



Sharing the Harvest

The Food and Drink
Sector Jobs Dividend



Real Jobs - Real Wealth Generation - Real Growth - Real Economy

Introduction

The Irish food and drink sector is Ireland's most important indigenous sector. Around 230,000 or one in eight jobs in the economy are linked to agri food. By sourcing the vast majority of its inputs (goods and services) in Ireland, its contribution to the wider economy is enormous. These linkages are deep and unique to the sector. The expansionary strategy for the sector outlined in Food Harvest 2020 will reinforce these linkages and contribute to sustainable jobs growth in the wider economy. This report from FDII describes the impact of these linkages and the policy measures necessary to ensure that Ireland continues to reap a jobs dividend.

Linkages

The food and drink sector is deeply embedded in the Irish economy and in Irish society. It is the largest manufacturing sector and this is reflected in its payroll (the largest in manufacturing at €1.7bn) and its purchase of €7.9bn worth of Irish goods and services. Direct expenditure by the food sector in the Irish economy is equivalent to almost 60% of sales. This compares with 19% for the rest of manufacturing. Therefore every extra €100 of food output is putting €60 at minimum back into the Irish economy.

High quality employment

The industry provides a steady career path, with higher than average salary and retention levels, strong growth potential and an international focus.

Export growth

Agri-food has demonstrated its resilience throughout the economic crisis of recent years, which in the sector's case was also exacerbated by the depreciation of sterling and the dramatic fall in commodity prices

in 2009. Exports have rebounded and reached a new high of almost €9bn in 2011. They are also set to grow further with the Food Harvest target of €12bn by 2020.

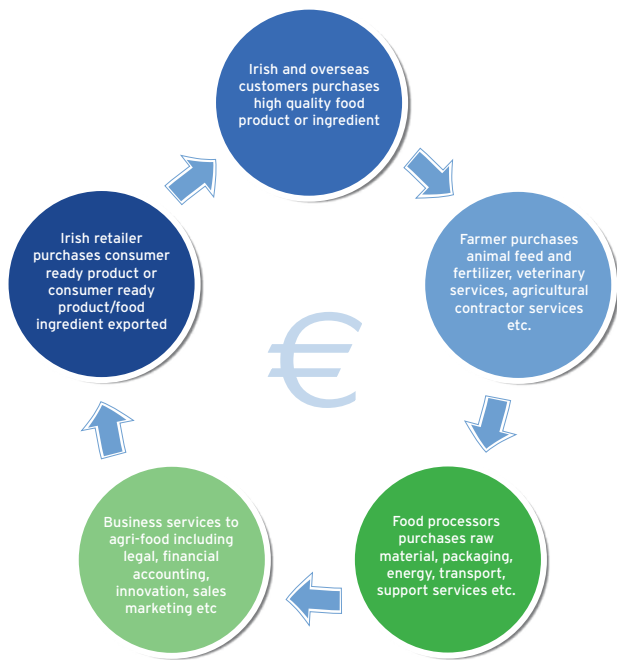
Delivering for the wider economy

Export growth in the sector will deliver for the wider economy - multipliers for jobs and output are high due to deep linkages to the wider economy. However, the Irish agri-food sector is characterised as a high capital cost sector with relatively low margins over time. Low margins mean that state support is necessary for the introduction of enabling technologies to further improve competitiveness, respond to consumer demand and to scale up small and medium food and drink enterprises. The deep linkages to the wider economy, however, will mean a significant return on state investment, particularly if there is a properly functioning domestic grocery market to act as a springboard to export markets.

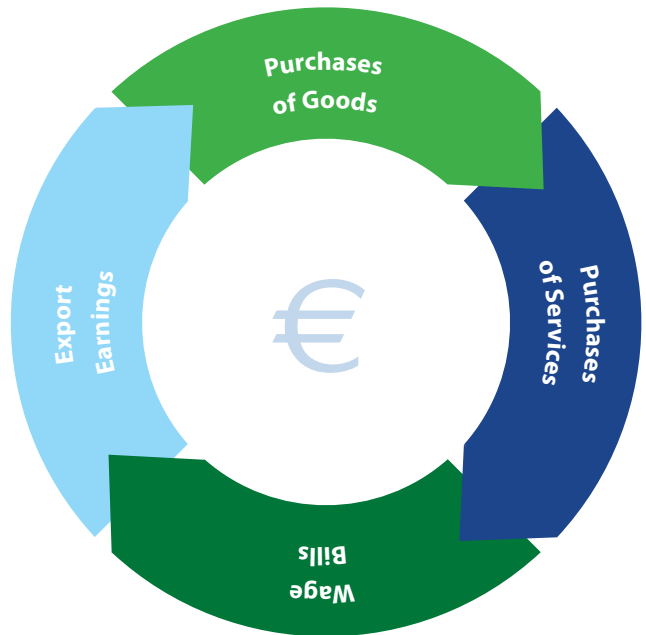
Achieving the growth targets for Food Harvest 2020, particularly when commodity price returns are reinforced by increases in volume of production output and in capital investment, will potentially deliver in the region of 30,000 jobs across the entire economy by 2020.

This increase in employment will manifest itself throughout the economy and across the regions: in farm supply, fertiliser and ingredients, on farm and in new entrants to farming (dairy), in distribution, collection, processing, sales and marketing and R&D across the sector and in particular to the SME providers for the sector.

Ireland's Agri-Food Virtuous Circle



The Wealth Generation Process



How public policy can support growth

The food and drink sector's high employment multiplier and its excellent growth prospects makes a compelling case for putting the sector at the heart of Ireland's economic renewal strategy. This means aligning policy with the needs of the sector to achieve a high return for the Irish economy. Of particular importance are measures to maintain competitiveness of Irish agri-food:

Sustainable supply of raw materials

Processors require a sustainable supply of raw materials. In the coming years the cost competitiveness of Irish raw materials will be determined by the impact of CAP, climate change, water and general environmental regulation agreements at EU level and any related legislation at national level.

Increased finance to expand capacity

The Irish agri-food sector is characterised as a high capital cost sector with relatively low margins over time. It requires medium to long term financing facilities that are currently not available in the Irish economy. This lack of suitable finance restricts both the capability of existing processors to expand production capacity and acts as a barrier to entry for new companies in the sector. The Irish government must influence the on-going redevelopment of the EU state aid regime to allow significant and meaningful levels of state co-investment as a starting point. Further innovative funding models and personal investment incentives can and should then be put in place.

Reduce business costs to improve competitiveness

Food imports continue to displace Irish produce in the domestic grocery sector and in overseas markets as our exports compete against products from lower cost economies. Energy and waste costs must be brought back to EU averages. Any additional costs on employment such as statutory sick pay and employers PRSI increases should be avoided.

The proposed grocery code and adjudicator should be put in place immediately after primary legislation is enacted later this year.

Adopt a genuine whole of society approach to nutrition and obesity

Government and the food industry working together can have a major impact in reducing obesity levels. Creating a multi-stakeholder platform where measures are agreed on the basis of scientific evidence can address Ireland's obesity issue without unnecessarily harming competitiveness, employment and the reputation of the sector though ineffective policies such as advertising restrictions and discriminatory taxes.

Returns can only come from good investments and a good investment environment. The food and drink sector has deep linkages to the rest of the economy and strong export growth prospects. With the right government supports and policies in place the sector can continue to deliver a high rate of return to the Irish state and its citizens.



Sharing the Harvest

1. Expenditure on Goods and Services in the Irish Economy

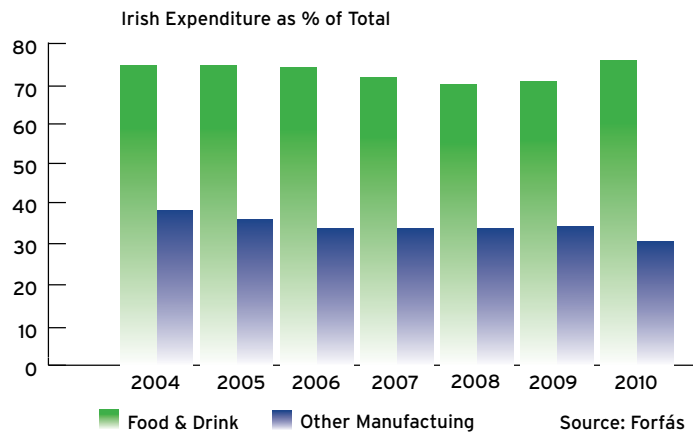
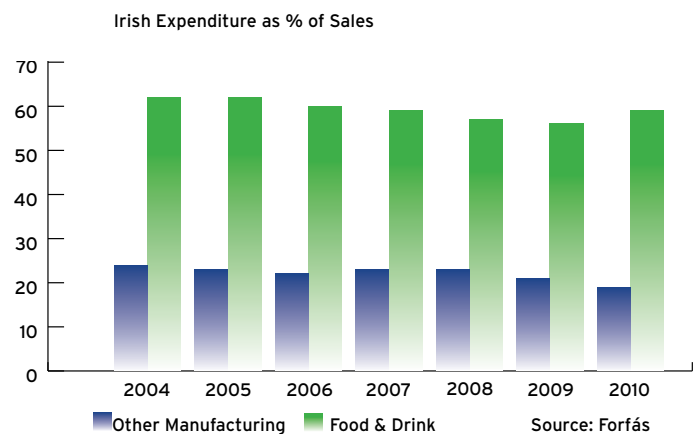


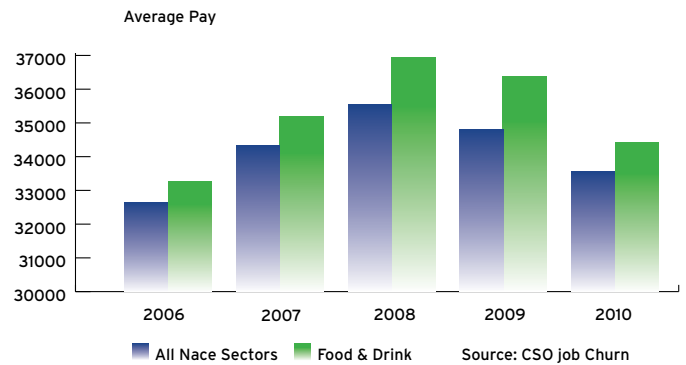
Figure 1 maps out the share of total expenditure spent in Ireland by the food and drinks sector and for the rest of manufacturing. The food and drink sector, which spends over 76% of its expenditure in Ireland, dominates this picture. The sector retains significantly more of its expenditure in the Irish economy than the rest of manufacturing which retains just over 30%. This reflects a strong Irish-based supply chain which is far more likely to retain jobs and investment per euro spent in the wider economy.



Export growth is the central element that underpins Food Harvest 2020 and this will impact on the wider economy in a way that is not possible from any other sector. This is because direct expenditure in the Irish economy by the food and drink sector is equivalent to 59.3% of sales. This compares with 19% for the rest of manufacturing. In other words, every extra euro of

food and drink sold has a bigger impact on the wider economy than any other sector because food and drink companies are by far the largest consumer of Irish goods and services spending around €9.6 billion.

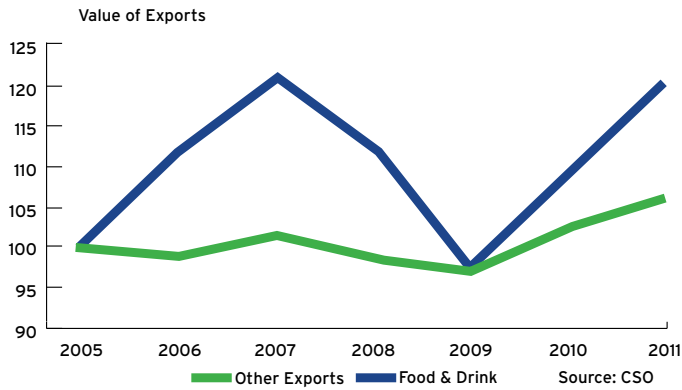
2. Quality Employment



The total payroll for the sector is around €1.8bn - the largest of any manufacturing sector. The average annual reckonable pay¹ in the food and drinks industry declined in 2009 and 2010 due to the effects of the economic downturn, sterling depreciation and the necessity to regain lost competitiveness. In spite of these declines, the average pay for the sector remains above the average for the entire economy. Furthermore, food and drinks has a job churn rate of 0.25, which is lower than the average for the entire economy. The churn rate is a measure of employee attrition. A lower rate of job churn essentially means people are more likely to stay in their occupation longer. As such, this reflects the relatively stable nature of employment in a sector whereby employees tend to remain in their respective employment longer than the national average. These figures reflect the quality, stable employment provided by the sector and its ability to react in the face of difficult economic challenges. This clarifies the misconception that employment from the food and drinks sector is low paid and temporary in nature.

¹Reckonable pay is gross pay minus any payment made to a pension scheme and a permanent health insurance.

3. Exports

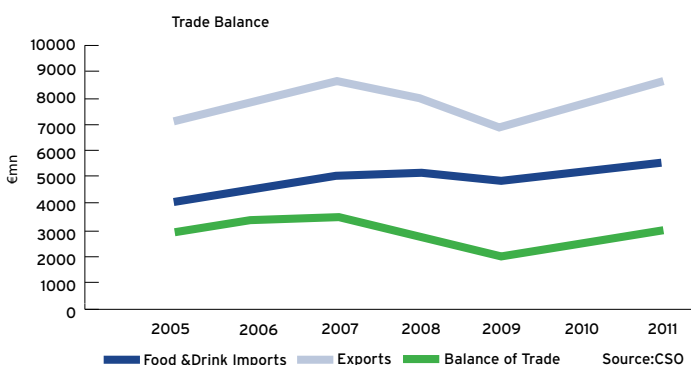


Despite a sharp decline in the value of exports in 2009, the sector rebounded strongly in 2010 and 2011 with growth rates exceeding the national average. In 2011, all the main food export categories rose with dairy products up 24%. The value of food and drinks exports are growing two and a half times faster than exports from the economy generally. By the end of 2011, the food and drinks sector had surpassed the peak export levels set in 2007, more than accounting for the losses experienced in 2008 and 2009.

Food Harvest 2020 establishes ambitious targets for the expansion and development of the food industry in Ireland, and aims to increase exports from the sector to €12 billion by 2020. This is important not only for export growth but for various other sectors of the economy. An increase in output from the food and drink industry has greater multiplier effects on the rest of the economy than an expansion of modern manufacturing.

Food and drink has an output multiplier of 2.15² meaning an additional €100 million of food and drink output generates another €115 million of output throughout the rest of the Irish economy. If the Food Harvest 2020 targets are achieved exports will increase by around €3.5bn, with another €4bn of activity generated in the wider economy. As such, activity in the food and drinks sector has the added benefit of supporting Irish based firms in a challenging economic environment.

4. Trade Balance



The decline in exports in 2008 and 2009 was not matched by a similar decline in imports resulting in a narrowing of the trade balance to just over €2 billion. However, buoyed by strong exports in 2010 and 2011, the trade balance increased by €1 billion, or nearly 50%, and early indications for 2012 show continued export strength. If growth in food and drink continues at its current rate the trade balance will reach peak levels last seen in 2007, by the end of 2012. However, for SME food companies to participate in export led growth, they first need to have a stable domestic grocery market. It is of concern that food imports, which displace Irish produce on shelf, have continued their upward trend and in 2011 stood at over €5.5bn. Imports have increased by 7.5% since 2007 at a time when the overall grocery market has declined by 3.4% - this is a huge loss for domestic Irish companies.

5. Relevance to GNP

Unlike GDP which grew by 1.4%, GNP contracted by 2.5% in 2011. The agri-food sector has a substantial GNP generating effect which needs to be further utilised in order to promote an accelerated economic recovery. Food and drinks has a significant Irish makeup with over 72% of sales arising from Irish firms. This has the benefit of retaining profits in Ireland unlike other sectors where profits are repatriated abroad.

Despite a 16% share in exports, the sector contributed 32% of the total net foreign earnings of all primary and manufacturing industries in 2005³. The sector's share of net earnings is double its share of exports, due to lower imports and the large role Irish owned business has in its activities. As such, the sector's contribution to GNP is twice as important as the contribution of gross exports.

²IBEC analysis using the economy's input output tables produced by the CSO. ³Riordan, B (2008), 'The Net Contribution of the Agri-food Sector to the inflow of Funds into Ireland: A New Estimate, The Department of Agriculture Fisheries and Food.

6. Employment Potential

Table 1 highlights the value of the food and drink sector to Irish industry. The food and drinks sector accounts for over 20% of all turnover in industry and over 16% of gross value added. Around 230,000 or one in eight jobs in the economy are linked to agri food. Food and drinks employment is high quality with higher than average salary and retention levels. In addition, the food and drinks sector has 35 persons engaged⁴ per active enterprise. This is significantly higher than the average of 14 persons engaged across the entire industrial sector. This reflects the labour intensive nature of the food and drinks production and processing industry. Investment in the food and drinks industry is far more conducive to employment growth than the industrial average.

There is good reason to believe that increased volume will form a major part of this output expansion due to the removal of dairy quotas, increased farm level productivity, new product innovation, increased global demand and improved market access. We estimate that around two-thirds of the €3.5bn increased output predicted in Food Harvest 2020 will be volume related. However, even an increase in prices, such as the recent commodity price hikes, will begin to deliver employment in other sectors, due to additional income being spent throughout the economy.

The period up to 2020 will also be accompanied by increased capital investment as firms seek to expand

	Active Enterprises	Turnover €m	GVA €m	Persons Engaged
Food & Beverages	1,234	22,236	5,539	43,111
All Industry	14,306	109,736	33,670	203,542

Source: CSO⁵

Food Harvest 2020 set a target to grow exports by 42% to €12 billion by 2020. If these ambitious targets are achieved then the sector has strong potential to deliver significant employment gains across all sectors of the economy, not just food and drink. The employment multiplier for the food and drinks sector is higher than most sectors due to the strong upstream linkages of the sector and the 76% of sector expenditure spent directly in the Irish economy.

Employment multipliers are used to calculate the total number of jobs generated by an increase in output. They are calculated using the CSOs input-out tables for the economy. Additional employment from an increase in output is created through three effects - direct, indirect and induced. As output rises, employment is initially created directly in food and drink manufacturing and indirectly in embedded sectors such as primary agriculture. As a result of the increased employment from the direct and indirect effects, the level of household income throughout the economy will rise. A proportion of this increased income will be re-spent on final goods and services in the economy creating induced employment effects.

The growth in jobs in the food and drinks sector depends of a number of factors all of which will determine the extent of employment growth. If the increase in output is delivered on a volume basis as opposed to a simple increase in value, the employment effect will be stronger particularly in primary producing and processing sectors.

capacity and facilitate new product development. Such investment will improve the overall cost competitiveness of the sector and increase productivity levels. Capital investments that increase productivity can limit the forecasting ability of traditional multipliers since these multipliers assume employment increases in a fixed proportion to output. We suspect that the multiplier effect will not be static but will change over time as new productivity advances come on stream. These investments will create employment in other sectors but will limit to some extent employment gains in food and drink manufacturing directly.

It is difficult to estimate the effect productivity increases will have in the period up to 2020, however, if the Food Harvest 2020 targets are achieved we estimate that the employment boost will be in the region of 30,000 jobs⁶. The export growth targets outlined in Food Harvest 2020 will result in significantly more jobs than would be created by similar export growth in the rest of manufacturing. It is estimated that of the jobs created primary agriculture and related sectors, would be the main beneficiary gaining nearly half of the additional employment. This is unsurprising and is due to the strong upstream linkages and its place as the primary supplier of inputs to the food and drinks sector. Around one fifth of the additional employment would accrue to food and drinks processing, with the remainder falling across other sectors of the economy.

⁴Person engaged includes employees, proprietors and family members. ⁵Persons engaged and active enterprise data is taken from the 2010 business demography, which is the definitive source of sectoral employment in Ireland. ⁶IBEC analysis using the economy's input output tables produced by the CSO.

7. Conclusion and Policy Recommendations

The food and drink sector's high employment multiplier and its excellent growth prospects makes a compelling case for putting the sector at the heart of Ireland's economic renewal strategy. This means aligning policy with the needs of the sector to achieve a high return for the Irish economy. Of particular importance are measures to maintain competitiveness of Irish agri-food:

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