

FOOD INDUSTRIES AND AGRIBUSINESS

Northern Ireland

The food processing industry in Northern Ireland has a number of strengths which can be translated into opportunities including a "green" image, forward looking firms with local autonomy, strong basic education, available growth markets (e.g. fish, poultry, meat, fruit and vegetables, and the potential for enterprise creation in some rural/borders areas that have special needs (for example, fish-smoking enterprises) and potential synergies with tourism development. There are numerous opportunities for the U.S. private sector and academia to engage with Northern Ireland's agri-business community in cooperative projects, especially in sharing scientific and educational data and marketing techniques, exchanging academic and business personnel and expanding joint investment ventures and co-operative research. However, the sector faces a number of challenges such as the need to develop management and technical expertise in small firms, the fragmented nature of the industry sector and resulting inefficiencies.

Northern Ireland's agri-food sector accounts for 10 percent of civil employment. The farm sector accounts for 7 percent, a level three times that of the rest of the United Kingdom. The farm sector contributes 4 percent and food processing a further 3 percent to the region's GDP. The country's population of 1.6 million provides a market for only 40 percent of agricultural production, the remaining 60 percent being exported, principally to other parts of Great Britain and Europe.

Food Processing

The food processing sector has grown out of a relatively strong farming base to become one of Northern Ireland's largest employers with about 20,000 people directly employed. Most of the processing activity was developed by local farmers seeking to find outlets for their produce, and most of the firms and their management are homegrown. Consequently, the sector is highly fragmented, with a large number of small firms employing fewer than 100 employees in 580 plants, a number of medium-sized firms employing between 100 and 500 people in 41 plants, and one large company employing more than 1,000 people. Their activities span a wide range of food products, with high concentrations in dairy and protein produce.

As might be expected, most processors source agricultural products from local suppliers, and the generally high quality of farming inputs provides a competitive advantage. The notable exception to this is grain for feed and flour, which must be imported at higher costs due to the unsuitable climate in Northern Ireland. In

addition, there are occasional shortages of locally-produced raw material, primarily dairy and pork.

Local customers tend to be small. However, an increasingly important customer group is the UK-based multiple chain, (e.g., Marks and Spencer), which purchases for outlets both within and without Northern Ireland. The dominance of the marketplace by these chains is growing, and the more sophisticated demands of this client base is a force for change and innovation in the sector.

At present, there is little emphasis on innovation and marketing. The industry is heavily dependant on primary processing and is vulnerable to competition. The lack of value added activity reflects the prevalence of small companies in the industry.

Trends affecting the food processing sector include increasing competition (especially from outside Northern Ireland), the demand from retailers and consumers for higher standards of service and innovation, and changing consumer tastes towards more "healthful" foods. These consumer requirements are pressing the smaller firms within the industry to innovate and to introduce more sophisticated marketing techniques.

Government at all levels, both central and local, is engaged in developing the food industries sector in Northern Ireland. Agencies involved include the Departments of Agriculture, Environment, the Industrial Development Board, the Local Economic Development Unit, the Industrial Research and Technology Unit, local authorities, and the Training and Employment Agency. Even recognizing possible overlap in their respective activities, these organizations can effectively support the numerous small firms in this fragmented sector. Specifically, these agencies coordinate and work with small and large firms to help them acquire the necessary skills and expertise for technical innovation and product development, and marketing.

Bakeries

The baking and flour confectionery sub-sectors have displayed particular strength and provide almost one-fifth of food and drink employment. This sub-sector is dominated by small firms. Out of a universe of 288 baking enterprises, only 10 employ more than 50 persons. Demand for baked products has risen at a real annual rate of 3.3 percent over the last 10 years, generating an annual 2 percent rise in employment in the sub-sector.

Poultry

In 1992 this subsector had a turnover of 208 million pounds sterling (over \$370 million), and accounted for 23.6 percent of food processing employment. It is dominated by a few large firms, one of which employs about one-half of the total sub-sector workforce.

Dairy

In 1992, the dairy sub-sector employed 3,131 workers and accounted for 18.5 percent of the Food and Drink sector. Four dairy firms employ 1,040 persons, or about one-third of the sub-sector's workforce.

Seafood

Seafood production and processing has great potential in Northern Ireland. The large domestic UK market, valued at \$2.3 billion in 1993, enjoys high levels of seafood consumption for a wide variety of species with marked growth in fresh, canned and other value-added forms. The British public has increased consumption of fresh fish and is cultivating a taste for new species. Chain retail stores are playing an extremely important role in the development of the local market and have been largely responsible for the 20 percent increase in fresh fish sales over the last two years.

Demand for seafood is projected to increase steadily over the next few years. Lifestyle changes have meant that the British are eating more easy-to-prepare meals, including seafood. Fish is regarded as a healthier alternative to red meat, and developments in food processing are also allowing seafood to be used in a wider variety of meals.

Despite its position as a leading seafood producer, the UK remains a net importer with imports of almost 442,000 metric tons in 1993 and exports of 364,000 metric tons. Most local seafood production is from wild harvest but farmed production, especially of salmon, is increasing and now represents around fifteen percent of all edible production. Salmon is now the most popular fish after cod, haddock and plaice. Although the growth of fish farming has ensured an overall increase in UK production, production of the ever-popular cod has decreased significantly. As conventional white fish becomes less abundant and more expensive, demand for more exotic species has grown.

A tightening of EU rules on seafood processing plants has meant that all overseas exporters must be EU-approved. This would appear to give an advantage to producers with an established plant within the EU. Northern Ireland is extremely well placed to service the growing UK and European markets and offers a very competitive location for both fish production and processing operations.

Border Counties

Although agriculture in the border counties may suffer from structural and economic problems, there are optimistic signs now emerging. Louth has more favorable profitability than the national average, helped by its relatively high proportion of tillage farms, slightly larger farm size and better quality land. Potatoes in Donegal, hogs in Cavan, poultry in Monaghan, and mushrooms in Cavan and Monaghan have also provided some farmers with highly profitable enterprises. Although the number of farmers involved in those industries is quite low, the industries are important to the economies of all counties. In addition, the Irish Government has established a national development plan calling for nearly \$1 billion in public and private sector spending to assist the development of the Irish food industry. Firms in the border counties will avail themselves of development funding opportunities under this plan.

The average size of border county farms is unable to provide most farmers with reasonable incomes. In all counties, except Louth, the farms are smaller and less profitable than the national average, with a greater proportion of farmers in the border counties involved in beef, sheep, or mixed livestock. For the majority of farmers in the traditional types of farm enterprises, increasing competition and prices may reduce viability unless direct payments can be increased to allow sufficient compensation or current EU direct payments can be decoupled from farm production and increased. Many of the older farms are probably demographically and economically non-viable and owners must have-off farm income to survive.

The increase in European Union direct payments under the Common Agriculture Policy (CAP) reform has increased farm incomes, but from a very low base, while the introduction of production quotas has limited opportunities in traditional farm enterprises.

Because of its potential to create national wealth and employment, the development of a strong indigenous food industry has been a consistent Irish government objective for many years. The first ever national development strategy for the Irish food industry was launched in February 1995 and set the framework for the development of the food industry through the year 2000. The policy document details the grant-aid and supports which will be provided to address current weaknesses in the food industry.

Irish Government and EU funds will supply about 45 percent of the total funding (\$91 million per year over the course of the plan). The private sector will have to inject the rest to secure the aid offered. Funds are available for a variety of projects, including dairy, meat, cereals, and produce. The thrust of the program is to increase the value-added component of Irish food products, expand exports, and create new jobs in the industry. In the past, funds have supported projects that use domestic raw materials to produce high-margin packaged food products

capable of exploiting significant export opportunities. These types of projects will continue to be important. A number of food processing sectors in the border counties should benefit from these grants.

Dairies

The dairy sector has a structural problem given that the processing industry in the region has a low throughput even by Irish standards, and producer quotas are low compared to other regions of the country. The age profile of dairy producers in the region is higher than elsewhere. Investment for funding the acquisition of additional quotas as well as assignment of quotas to younger entrants to dairying could help the sector.

The dairy industry has committed \$3.2 million to help fund an \$8 million pilot scale R&D plant at the Moorepark (County Cork) dairy research facility. The plant is intended to offer industry sophisticated R&D facilities in a cost-effective manner, bringing economies of scale to address the needs of food related research, including product innovation. The facility offers clients access on an individual basis, ensuring confidentiality for commercially sensitive research.

The new plant complements the activities of Moorepark's longstanding National Dairy Products Research Center (DPC) that offers a wide range of services to firms in the industry including basic research, contract research, consultancy, and technical services. The facility also provides special training courses in a wide variety of areas, including new technology, statistical techniques of quality management, and even a course for bulk tanker drivers.

Other Sectors

Animal feed mills in the region have already rationalized but continue to upgrade and invest in new equipment. Consideration could be given to revive potato growing in the border counties through assistance by way of grant-aid toward storage and processing facilities, as well as research into new varieties with larger and more profitable yields

While funding to increase the slaughtering capacity of the hog processing industry will not be provided, aid assistance could be concentrated on improving and modernizing existing facilities, as well as improving the product mix such as value-added cuts. Grant-aid could be provided to develop management skills and new product development in the poultry and egg processing sector.

Two-thirds of Ireland's mushroom growers are located in the region and these account for over 53 percent of the national production of mushrooms. The mushroom industry is a major employer with over 5,000 full and part-time jobs nationally. The employment implications in the region are significant.