production. Consumers are seeking stronger relationships with the products and brand they buy, often seeing traditional methods as a mark of trust and integrity. Modern takes on tradition are allowing new products to tap into the consumer's desire for both tradition and product performance.

INDUSTRY RESPONSE

Irish products throughout 2007 were able to highlight their premium credentials through the use of traditional methods and ingredients. Also we saw companies emphasising the everyday people in the process of production; retailers in particular are using this approach more widely.

Levels of transparency are reaching new heights and companies are becoming clearer about production methods and product claims. Companies are leveraging unique connections with the source or geography from which the product comes.

FOOD & DRINK INDUSTRY AWARD WINNER

The *"Real Thing"* Award recognises a company that has launched a product that meets the consumer demand for authentic products with provenance and integrity. This year's award winner was Glenilen Farm, Drimoleague, Cork for their yoghurts and dessert range.

Sectoral Review and Outlook

Irish food and drink exports put in another strong performance in 2007 despite the ongoing competitive market environment faced by exporters. Exports grew by a further 5 per cent to exceed €8.62 billion leaving exports almost €1.2 billion ahead of 2005 levels.



Overview

Irish food and drink exports put in another excellent performance in 2007, rising by a further estimated €414 million to reach €8.62 billion. This follows the strong growth recorded in 2006 when exports exceeded €8 billion for the first time.

The strength of this performance is highlighted further when the competitive pressure facing the sector are considered, including a significant strengthening of the Euro against both the US dollar and sterling, a more consistent presence of competitive European suppliers on the UK market, rising ingredient and grain costs and the ongoing upward pressure on operating costs.

Overall, **the value of exports in 2007 recorded an estimated rise of over five per cent or €414 million to reach €8.62 billion.**

The growth in the value of Irish food and drink exports was driven by the strength of the global market for dairy products, further diversification of Irish exports of prepared foods and a continued strong performance by cream liqueurs and whiskey. The only major product category to show a decline was meat and livestock as a combination of lower supplies, competitive market conditions and rising production costs impacted on trade levels.

Irish Food & Drinks Exports

Category	2006 €m	2007(e) €m	2007/2006 % +/-
Dairy Products & Ingredients	2,089	2,360	+13
Prepared Foods	1,713	1,815	+6
Beef	1,600	1,570	-2
Beverages	1,376	1,450	+5
Seafood	356	355	0
Poultry	240	253	+5
Pigmeat	223	212	-5
Sheepmeat	188	174	-8
Edible Horticulture & Cereals	219	259	+18
Live Animals	200	170	-15
Total Food & Drinks	8,204	8,618	+5
Amenity Horticulture	16.8	16.2	-4

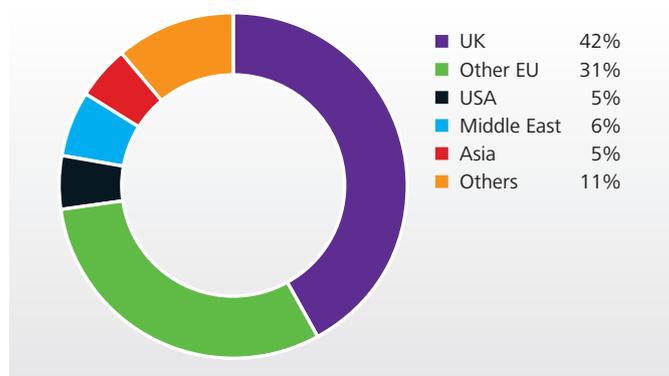
A significant element of the export performance of Irish food and drink exports in 2007 has been the ongoing market diversification. While the **United Kingdom** remained the key market accounting for 42 per cent of the total, the weakening of sterling in the latter half of 2007 placed increased pressure on the value of Irish exports to the market.

Increased industry diversification particularly in dairy and prepared foods saw a rise of four per cent in the value of shipments to **other EU member states**. These markets now account for over 30 per cent of total food and drink exports.

A growth of almost 50 per cent in exports to **Asia** saw the value of Irish trade to the region reach €400 million. As a result, the target for food and drink exports to the region set for 2009 has been met two years ahead of schedule. This growth reflects the rise in the value of dairy and beverage exports to the region and a marked diversification by the industry to a wider range of Asian countries. The value of exports to Asia has increased by more than 80 per cent since 2002.

Trade to the **United States** was adversely affected by the weakening US dollar as the year progressed, although it still represented five per cent of total exports.

Distribution of Irish Food & Drinks Exports, 2007(e)



Meat and Livestock

The **combined value of meat and livestock exports is estimated at almost €2.38 billion in 2007. This represents a decline of three per cent on 2006 levels.** Value added meat exports were valued at an estimated €310 million in 2007. Beef exports eased by two per cent during the year to €1,570m while poultry exports recovered somewhat from a difficult 2006 to exceed €250m. A drop in sheep supplies led to export values declining by eight per cent to €174m while a difficult market environment for the pigmeat sector saw exports drop by five per cent to €212m.

Exports of live animals eased due to a combination of Blue Tongue movement restrictions, difficulties in the veal sector in the early part of the year and poor beef feedlot profitability on the Continent. For the year exports are estimated to have reached €170m, representing a decline of 15 per cent.

Irish Meat & Livestock Exports

Species	2006 €m	2007(e) €m	2007/2006 % +/-
Beef	1,600	1,570	-2
Pigmeat	223	212	-5
Poultry	240	253	+5
Sheepmeat	188	174	-8
Live Animals	200	170	-15
Total	2,451	2,379	-3
of which			
Value Added Meats	330	310	-6

BEEF

The trade for Irish beef was challenging in 2007, reflecting a slow market environment for much of the year. Blue tongue movement restrictions on livestock in key markets such as France led to increased volumes of competitively priced beef being available in markets such as Italy, which made it difficult for Irish exporters to improve market returns. Also, a recovery in demand for poultry, a slow trade to Russia and increased volumes of South American beef, particularly in the early part of the year led to EU male cattle prices falling by five per cent.

Higher than anticipated cattle disposals combined with a rise in average carcase weights helped to increase export volumes slightly in 2007 to around 523,000 tonnes. A sluggish EU market for much of the year put pressure on Irish cattle prices, which recorded a fall of over two per cent. This led to the value of Irish beef exports falling by two per cent to an estimated €1,570m. Over 98 per cent of exports in value terms were destined for EU markets.

Beef Exports (€m)

2006 €m	2007(e) €m	2007/2006 % +/-
1,600	1,570	-2

Irish exports to the UK performed well with volumes increasing by four per cent to exceed 275,000 tonnes, valued at an estimated €770m. This performance was recorded despite the increased volume of UK cow beef on the market particularly following the foot and mouth outbreaks, which led to the suspension of UK beef exports. Trade was helped by lower volumes available from other suppliers, most notably Brazil.

Further growth was also recorded in exports to Continental EU markets despite the competitive market environment. Shipments are estimated to have reached 235,000 tonnes for the first time, recording the sixth consecutive year of growth. This leaves exports of Irish beef to the Continent valued at some €775m. Irish beef continues to be listed with more multiple retail chains in more EU markets than beef of any other national origin.

The principal growth in trade during the year was evident to the Netherlands, France and Eastern Europe, which continues to grow strongly, albeit from a small base. Shipments to retail level in the Netherlands came under increased pressure from South American supplies as the year progressed, highlighting the competitive challenge being faced by Irish beef as South American suppliers increasingly target the retail sector on the Continent.

Trade to Italy was slower during the year, reflecting the availability of increased volumes of French young bull beef at competitive prices. This was due to Blue Tongue movement restrictions on livestock in France since late 2006, which has curtailed live export levels while boosting French beef export availability. Irish exports to Italy for the year were estimated at 48,000 tonnes.

Exports to Spain and Portugal continued to grow, helped by an increasing customer portfolio for Irish beef across the retail and foodservice sectors in both markets.

Exports of Irish beef to International markets struggled during the year as high stock levels on the Russian market in the early part of the year combined with a more active Brazilian presence as the year progressed led to difficult trading conditions. For the year exports are estimated to have reached less than 10,000 tonnes. Russia remains the principal destination.

Prospects for 2008

Looking ahead to 2008, lower EU production combined with a moderation in import levels and stable consumer demand is expected to help the market environment for beef. The scale of the deficit on the EU-15 market has been projected by the EU Commission to rise by 25 per cent to 350,000 tonnes. However, the size of deficit in the market will be influenced significantly by the volume of imported beef available.

The recent restrictions announced by the EU Commission in relation to the import of Brazilian beef into the EU are likely to result in a significant drop in the volume of imported beef on the market. The full impact of these restrictions on the EU market remains uncertain until the size of the herd covered by the approved farms is determined and the level of trade likely under the "existing" certification system in early 2008 becomes clearer. However, it is likely to significantly impact on import volumes as 2008 progresses.

In terms of the impact on the Brazilian cattle prices, a premium is likely to emerge for "EU approved" cattle. However, the fact that the domestic market accounts for almost 80 per cent of Brazilian output and exports to other markets such as Russia and the Middle East remain strong, the overall impact on Brazilian cattle prices may not be that significant.

The other principal uncertainty facing the EU market is the potential for increased meat prices in response to higher grain prices. To date there has yet to be any indications of a significant rise in retail meat prices although some upward movement is expected in the pigmeat sector through the spring of 2008.

The prospects for Irish beef exports in 2008 look generally positive. Tightening Irish cattle supplies combined with an increasing EU beef shortfall should provide a more solid market environment for Irish beef.

Irish export volumes in 2008 are anticipated to fall by around 35,000 tonnes as finished cattle availability tightens. This follows strong live exports of young cattle in 2006 and the fact that increased numbers of cattle traditionally finished in the spring were marketed throughout the last quarter of 2007. This suggests a considerably tighter supply situation, particularly during the first half of 2008.

A rise in the UK's beef import requirement should help market demand for Irish beef. The current market position of Irish beef on the market leaves the industry well placed to gain its share of any growing import requirements.

In terms of Continental EU markets, lower Irish supplies are expected to impact on trade levels. Demand for Irish beef is likely to be boosted by somewhat tighter supplies across Europe. However, much will depend on the availability and price of South American beef on the market.

Trade to International markets looks set to remain difficult given the strength of competition in key markets.

PIGMEAT

A difficult market environment for pigmeat combined with some fall in pig supplies resulted in the **value of Irish pigmeat exports falling by five per cent in 2007 to an estimated €212m.**

Meat plant supplies eased by almost two per cent in 2007 reflecting a slow down in the breeding herd and some pick up in live exports of finished pigs to Northern Ireland. A pick up in domestic demand partly offset higher imports of pigmeat. The rise in imports also helped maintain export availability at 113,000 tonnes cwe.

A fall of over five per cent was recorded in Irish pig prices at €1.33/kg, reflecting a lower international demand for EU pigmeat given the strength of the Euro and a difficult EU market where a recovering demand for poultry affected prices. This left Irish prices at 98 per cent of the EU average compared with 96 per cent in 2006.

Irish pigmeat consumption is estimated to have increased by three per cent in 2007, helped by more competitive prices and increased promotion of the versatility of pigmeat. The domestic market now accounts for over 57 per cent of Irish pigmeat output.

Pigmeat Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
223	212	-5

The **UK remains the principal destination for Irish pigmeat with exports in 2007 growing by over 10 per cent to 56,000 tonnes. The value of this trade is estimated at €125m.** A higher UK import requirement combined with some easing in competition from other suppliers helped Irish trade. However, as the year progressed the weakening of sterling against the Euro had a negative impact on trade levels.

In terms of **Continental EU markets**, a slower International market demand boosted availability and adversely affected demand for Irish pigmeat. Total shipments are estimated to have fallen by six per cent to 32,000 tonnes and were worth more than €45m. The ongoing increase in German output continues to reduce their import requirements. Nonetheless, Germany remains the principal market for Irish pigmeat with exports estimated at 9,000 tonnes in 2007.

Slower trade was also evident to France while shipments to Italy and Eastern Europe showed a modest growth during the year.

Exports to **International markets** were negatively affected by the strength of the Euro against the US dollar and the strong stock levels evident in Japan during the early part of 2007. Total shipments were around 25,000 tonnes, which is 10 per cent below corresponding 2006 levels. A stronger presence of US pigmeat on the Japanese market combined with problems with the local import system in the first half of 2007 affected Irish trade levels to the market. While exports in the second half of the year improved, market returns were affected by the weak US dollar. For the year exports to Japan are estimated to have reached 9,000 tonnes.

However, exports to China continue to grow and are estimated to have reached almost 1,000 tonnes in 2007. Trade to Russia was also stronger at around 6,000 tonnes.

Prospects for 2008

A gradual tightening in EU pig supplies and an anticipated recovery in pig prices is expected to help the market environment for Irish pigmeat as the year progresses. Irish pig supplies look set to fall by around three per cent as weak profitability due to the substantial rise in animal feed costs leads to a reduction in the Irish breeding herd.

Recent EU forecasts suggest that it is likely to be spring/summer 2008 before any significant tightening is evident in EU pig supplies. However, a relatively strong rise in pig prices is anticipated by the ZMP as the year progresses. With feed prices around 50 per cent ahead of year earlier levels, a significant increase in price is necessary in order for pig production to return to profitability.

Ongoing competitive pressure from poultry meat is anticipated while the strength of the Euro is likely to make international trade difficult. However, the recent re-introduction of export refunds for fresh and frozen pigmeat will help EU suppliers compete on the world market.

Competition is likely to remain strong for EU pigmeat from Brazil, Canada and the United States on International markets. Demand for pigmeat on the EU market is forecast to remain reasonably stable.

Lower Irish supplies combined with a pick up in EU prices should provide some pick up to the sector during 2008. However, uncertainties with regard to the future cost of animal feed and the strength of the Euro against both the US dollar & Sterling highlights the difficulties faced by the sector.

SHEEPMEAT

Lower sheep availability combined with a strong domestic demand affected the volume of Irish sheepmeat exports in 2007. Export meat plant supplies were seven per cent lower, reflecting a smaller carryover from 2006 and a fall in the size of the 2007 lamb crop. Cull ewe supplies continued to moderate while most of the fall was evident in lamb supplies.

The volume of sheepmeat exports is estimated to have fallen by almost nine per cent to around 49,000 tonnes cwe. Lamb prices showed some modest improvement during the year, rising by two per cent to €3.53/kg. These factors combined to leave **Irish sheepmeat exports in 2007 eight per cent lower at an estimated €172m.**

Sheepmeat Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
188	174	-8

The Irish market now accounts for almost 30 per cent of total sheepmeat output leaving it as the second most important market after France. Lamb consumption showed a rise of around two per cent during the year helped by strong sales at both retail and foodservice level and now stands at 21,000 tonnes.

France continues to account for over 55 per cent of Irish sheepmeat exports at an estimated 27,500 tonnes. Demand for sheepmeat in France remained slow during the year as higher retail prices led to French consumption levels remaining under pressure. Also, the increasing presence of chilled New Zealand lamb in both the UK and Continental markets makes trade difficult for EU suppliers with shipments estimated to have increased by 11 per cent in 2007. However, the UK supply restrictions due to foot and mouth provided some short term boost to Irish exports during the August to October period.

Exports to the **UK** were running strongly until FMD restrictions reduced the demand for imports. For the year, exports are estimated to have been maintained at 12,500 tonnes.

Shipments of light lamb to Mediterranean markets slowed in 2007 reflecting a slow market demand in key markets and the retention of better quality hill lambs in Ireland for other markets.

An estimated 30 per cent of exports were in boneless form which compares with 27 per cent during the same period in 2006 and just 13 per cent in 2000. This shows the continued diversification of Irish sheepmeat exports both in terms of market distribution and product mix.

Prospects for 2008

Irish sheep availability is expected to decline by up to four per cent in 2008 reflecting an anticipated smaller carryover of lambs and the a smaller lamb crop due to the drop in breeding ewe numbers evident over recent years. As a result, export availability of Irish sheepmeat is expected to decline to 46,500 tonnes.

The European sheepmeat market looks set to remain steady with production levels likely to fall at a slightly faster rate than consumption in key markets. French consumption is expected to be boosted by a generic lamb promotion involving France, the UK and Ireland.

France will continue to remain the key market with their import requirements likely to show a modest rise in 2008. Sales to other European markets look set to grow in importance helped by a further rise in the proportion of exports in cut form.

The main focus for New Zealand in 2008 is to grow their exports of chilled lamb to the EU, having increased shipments by more than 40 per cent in the last two years. This will make them a more consistent threat to Irish exporters on the Continent.

UK exports look set to recover from the FMD restricted levels of 2007. However, lower domestic production is expected to lead to their exports remaining eight per cent lower than in 2006.

The principal uncertainty facing the market is the likely impact of Bluetongue on the EU sheepmeat market. The spread of the disease across the Continent and into the UK has been rapid in 2007. If it continues to spread it could significantly impact on the availability of sheepmeat given that mortality rates of as high as 20 per cent have been reported in some infected flocks. However, it is hoped that the approval of an effective vaccine will be completed in the spring of 2008.

POULTRY

The Irish poultry industry underwent a recovery in 2007 following a difficult year in 2006 due to lower consumer demand across Europe as a result of Avian Influenza. Poultry prices across Europe recovered strongly with wholesale broiler prices rising by 18 per cent during the year.

A jump of three per cent in Irish poultry production, helped by a seven per cent rise in broiler output combined with higher prices helped boost the value of Irish poultrymeat exports. **The value of exports is estimated to have reached €253m in 2007, which represents a rise of five per cent on 2006 levels.**

Irish prices benefited from the stronger EU demand for poultry throughout the year. However, a strong rise in feed, energy, packaging and labour costs resulted in a competitive market environment being maintained.

Poultrymeat Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
240	253	+5

Exports continue to focus on value added products and chilled cuts. Exports of processed poultry continue to account for over 60 per cent of the total in value terms. The UK continues to be the key market for Irish poultry, accounting for almost 80 per cent of total exports. Competition in the processed poultry sector continues to intensify as increasing volumes of cooked poultry are being imported into the EU from Thailand at competitive prices. In 2007 imports of cooked poultry are estimated to have exceeded 200,000 tonnes.

Prospects for 2008

The prospects for the EU market in 2008 point to a broadly stable market environment for the poultry sector. Production levels are expected to rise by less than two per cent despite the relatively strong price levels prevailing. The ongoing high feed prices combined with a desire to maintain a market balance seem to be leading to producers restraining from a sharp rise in output. However, any change to this could result in increased pressure on poultry prices as the year progresses. Consumption levels are forecasts to rise by a further two per cent leading to a modest increase in prices prevailing across the EU.

These developments should provide a relatively stable market environment for the Irish industry in 2008. However, a further rise in cooked imports from international markets is likely to increase competitive pressure within the sector. At producer level, much will depend on developments in relation to feed prices throughout the year.

LIVE ANIMALS

The **value of Irish livestock exports fell by 30 per cent in 2007 to an estimated €170m.** This was largely due to lower live cattle exports, which more than offset an increase in pig exports to Northern Ireland while live shipments of sheep also declined.

Livestock Exports (€m)

Species	2006	2007(e)	2007/2006
	€m	€m	% +/-
Total	200	170	-30
Cattle	145	112	-23
Pigs	50	54	+8
Sheep	5	4	-20

Live Cattle Exports

Live cattle exports reached 207,000 head in 2007, down by 40,000 head on year earlier levels. The value of this trade is just over €110m.

The principal reasons behind the decline in export levels in 2007 were a slower veal demand combined with weak profitability in feedlots on the Continent, which curtailed demand for cattle.

During the first half of the year strong veal supplies led to a sharp fall in veal prices while at the same time milk replacer costs jumped significantly, which combined to reduce profitability of veal production across the Continent. This affected exports of Irish calves to Holland, France and Belgium. For the year, calf exports are estimated to have fallen by over 22 per cent to 87,000 head.

Exports of weanlings and store cattle were strongly affected by poorer feedlot demand, particularly in Italy. For the year exports of weanlings and store cattle amounted to just under 100,000 head, representing a fall of 20 per cent on 2006 levels.

The key destinations for weanlings/stores were Italy at 47,000 head and Spain at 37,000 head, with both taking an equal mix of male and female cattle. Italy has increasingly been the target for better bred weanlings and stores. However, the impact of rising feed costs on profitability of Italian feedlots curtailed shipments during the year, which recorded a drop of 28 per cent relative to 2006. Shipments to Spain were 23 per cent lower.

Trade to Northern Ireland improved strongly during the year with a mix of finished and store cattle exported. In total, exports are estimated to have reached 35,000 head, up by 27 per cent on corresponding 2006 levels. Shipments of finished cattle for direct processing reflected an improved trade for beef in the UK as the year progressed.

Prospects for 2008

The outlook for Irish live cattle exports remains reasonable for 2008. The principal uncertainties facing the sector include the potential impact of any further spread of Blue Tongue on the livestock trade across Europe and the likely level of feedlot demand for Irish cattle in key markets.

The pick up in the veal trade should provide some further opportunities for Irish calf exports during the first half of 2008. However, the Dutch market is likely to remain competitive with a strong supply of German and once exports recommence, UK calves on the market. Overall import demand for calves is likely to improve across the Continent.

The level of feedlot demand for weanlings and store cattle remains uncertain given the current lack of profitability in beef production. However, tightening beef supplies across Europe are expected to help finished cattle prices during 2008, which depending on the level of feed costs could boost profitability levels. All things being equal, Irish exports of weanlings and store cattle are expected to be broadly similar during 2008.

Dairy Products & Ingredients

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

The dairy sector put in an excellent market performance in 2007, helped by a significant strengthening in global prices for dairy commodities and ingredients. All major product categories showed higher export values, driven by a combination of both increasing volumes and strengthening prices, even allowing for the removal of export refunds in the second half of the year. Overall, it is estimated that, **exports for the year grew by 13 per cent to reach €2.36bn.**

Dairy Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
2,089	2,360	+13

The global market for dairy products was boosted during 2007 by lower output due to drought and flooding in some key producing regions and especially the fact that global demand continues to grow at a faster rate than supply. This reflects the ongoing growth in demand for dairy products and ingredients in Asia and oil producing regions.

This trend is reflected in the fact that around 50 per cent of the growth in Irish dairy exports in 2007 came from Asian markets. As a result, Dairy and ingredients accounted for more than 70 per cent of the total value of Irish food and drink exports to Asia during the year. While China was the main market in Asia for Irish dairy and ingredient exports, there was also a significant increase in the value of exports to the Philippines while new business opportunities in Indonesia, Thailand and Vietnam resulted in a strong increase in exports to those countries also. Products exported to these countries are largely milk powders and infant formula. Values increased through a combination of volume growth and unit value increases.

Trade to the UK, other EU markets and the Middle East also performed strongly during the year. Exports to Russia also put in a strong performance, helped by the launch of Kerrygold in the Russia retail market in the second half of the year. However, the weakness of the US Dollar combined with the absence of Casein Aid export refunds for chocolate crumb in the second half of the year resulted in trade to the United States easing somewhat.

During the autumn of 2007 there were indications that milk supplies in some global regions were increasing as producers responded to the higher prices prevailing and that demand in certain sectors was weakening. This led to some easing in global prices with most powders in early December selling at least 20-50 per cent below their peak levels with whey showing the largest fall. However, in most cases they remain at least 50 per cent ahead of 2006 levels.

The European cheese market was firm throughout the year. Returns from cheese production lagged those for other dairy products in the early part of 2007, which led to reduced cheese production in many countries. Irish cheese production in 2007 was down from the peak levels of 2006. Lower milk supplies in the UK led to seven per cent fall in cheddar cheese production. The global market for cheese products has also been strong as output stagnated in New Zealand and Australia.

Despite the strong market, EU milk production is only forecast to show a slight rise in 2007 with little indications to date of a move by European producers to increase output. Many of the key producers in the EU are below quota (e.g. France & the UK). Irish production in 2007 looks set to be marginally ahead of quota. An increasing proportion of Irish milk production continues to go towards cheese production and this trend seems set to continue following the outcome of the Dairy Investment Fund. The increase in capacity in the infant formula industry in Ireland continues to help the demand for skim milk products.

Prospects for 2008

Global dairy product and ingredients prices are expected to remain ahead of historical averages during 2008, although below the peak levels witnessed in 2007. The market will continue to be helped by the strengthening demand for dairy product in developing markets, which should provide a good platform for trade during the year. It remains to be seen how demand in these countries has been affected by the sharp rise in dairy prices, particularly in those countries where food represents a large proportion of total expenditure and where dairy is not a traditional part of dietary habits.

Looking at global supply prospects for 2008, Australian production is now forecast to be around two to three per cent lower than last season despite a short spell of rain over recent months. In New Zealand, production is expanding in response to high milk prices. However, the limited availability of breeding stock, combined with climatic factors, has tempered the supply response, with less than a two per cent increase predicted for the current supply year. In the US, the dairy herd continues to build and, with good milk yields, milk production is increasing. Supplies in the second half of 2007 were some three per cent higher than the previous year. A limited increase is expected in EU production during 2008 while Irish production looks set to fill its quota.

The upcoming CAP Health Check and potential for a two per cent milk quota increase from April 2008 provide potential opportunities for those producers seeking to increase output. Also, there is an opportunity for Ireland to utilise the economic advantage of its predominantly grass based production system in the light of the ongoing strength in animal feed prices.

It is hoped that 2008 will provide sustainable returns for all parts of the Irish dairy industry helped by the ongoing strength in the global demand for dairy products and further diversification of the product mix. Considerable opportunities remain for the Irish dairy industry to increasingly serve consumer and market demand for products that deliver in terms of health, nutritional and functional attributes.

Prepared Foods

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

The **overall export performance of this category remained strong during 2007, showing a growth of six per cent in exports at €1.815 billion.** Positive trends continue to be most evident in the pizza, luxury chocolate confectionery and frozen bakery sectors.

Prepared Food Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
1,713	1,815	+6

The export performance in the prepared foods category was driven by initiatives across all sectors to diversify exports across a wider range of markets with increased penetration of Continental EU markets evident. The drive by the sector to premiumise product offerings and highlight health aspects of products has helped to boost sales. Also, a number of Irish manufacturers in the sector have taken a very proactive approach to the carbon debate by setting targets for becoming carbon neutral.

The prepared food category remains very competitive leaving Irish exporters facing a number of significant challenges. These include rising raw material, energy and labour costs, which have resulted in a need to secure improved prices from customers with mixed success to date. The significant weakening of sterling and the US dollar against the Euro as the year progressed also affected market returns.

Towards the end of 2007 there were indications of some price increases starting to come through, with further increases anticipated in the first half of 2008. The consumer reaction to higher prices remains uncertain. Also, increasing presence of European suppliers in traditional markets such as the UK, it is proving difficult to secure full price increases from customers.

The UK remains the key market for prepared food exports although markets such as Holland, Scandinavia, Spain and Germany are also showing strong growth.

One of the major exports to the UK is ready meals. The market for frozen ready meals in 2007 remained quite difficult with sales reported to be down by 5 – 10 per cent reflecting the declining shelf space dedicated to the product. The growth in ready meals continues to be in the chilled ready meal area, which is more difficult to serve from Ireland competitively. In an effort to maintain sales, Irish manufacturers have been active in seeking to premiumise their offering while also proactively reducing salt and fat levels in their meals.

Exports of pizza's continue to show strong growth with sales estimated to have increased by more than five per cent in 2007. Trade was boosted by a wider range of market being served and also a strong growth in sales of chilled pizza's to the UK, which offer significantly better margins to manufacturers. While the UK remains the key outlet, growth in sales to the Netherlands and Scandinavia have also been important drivers of the export growth. Exports of frozen pasta also performed strongly in 2007, particularly to France and the UK.

Exports of chocolate confectionery performed well in 2007 with the value of trade increasing by more than five per cent. A stronger UK market returned higher volumes and unit values, which boosted exports. The cool summer boosted trade with sales holding well into the autumn period. Exports to the Middle East also performed well.

Exports of luxury chocolates also recorded a good performance helped by a wider customer and market portfolio. A good return from the UK market combined with growth in sales to the Continent helped sales. Sales of organic and fair trade products led the way in the UK market. Exports to Australia continued the growth evident in 2006 while despite the weak US dollar, exports to the United States were maintained.

Sugar confectionery showed a rise in the value of exports in 2007 led by increased sales to France, Germany and Benelux. Most of the growth in sales was evident from relatively new products developed by the sector over the last few years that focus on the absence of colourings and additives.

Bakery products continue to grow export values, albeit from a small base with ambient exports now emerging as well as frozen products. The UK represents the key market although sales are also developing to the Continent. Increased innovation by the sector in terms of bake off breads, products that can be baked at home and premium cakes have helped fuel the growth in exports.

Prospects for 2008

The market environment for Irish prepared food exports in 2008 looks set to remain competitive given the number of suppliers evident in the marketplace. Much will depend on the level of price increase recovered from customers to reflect increased ingredients costs and the subsequent consumer reaction. Also exchange rate movements in relation to sterling and the US dollar could have considerable implications for the competitiveness of Irish exporters in key markets.

The best prospects for the sector continue to be through ongoing product innovation that will deliver on evolving consumer demands in relation to premiumisation, health and convenience. Also, further opportunities exist to broaden the market focus of the sector to seek out customers on the Continent.

Beverages

Irish exports of beverages put in another strong performance in 2007, driven by considerable growth in liqueurs, whiskey and beer exports. In terms of non-alcoholic beverages exports, rising raw material costs affected fruit juices while mineral water exports slowed. Overall, total **beverage exports increased by an estimated six per cent in 2007 to reach €1.45 billion.**

Beverage Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
1,376	1,450	+5

The principal growth in exports during the year was evident in liqueurs and whiskey. Alcohol exports to Asia more than doubled during 2007 fuelled by strong growth for cream liqueurs, whiskey and stout in China and a recovery in the import demand for whiskey in Japan.

Exports of cream liqueurs were helped by an improved trade to the UK, particularly in the second half of the year while further growth was also evident in the USA, China, Mexico, Russia and Continental Europe. Growth was helped by increased sales of flavoured liqueurs as well as traditional products.

The US market also performed strongly for whiskey despite the weakness of the US dollar. Other markets to grow significantly included Russia and South Africa while sales to Europe reached expectations. However, competitive pressure from other European suppliers continues to be an issue for the Irish sector.

Exports of Irish cider performed well in the first half of 2007, with key markets such as UK, USA, Australia, Greece & Germany growing at double digit levels. However, poor summer weather across many continental European markets and the United Kingdom had a slowing effect on overall growth. During the second half of the year, continued poor weather and increased levels of price competition affected growth particularly in UK and Northern Ireland.

The export performance continues to be assisted by the increased emphasis on premiumisation within the category as consumers seek to trade up. Irish beverage exports are well placed to avail of this development.

There are number of issues facing the sector, including the ongoing strength of the Euro, the rise in raw material costs, a drive towards increased levels of recycling and government policies in relation to responsible drinking.

In terms of non-alcoholic beverages, exports of mineral water slowed as the year progressed reflecting a slow down in consumer demand and ongoing pressure on margins. The bulk of mineral water exports continue to go to the UK.

Growth was recorded in chilled fruit juice/smoothie exports over the last year, albeit from a small base as manufacturers seek to diversify away from the traditional juice market. Exports of fruit juices were competitive as raw material prices increased strongly. Sales of soft drink were also weaker, not helped by the poor summer. Also, the increasing consumer desire for healthy products has seen sales of fruit juices and smoothies increase strongly at the expense of carbonates.

Prospects for 2008

The prospects for Irish beverage exports remains good for 2008 given the growth in demand in markets such as Asia, Russia and Mexico, which helps to build on the market position enjoyed by Irish beverages in traditional markets. However, the strength of the Euro is a concern particularly in the UK and the United States and other markets where these suppliers are active.

In relation to non-alcoholic beverages, export potential exists in the functional drinks area, particularly for products that offer lo-cal and sugar free options. However, given the competitive nature of the market, strong innovation holds the key to successfully gaining a share of this market.

Edible Horticulture & Cereals

The value of edible horticulture and cereal exports increased by an estimated 18 per cent in 2007 to €259m reflecting improved market returns for Irish mushrooms and a strong export market for Irish cereals.

Edible Horticulture & Cereals Exports (€m)

2006	2007(e)	2007/2006
€m	€m	% +/-
219	259	+18

Mushrooms continue to represent the largest source of exports for this category, accounting for almost 50 per cent of the total. The market environment for Irish mushroom exports improved during 2007 as retail sales of mushroom increased in the UK as did market prices. This meant that while the volume of Irish mushroom exports was largely maintained, improved market returns increased the value of exports by almost four per cent.

Retail sales data from the UK shows a turnaround in the mushroom market with increased frequency of purchase combined with higher prices resulting in the market growing by five per cent. The poorer weather conditions during the summer months stimulated demand for mushrooms and this combined with lower supplies from other European suppliers helped boost the market. Pre pack button mushrooms recorded growth of 10 per cent as did exotic mushrooms while sliced sales were 16 per cent higher.

The key issues facing the Irish mushroom sector include compost availability and the price of straw. This is pushing up production costs, which is absorbing some of the gains made in terms of market returns. Also the significant weakening of sterling against the Euro in the second half of 2007 negatively affected prices being paid for Irish mushrooms. Sterling has declined by more than six per cent since September and is currently at its lowest level against the Euro for almost five years. These issues mean that suppliers are seeking price increases from retailers to offset the higher production costs.

Prospects for 2008

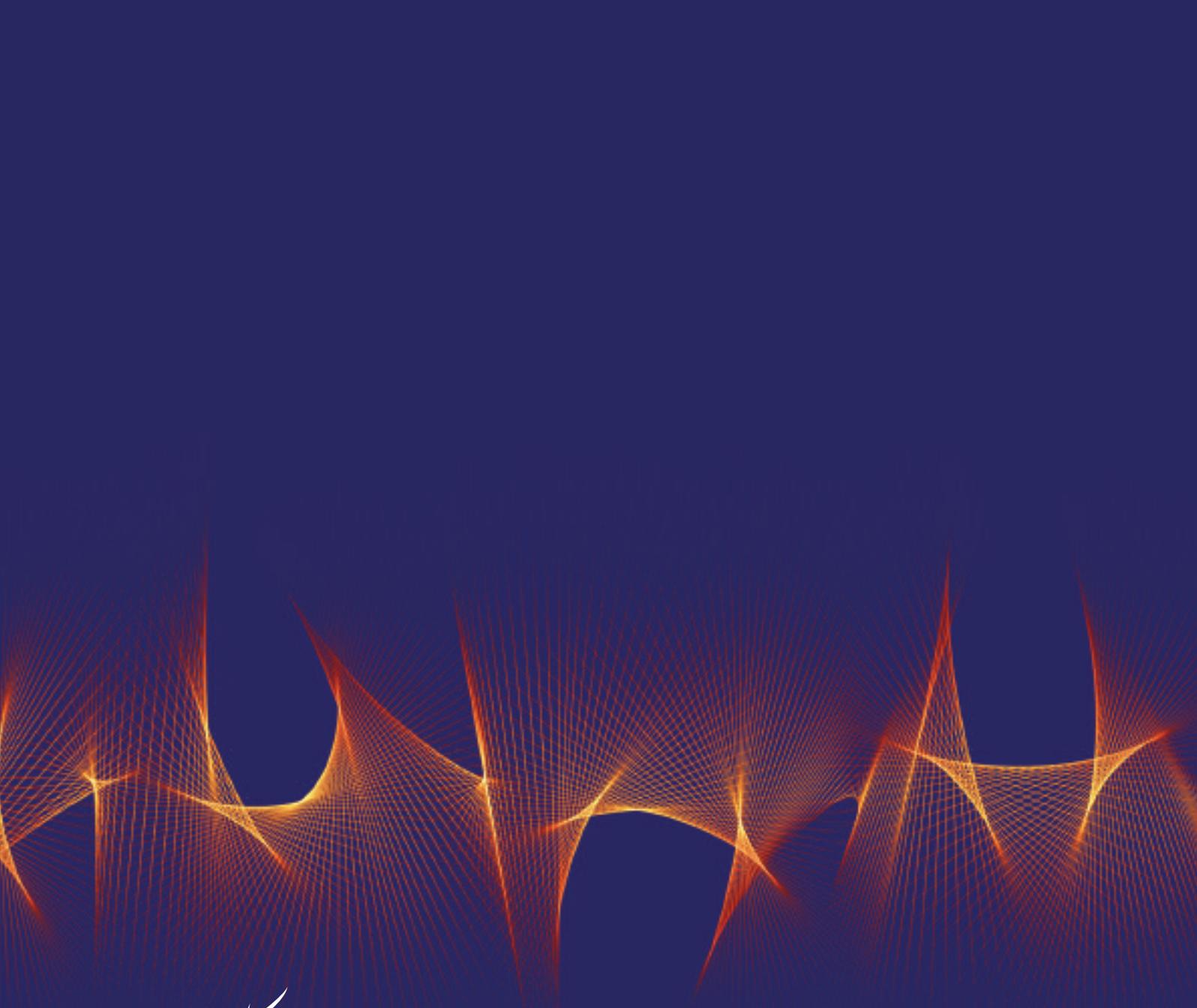
The higher cost of production is likely to impact on mushroom supplies in the UK in 2008. Also, the weak pound is likely to discourage other Euro zone suppliers from the UK market. As a result, a more tightly supplied market is anticipated, which should lead to a further improvement in the mushroom market environment in 2008.

Amenity Exports

2007 proved to be a challenging year with only Christmas tree growers making noticeable increases in Export sales due to Denmark's reduced output onto the European market. The cut foliage sector is holding steady and until such time as production capacity is increased in the coming years we do not anticipate a boost in export revenues. Nursery stock (plants, trees, shrubs etc) are under increasing pressure from both mainland Europe and the UK who have shown a renewed interest in Ireland despite currency exchange disadvantages.

A reduction in home market opportunities linked to the slowdown in the construction trade may encourage a renewed focus on export sales in 2008. Following a period of rationalisation the daffodil bulb and cut flower sector has stabilised

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