



**Submission on the
Impact of Brexit on Agriculture, Food and
Fisheries
to
the Joint Committee on Agriculture, Food & the
Marine**

October 2018

Who We Are:

Dairy Industry Ireland (formally the IDIA) represents primary and secondary dairy manufacturers including the specialist nutrition sector in Ireland.

We have 14 members representing the entire industrial manufacturing base in dairy in Ireland.

Our membership comprises of:



Dairy Industry Ireland is affiliated to Ibec and is a key member of the European Dairy Association (EDA), Specialised Nutrition Europe (SNE), the International Special Dietary Foods Industries (ISDI) & the International Dairy Federation (IDF).

The Irish dairy processing industry is a key component of the economy on the whole of the island providing much needed employment spread across rural areas.

Our industry processes over 7.5 billion litres of milk and is supplied by 18,000 family farms, many of whom are owners of the primary businesses. Many of these businesses increasingly have an all island presence.

Since the abolition of quotas, we are driving to be a global leader in the development of a high value environmentally sustainable dairy industry based on our extensive grass based dairy system.

Irish dairy companies have invested hundreds of millions in recent years to prepare for this opportunity which has resulted in us achieving almost €5 billion in exports in dairy products, ingredients and nutritional in 2017.

These exports have found their way to over 155 markets worldwide, with international markets beyond the EU becoming increasingly important.

In 2018 these international markets are projected to take over 50% of Irish dairy exports for the first time.

Ireland remains in a strong position with the primary dairies continuing to be 100% Irish owned entities, and the quality of our produce is reflected in the fact that 3 of the world's major specialised nutrition companies have chosen to base key secondary processing sites in Ireland.

Introduction:

Dairy Industry Ireland see the handling of the current challenges of Brexit and Sustainability as having a major impact in the continued success of the industry going forward.

Dairy Industry Ireland welcomes the opportunity to make a submission on the impact of Brexit to the Joint Oireachtas Committee on Agriculture, Food and the Marine.

This submission should be read in conjunction with the submissions from our colleagues Food Drink Ireland for the overall food industry position and Meat Industry Ireland for a sister sectoral submission particularly focusing on East/West trade routes

As of 2017 we exported €968m of Irish dairy to the UK.

While the industry in conjunction with Dairy industry Ireland and governmental stakeholders has rapidly advanced planning for mitigation and diversification since the Brexit vote- time and again the exposure of the Irish Cheddar cheese business to the UK market and raw milk flows on the island of Ireland emerge of the two critical issues that solutions are most difficult to find and surmount.

In essence the development of the European Single market has been of critical importance to the development of the Irish Dairy Industry and any type of fracture will do damage to it.

The Economic Case For The Irish Dairy Industry:

In terms of some overall data here are the 2017 Figures- South of Ireland.

- 18,322 active Dairy Herd Numbers each with at least 1 full time worker.
- Circa 11,000 employed in in Irish Dairy processors & Milk Collecting Co-ops.
- Circa 3,000 in 5 Specialised Nutrition Factories who buy off the primary industry Danone, Abbott, Wyeth etc.
- There are around 24,000 employed by the industry outside of Ireland- either in Irish owned factories else.

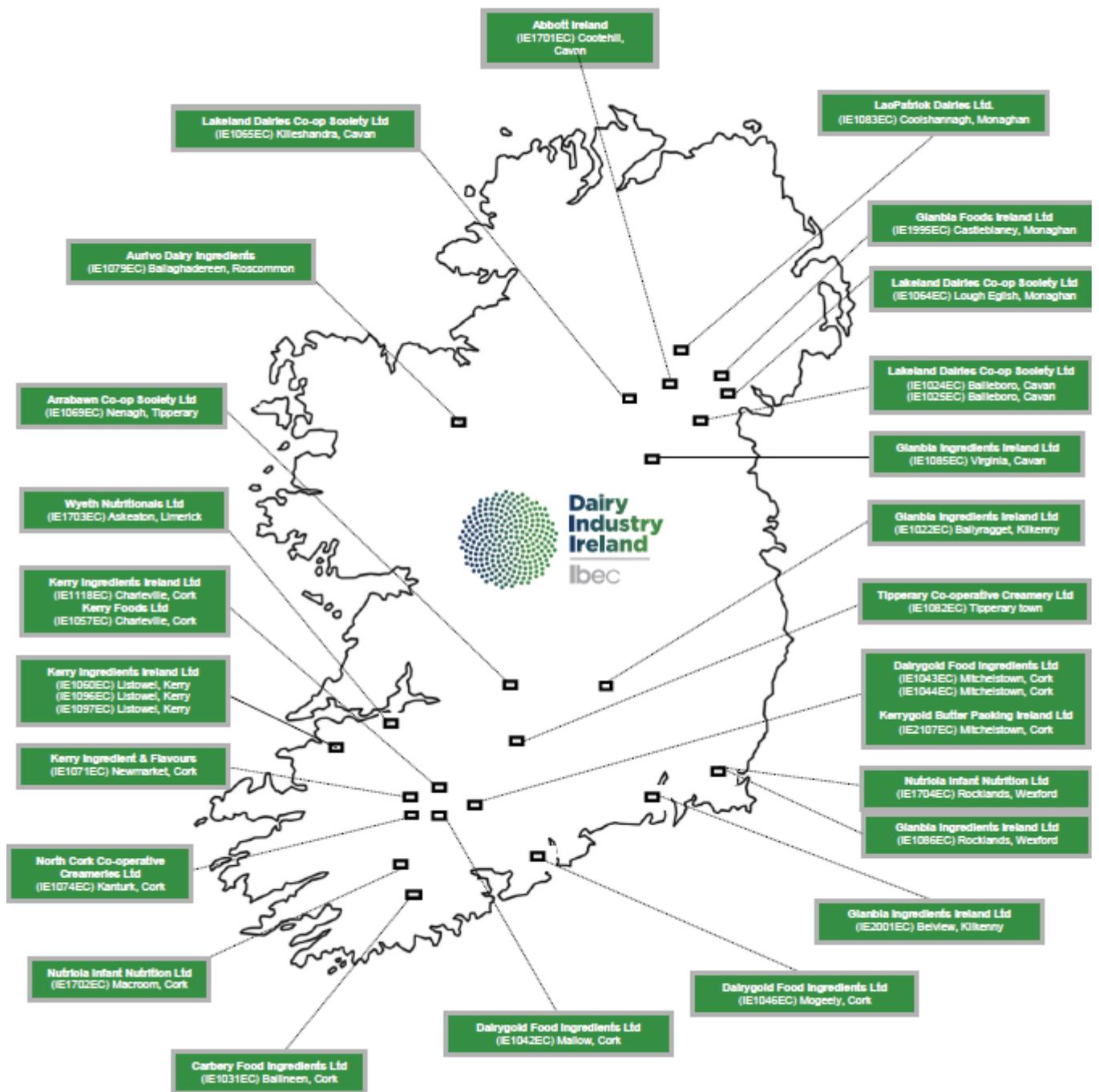
So Direct Employment- **Approx. 32,000 in Ireland & 24,000 abroad.**

These jobs generate over €4.75 billion in export revenue and support many thousands of indirect jobs across the island.

The industry employment is spread outside of Dublin across the rural economy.

The Industry continues to grow with 4 more sites in the south currently under construction in Monaghan, Portlaoise, Kilkenny & Cork and 2 in planning in Meath.

Below is the map of current Dairy industry Ireland member installations.



Case Study:

Dairy Industry Ireland Study on Irish Cheddar Exposure Across various Brexit Scenarios



Cheese is a key growth area for global dairy, with steady year on year growth in the category.

The Dairy Industry Ireland project was aimed at interacting directly with the 5 key players in the cheddar market in the south of Ireland to ascertain as accurate a picture as possible of our exposure.

The potential of a Brexit 'cliff edge' scenario remains a major risk and acting in March 2019 to achieve the required diversification is not an option for our dairy industry.

Since the referendum result Irish industry cheese Capex decisions have been impacted by potential restriction on access to the UK market, this is further complicated by the cheddar market globally being challenged in developed territories and difficult in developing territories.

In terms of potential diversification, the types of cheese that can be produced in cheddar plants is restricted to relatively narrow range of hard cheeses of a similar production platform to cheddar.

The Industry has been looking for market driven solutions with support of the Government as a better long term solution for our Industry- Brexit for us is here and outcomes are not in our control.

Innovation has and will be essential to place product and to be competitive in certain markets.

Milk is perishable, and while powders are relatively stable in storage- cheese by its nature is not.

While wish to acknowledge the excellent work the Department and Government has done on Brexit so far **the enormity of the diversification challenge cannot be over emphasised.**

Project Results

Over the course of 2017, Dairy industry Ireland were charged by the industry to execute a project to:

- Get accurate tonnage figures of Cheddar produced by members.
- The accurate value of this production.
- The sales to the UK.
- To work up exposures to various Brexit scenarios.

Headlines:

Combined the 4 cheddar manufacturing companies above in 2016 had a total output of 205,752t of cheese.

The 4 Companies severely dependant on Cheddar with the category 89.68% of output.

Of this 56.48% is sold into the UK market, with a value of €271,589,100 to the companies involved.

At punitive WTO tariff on the 96,888 t of southern Irish cheddar going into overall UK market would equate to **€161,899,848 exposure to industry** on cheddar exports should we maintain our 2016 volume share.

While not a member- Dale Farm in NI is estimated to produce 50k t of Cheddar that can be currently marketed as Irish or UK- bringing a figure of around 235k t of Cheddar type cheese alone made on the Island annually.

Irish Cheddar Production & Sales 2016

Total Cheddar Production (t)	184,509
Total Cheddar Export Figures (t)	171,551
Total Cheddar Imports (t)	2,100
Total Cheddar Export Value (€)	€464,655,185
Total Britain Cheddar Export Figures (t)	92,712
Total Britain Cheddar Export Value (€)	€258,755,100
Total NI Cheddar Export Figures (t)	4,176
Total NI Cheddar Export Value (€)	€12,834,000

Possible Cheddar Ireland Scenarios- Effect per year based on

	Single Market	Customs Union	A bilateral exempting food	A bilateral partially exempting food	WTO
1 Retain Existing Route to Market	€0.0 m	(€1.4 m)	(€14.6 m)	(€73.8 m)	(€196.1 m)
2 Move all cheddar from UK to ROW - [May not be possible with a cliff edge.]	(€37.1 m)	(€37.1 m)	(€37.1 m)	(€37.1 m)	(€37.1 m)
3 Diversify 50% of cheese from UK cheddar (ie other products) & retain existing RTM for balance of cheddar.			(€35.1 m)	(€64.7 m)	(€125.8 m)
4 Diversify 50% of cheese out of cheddar (ie other products) & place balance of cheddar on world market	(€33.4 m)	(€33.4 m)	(€33.4 m)	(€33.4 m)	(€33.4 m)

The significant impact on the rural community of a lower value for milk should be emphasised. We calculate this at €116m per annum. [(96,888 tonne * €400)*multiplier (3) = €116.27m]

Brexit Impact Assessment - For existing route to market.

	Single Market	Customs Union	UK outside CU		WTO
			A bilateral exempting food	A bilateral partially exempting food	
1 Market					
- Buy British - €25 / Ton		0	2,317,800	2,317,800	2,317,800
- Increase in international competition - €50 / Ton		0	4,635,600	4,635,600	4,635,600
- Risk of economic slowdown		0	0	4,635,600	4,635,600
- Cost of economic slowdown			€0	€50	€50
2 Currency					
- Weakening in income		0	2,868,564	5,680,882	13,796,429
- % weakening in sterling (not compensated by market)		0%	1%	2%	5%
3 Customer Supply Chain					
- Tariffs on cheese sales to UK		0	0	46,356,000	154,829,040
- Tariffs Level		€0	€0	€500	€1,670
- Non-tariff barriers (Border & customs control)		1,440,000	1,440,000	1,440,000	1,440,000
- Borders & Customs control costs		0.50%	0.50%	0.50%	0.50%
4 Vendor Supply Chain					
- Tariffs on raw materials sourced from UK		0	1,000,000	3,000,000	4,000,000
- Gas / Whey / packaging.....ect					
5 Finance and funding					
- Access to capital			0	1,000,000	2,000,000
6 Workforce					
Restrictions on free movement			500,000	1,000,000	1,000,000
7 Technology					
ERP upgrades to adapt to new trading platforms.		0	0	0	0
8 Regulation					
Divergent regulation			1,854,240	3,708,480	7,416,960
Total Cost of Brexit to Cheese makers	0	1,440,000	14,616,204	73,774,412	196,071,479
Cent / Litre	0.00 cpl	0.16 cpl	1.58 cpl	7.96 cpl	21.15 cpl
Cheese Ireland Summary					
Cost reflected in Weaker Market Return		0	6,953,400	57,945,000	166,418,040
Cost reflected in Currency Exposure		0	2,868,564	5,680,882	13,796,429
Cost reflected in Increased Cost Base		1,440,000	4,794,240	10,148,530	15,857,010
Total Processor Cost →	0	1,440,000	14,616,204	73,774,412	196,071,479

The table above shows the impact of Brexit on Cheddar across various outcomes. The headline figure is that in a 'no Deal' outcome on the value of a 32c litre of manufacturing milk sold by the average dairy farmer for use in Cheddar to export to the UK. The would be a frightening **21.15c cost.**

Industry Asks to the Committee & Potential Solutions

- Industry and Government to coordinate and invest heavily in the immediate development and execution of a strategic plan for a Market Fund for the expansion of overseas markets and New Product Development within them.
- An aggressive Capex Investment to diversify infrastructure to adapt facilities for new core cheese products & functionality/ packaging formats etc.
- State Aid Ceilings need to be raised significantly by the EU as a 'Force Majeure' derogation for the Irish case. (Cheese impact of 2014 Russian ban as evidence)
- Investment and plan in creating occasions for use for cheese/cheddar in non traditional markets.
- Significant continued support in Research & Development and product development that is driven by market insights.
- We need be mindful that diversification from Cheese will affect Whey streams that underpin our key Specialised Nutrition industries.
- Development of storage/port infrastructure/financing support to meet longer supply chains to service longer distance markets.
- More infrastructure support on certification requirements to meet increased volumes to be exported beyond EU. Current regimes such as the Vet 15 represent a significant barrier to trade.
- Continued high level lobbying and support on Free Trade Agreements / cooperation with other territories' authorities e.g. Mexico/Brazil as well as Asian countries.
- Work on driving Intellectual Property Rights in Irish Industry be used to help alleviate issues.

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