CII

Confederation of Irish Industry
Confederation House, Kildare Street, Dublin 2. Tel:(01) 779801.
Telex: 24711. Telegrams: Confindus Dublin.

PRESS RELEASE

Speech by Liam Connellan, Director General, Confederation of Irish Industry at the Annual Conference of the Agricultural Science Association held at the Hotel Blarney, Blarney, Co. Cork, on Friday, 13th September 1985 at 9.20a.m.

INTERNATIONAL OPPORTUNITY FOR MARKETS AND TECHNOLOGY

In this paper I would like to concentrate on current trends in Irish food production, the changing material supply, product and market situation of Irish food products. I shall also place emphasis on how some of the constraints to adding value profitably in Ireland can be removed, and will conclude by making some recommendations which I believe would add considerably to the growth rate of the food processing sector.

MATERIAL SUPPLY

The weakening of prices for agricultural raw materials is part of a wider international trend of falling commodity prices. During the 1950s and 1960s there was a continuous downward trend in real commodity prices. While there was a very strong upward movement in commodity prices during the 1970s this is now regarded as a temporary aberration and since the beginning of the 1980s commodity prices have diverted to a declining trend similar to the 1950s and 1960s. This trend of a long run decline in commodity prices sets the context in which we have to examine the prospects for the development of the food industry, its products and markets. It is clear that people relying solely on the prices which they get for primary commodities or goods involving only minor processing are likely to be subjected to a continuing squeeze on prices.

CHANGED EMPHASIS IN IRELAND

I believe that there is now an urgent need to switch resources towards the production of processed foods where the raw material is a relatively small component of total product cost. The production of high quality products on a regular basis throughout the year can ensure that process industries can operate efficiently. The supply of raw materials to local process plants can also provide a guaranteed outlet at an economic price for the primary producer. The alternative is to join the scramble on world commodity markets where prices are likely to be much lower.

THE CONCEPT OF ADDING VALUE IN FOOD

The achievements of other EEC member states in adding value to agricultural materials makes surprising reading. According to EEC data, gross value added in the German food industry is about 64%; in Belgium 62% and in the United Kingdom 65%. In

Ireland, however, it appears that value added in the food and drink industry languishes at the level of around 26%, less than 50% that of Germany, Belgium and Britain.

THE PERFORMANCE OF THE FOOD PROCESSING INDUSTRY

Since 1980 the output of the food industry has increased by 9%, less than half as fast as the growth of the total manufacturing sector and less rapidly than agricultural output.

The total output of the food, drink and tobacco sector in 1984 was over £5 billion. Half of this was accounted for by dairy products and meat and another quarter by drink and tobacco products. The next most significant category was "other food" which accounted for 10% of sales value and incorporated a wide range of highly processed products having an added value proportion of over 50%. This "other foods" sector comprising products such as instant meals, processed fish, preserving of fruit and vegetables, etc., showed the fastest growth in output since 1980 and was followed by dairy products (resulting from the rapid expansion of milk output) sugar and chocolate confectionery products and beverages. The remaining four sectors suffered a decline in output.

TECHNOLOGY

The ability of the food manufacturing industry to use new technology is a function of the number of scientists and technologists working within these firms. The food industry recruited about 50 science and technology graduates annually in recent years while the rapidly growing chemical and electronics industries, in proportion to their employment, recruit four times as many.

I believe that there is a direct relationship between investment in highly skilled technological manpower and the capacity of the food processing industry to expand rapidly to the development of new products and processes.

THE TRADING RATIO

Current difficulties must make us more determined to create favourable conditions for the development of a thriving food processing sector. During recent years the ratio between exports and imports in the food sector has remained stable and has improved significantly in many subsectors. Our most favourable ratio is in dairy products where we export twenty times more than we import. The position in meat products can fluctuate wildly due to intervention sales but, on average, exports have been about fourteen times greater than imports since the beginning of this decade. The most interesting development has been the steady improvement of the ratio for miscellaneous food products where the favourable balance of exports over imports has now increased to seven.

The development of the food processing sector was severely hampered in the early years of this decade by the wide disparity between Irish and European inflation. I believe that the closing of the inflation gap with the rest of Europe is now beginning to have a favourable impact on many sectors of traditional industry and particularly those such as food which can have a very high local added value.

Furthermore, the availability of natural gas for some of the major co-ops and brewing and distilling companies will help to improve the competitiveness of these industries.

A CHANGE TO NEW MARKETS

During recent years there has been a major change in the destination of many of our food and drink exports. North Africa, the Middle East and Eastern European countries on occasions have been more attractive markets for dairy and meat exports. Unfortunately, this trade has depended to a very great extent on export refunds from the EEC. For example, about 75% of our meat exports depend on EEC subsidies.

The proportion of sales to Continental EEC markets is a cause for concern in view of the size of the European market, the relative wealth of the population and the ease of geographical access. There has been only a slight growth in the proportion of food products sold to Continental EEC countries.

Many EEC markets are not as dominated by major international food corporations as is the United Kingdom. Many companies may find market access facilitated by sub-contracting, or forming joint venture partnerships with major firms in Europe who would have the product development, and marketing knowledge we require. Some Irish co-operatives have entered into successful joint ventures with European firms and American firms and this approach would seem to offer considerable scope for development.

I would now like to refer to the success of the European orientation programme operated by the Food, Drink and Tobacco sector of the Confederation. The object of the programme is to build a core of business executives in the food industry who can relate easily and effectively with their European business counterparts. Under the first programme, 30 young persons starting out on their career, after a brief induction programme in Ireland, spent 9 months in Germany or France learning the language and business culture of the milk and meat industries in these countries. Almost all of them have since returned to take up jobs in those sectors in Ireland and are now actively participating in developing exports to Continental EEC countries. The second programme, which, incidentally, has been widened to include the electronics industry, is currently at the interview stage and shortly a further 40 to 60 young people will be undertaking these programmes under the sponsorship of Irish firms.

A CHANGE IN THE ADMINISTRATIVE STRUCTURE

There is a need for a much greater co-ordination between the food processing industry and agriculture. People in the processing industry hold the view strongly that the Government must reflect this changed emphasis that has been forced on us by market developments and by changes in EEC policies. No single minister at present has a clear mandate to promote the development of the food industry. Food manufacturers at present have to relate to a series of Government Departments, and a large number of State agencies. They regard the absence of a single representative for the industry at Government as a significant constraint to the development of the industry.

The food industry is satisfied that as long as the responsibilities of the Department of Agriculture lie solely "behind the farm gate" to the almost total exclusion of processing considerations, the food industry will never realise its potential for adding value and employment.

CONCLUSION

There can be little doubt that a new approach to the development of the food processing industry is necessary. I would recommend the following areas for urgent attention:

1. There must be a move away from commodity selling. Ireland has relied for too long on intervention or EEC supported third country markets for the disposal of our products.

2. There must be increased emphasis on product development, particularly for the rich Continental EEC markets.

3. This will require more French and German speaking marketing executives.

4. The number of scientists and technologists recruited by the industry annually must be quadrupled in order to accelerate the application of new technology in product and process development.

5. Seasonality in milk and beef production must be eliminated in order to ensure continuity of supply for expensive processing facilities. The appallingly low level of Irish value added in food processing is unlikely to be increased unless there is a stable and continuous supply system. Guaranteed supply contracts with Irish processors provide the best guarantee of economic stability for the primary producer.

6. A single Government minister should have responsibility for the co-ordination of Government policy regarding all aspects of the food industry.

7. Inflation must be contained at or below the level of our partners in the European Monetary System and the cost of basic transport, telecommunications and energy services must be internationally competitive.

If these criteria are fulfilled I believe that the food processing sector has the potential to grow much more rapidly. This growth must be based on identifying innovative products to meet the tastes of consumers in the rich Continental EEC markets and in devising strategies which will enable these products to be produced profitabily in Ireland. These criteria are already being met by the more dynamic firms in the industry. The challenge must now be met by all.

END

12.9.1985