IGFA Meeting with An Tánaiste
Wednesday 22 June 2022
16.15-17.00
Venue - Webex

Introduction
IGFA representatives met with An Tánaiste Leo Varadkar, Minister of State Martin Heydon and Senator Maria Byrne on 22 June 2022. The aim of the meeting was to highlight the challenges faced by the Irish Animal Feed Industry and specifically the costs of doing business in our sector. These costs do not just have a significant impact of IGFA members, but knock-on effects further up the food chain. Our concerns were discussed under 3 agenda items

1. Energy and transport cost challenges for our sector
2. Increase in the costs of working capital and the impact on feed businesses and native grain producers.
3. Impact of 6th package of sanctions against Russia on feed.

IGFA also highlighted solutions and policy changes that could be explored to ease the burden on Irish feed businesses.

1. Energy and transport cost challenges for our sector

The feed Industry has never experienced the cost increases that we are facing in 2022. Normally price increases would have been in the €10/€15 per tonne of feed range. The price of a dairy ration for milking cows in March 2021 was about €285 per tonne of Feed. In June 2022, the same dairy ration is now about €460 per tonne with a possible further €50 per tonne price increase in September/October due to forecast future Raw Material Prices.

Along with raw material cost increases, there are 3 other main drivers of these price increases:

- Energy costs (electricity and gas)

  Some members are reporting increases in electricity bills of up to 250% and forecasting huge annual increases from the start of next year for electricity and gas.

  The EU pricing model for all electricity supplies is based on the market price of natural gas. The energy providers therefore charge our members (and other businesses) with the market price of natural gas for 100% of the kilowatt hours supplied, even though some of the providers state on their bill that they are supplying 100% renewable sourced energy. This pricing model is therefore resulting in very high electricity costs for Irish businesses despite the level of renewable energy in the grid. It also means super normal profits for the energy companies in the Irish market.

  We note the European Commission paper of 23 March 2022 (COM (2022) 138 final) "Security of supply and affordable energy prices". However there does not appear to have been much progress on the affordable energy price measures over the last 3 months.

  Some IGFA members have installed solar panels which not only contribute to their energy supply but have also enabled cost savings and reduced CO_2 emissions.

We therefore request that the Government

1. Provides direct fiscal Intervention as aid for the very high energy costs as provided for under the EU Temporary Crisis Framework (adopted and announced by the EU Commission on 23 March 2022).
2. Urgently works with the EU27 and the European Commission to agree and implement changes to the EU electricity pricing model that will reduce the cost of electricity in Ireland for businesses and retail consumers. This should be by the time winter electricity pricing starts on 1 November 2022 at the latest.
3. Ensures energy supplies to the feed industry, as a deemed Essential Service, in the event of rationing.
4. Reinstates the grant aid through SEAI for future investment in solar projects on existing warehousing and sites that are available all over Ireland at animal feed plant locations.
5. Enables businesses with greater than 50kw of solar panels to sell excess energy to the nation grid. This is not provided for under the Government's Micro-Generation support scheme which is limited to projects between 6kW and 50kW.

- <u>Transport/diesel costs</u>

Many animal feed companies have invested in transport fleets so as to fulfil Department of Agricultural bio-security requirements and provide a secure delivery service to our customers. Many don't have haulage licences because they are carrying their own goods but still operate under RSA rules that are common for both licensed and non-licensed hauliers. Animal feed suppliers who are using licensed hauliers have an unfair advantage.

The Feed Industry is requesting the Government to enable feed industry companies, who have their own transport fleets:

1. To claim the diesel rebate
2. To apply for the €100 per vehicle weekly allowance which is available to licensed hauliers.

- <u>Inflation</u>

Wage inflation is now on the table of all businesses within Ireland. It needs to be controlled by employers with the support of Government as the indications are that demands for wage increases will be in the 5-7% range in the immediate future.

Inflation is heading towards an annual increase figure of between 15%-17%. It has been seen in previous years that wage inflation over 3-4% leads to permanent inflation which will decrease the competitiveness of Irish Industry.

The Feed Industry would propose that the Government consider a 'once off increase' in tax allowances for Irish employees that would help to outset inflationary costs coming down the line in 2022. The size of this allowance has to be meaningful and so we would suggest €4,000 so that employees see that the Government have helped offset these inflationary costs. This two-pronged approach with restrained wage increases would give Irish workers and families support to deal with inflation and at the same time maintain industrial competitiveness which is essential for our economic growth.

3. **Increase in the costs of working capital and the impact on feed businesses and native grain producers.**

- <u>National Challenges</u>

A number of challenges lie ahead for our members that purchase Irish grain from farmers. In 2021 the national harvest was reported by Teagasc at 2.32 million tons which was up 21% from 2020. In light of the recent events in Ukraine and food security issues we welcome the €10 million Tillage Incentive Scheme that was announced by Minister McConalogue in March. We are awaiting accurate information on the actual uptake on this scheme at farm level but it has the potential to add a further 175,000 tons* of Irish grain into this year's grain stocks. *(based on the €10 million fund being exhausted at €400/Ha = additional 25,000 Ha and assuming a yield of 7 tons/Ha).

Although we welcome the scheme, it is our members, Irish grain merchants up and down the country, many of them small to medium sized businesses that are family owned, that must finance this year's harvest and find storage for a record bumper crop.

Another consequence of the scheme is that it resulted in many tillage customers using ley ground to sow spring barley rather than protein crops such as spring beans and now we are facing a winter with a much lower stock of native protein. We would ask for further schemes to address the issue of encouraging tillage farmers to grow protein crops to reduce our need for importing protein.

Based on a harvest intake of 75,000 tons for a typical grain merchant, we would like to highlight the additional working capital required to purchase grain from tillage farmers this year and to get it transported from farm to our grain handling facilities and process the grain to prevent spoilage in our stores.

- Haulage from the farm to the grain handling facilities is a big concern as many small haulage firms are not running a full fleet due to escalating costs of fuel and the struggle to maintain drivers. Where we have secured haulage, the rates per ton have increased by more than 30% and will cost an extra €225,000 for the 75,000 tons of grain purchased.

  The biggest concern is regarding the supply of fuel and whether there be diesel readily available for farmers to run combines and grain merchants to run haulage and grain dryers.

- The world grain prices dictate the Irish grain price. In Ireland the farmer supplies the grain from July-September and the grain merchant pays for this in full at the market value. In 2021 the price of barley off the combine was a record high of over €200/ton which was at least €40 higher than the average of the previous 10 years. In 2022 the grain price off the combine looks to be up to €120/ton more than last year. Based on 75,000 tons that is an additional €9 million more than last year, not to mention the additional yield and acreage from the Tillage Incentive Scheme. A grain merchant purchasing 75,000 tons of grain requires a minimum of €25 million in order to pay out to their grain growers and this does not include the extra drying costs.

- The tillage farmer harvests the grain and it comes off the combine with a natural moisture level of 16-22% depending on the weather conditions at harvesting. This is not the case in other European countries where warmer conditions gives a competitive advantage as a lot of their grain is harvested at 14% moisture. For ideal storage conditions the grain merchants in Ireland must dry the grain down to 14% moisture or less to prevent it from spoiling in storage. The dryers use gas or diesel so estimations for this year indicate there will be an extra €8-€12/ton of drying costs just to cover the increased energy costs.

Ultimately the cost of producing Irish food and drink will increase significantly and the Irish consumer and our export customers will pay more for products, be it porridge for the breakfast table, a glass of milk, a pork chop or a tipple of whiskey. The feed industry will continue to drive efficiencies but it is vital that we remain competitive.

- <u>Exports and Competitiveness</u>

  IGFA supports the Enterprise Ireland goal to support businesses that are sustainable, profitable and have growth potential. Their work has been effective in accessing foreign markets for all types of industry. However, we are currently in an unprecedented situation and need to ensure the Irish business environment is adapted to allow companies to become more efficient and build resilience.

- Shipping Challenges - A consistent and reliable supply of products to customers is vital for any feed business. The container shipping supply chain was in crisis at the start of 2022 as a result of Covid and continues to be massively disrupted. This has resulted in ongoing logistical problems, delays and increased costs. Freight rates are also significantly increased and freight lead time to Asia has doubled.

  Port congestion at Dublin Port is exacerbating already difficult shipping conditions adding to costs, journey times and delays. Belview Port in Waterford is however underutilised and with its excellent infrastructure and road network to the port, should be prioritised by Government. This would not only ease the burden on exporters and help us improve the route to market but could be an important move to improve local employment.

- Competitiveness in foreign markets - Key to this will be incentives to improve manufacturing operations through for example, grant aid targeted at improving efficiencies through investment in production machinery. FEOGA grants for example have helped IGFA members by giving them the right support at the right time.

  Continued and increased investment in research and development with a focus on the development of new technologies will also be critical to improving Ireland's competitiveness and ability to maintain current markets and access new ones.

- Energy – energy costs are a key factor in ensuring our competitiveness and current rates are putting us at a disadvantage. We are already behind the curve on alternative sources of energy. In 2020 the overall renewable energy share in Ireland was 13.5%, compared to the 2020 target of 16% (SEAI.ie). Wind, sea turbine, wave, and solar energy should be pursued vigorously as they are replacing expensive fossil fuels and would give Ireland the opportunity to gain the competitive edge on energy. It is therefore critical to address the difficulties with planning in Ireland and streamline a planning process that is overburdened with delays and expensive regulation.

  Government must also incentivise farmers and industry to invest in solar and wind power.

4. Impact of 6th package of sanctions against Russia on feed.

- Feed material supply situation

The feed industry has experienced considerable challenges over the past number of months. Following the invasion of Ukraine, a number of feed materials became unavailable as Russia blockaded Ukrainian ports. This created massive problems around the world in terms of feed supplies as there were approximately 24 mmt of feeds still due to be exported from Ukraine over the spring and summer months. The resulting scramble to source supplies has led to the significant price increases.

Irelands main suppliers of corn are Ukraine, Brazil and Canada with supplies dependent on seasonality of production. Brazil supplies July – October. Canada supplies Nov – Dec and April – June as the lakes are closed from December to March. The Black Sea is the main supplier during January to March. Over the past 5 years, 24% of Irelands corn imports have come from Ukraine. Sourcing supplies in Q1 2023 will be difficult as the US will be the main supplier but with limited export capacity. France is already struggling with its own crop due to the impact of heat waves across Europe. IGFA welcomes the work done to help free up the grain stuck in Ukraine since the start of the invasion. The development of Grain Lanes is a positive move in order to reduce delays at borders between the EU and Ukraine.

- 6th package of sanctions against Russia

The major concern for importers over the coming months are the sanctions against Russia. The Irish feed industry is fully supportive of the measures enacted by the Commission against Russia and does not question the need or validity of the measures. However, we note with disappointment the inclusion of beet pulp pellets in the 6th package of sanctions. In 2021 Ireland imported a total of 194 KMT of Sugar beet pulp and 103 KMT were of Russian origin. The EU in total imported 800 KMt and it is uncertain at the moment where alternative supplies can be obtained in time to supply the market in the next few months. While there have been no recent purchases from Russia, contracts are being delivered that were purchased before the start of the conflict. The sudden implementation of sanctions creates disruption to supply and adds unnecessary costs.

Our understanding from the Commission prior to the agreement of this package was that food and feed would not be included and that the package would focus on energy and finance. Sugar beet pulp is a low protein, high energy and high fibre feedstuff. Beet pulp pellets play an important role in ruminant diets and in line with our nitrate reduction strategy. They are a sustainable co-product coming from the food industry and being utilised by the livestock sector.

The EU market place is already experiencing a significant tightening of digestible sources of feed materials and the exclusion of this product will cause extreme difficulty for Irish livestock farmers. Citrus pulp is the closest alternative but is currently unavailable in the market place.

As a consequence, Ireland must find 100KMT of replacement fibre. This will have to come in the form of Soya Hulls. Soy Hull Pellets carry a 1.6% import duty presently. This was implemented by the EU under the GSP (Generalised Scheme of Preferences) EU import preference scheme.

We are therefore requesting that Government

1. Provides clarity on why food/feed materials were included on the sanction list when previous guidance indicated that they would remain untouched.
2. Works to ensure that the tariff on soy hull pellets is dropped.
3. Provides assurances that every effort will be made to ensure that further food/feed materials are not included in the next sanctions package and works to prevent further actions that disrupt trade and increase costs.
4. IGFA also asks that the Department of Enterprise, Trade and Employment continue to engage with us in future in relation to the implications of further sanctions or trade disputes.

In summary, IGFA appreciates the previous work done by Department of Enterprise, Trade and Employment along with the Department of Agriculture in granting derogations for shipments of animal feed on Russian flagged ships to arrive. However, the availability of feedstuffs is in a precarious position and prices have reached levels that are significantly affecting costs of production on farms. Further sanctions will create additional difficulties in sourcing feedstuffs and further increase costs.