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To: McManus, Jim
Subject: Response to consultation

Jim

Attached is a response from Dairy UK (NI) in relation to the consultation on the potential for economic growth and job creation. If you have any queries, please come back to me.

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Draft

Dairy UK (NI) response to Committee for Enterprise, Trade and Investment

Background

Following the announcement by the Secretary of State for Northern Ireland in January 2015 that the Westminster Government will introduce a bill to devolve corporation tax varying powers to Northern Ireland from April 2017, The Committee for Enterprise, Trade & Investment is to conduct an Inquiry to consider the potential for economic growth and job creation following reduction in corporation tax in Northern Ireland. The Inquiry will centre on how this two year period can be used to maximise the potential of Northern Ireland as a region to attract investment, grow the economy and create jobs. The key focus for the Committee will be on the other economic drivers Northern Ireland can influence and must have right in order to maximise its potential.

Response from Dairy UK (NI)

The following comments are offered in relation to the specific questions asked in the Committee's consultation letter:

(i) Energy

Northern Ireland has one of the highest energy costs in western Europe, which places NI companies, especially those in the manufacturing sector, at a competitive disadvantage. A significant energy cost differential exists within both the UK, where costs are lower in GB compared to NI; and within NI, where the absence of natural gas in western counties means companies located there have a significant cost disadvantage. NI needs a better energy/electricity infrastructure that will deliver lower energy costs and remove a competitive disadvantage for NI companies.

The NI dairy sector exports over 80% of its milk production as dairy products, to a range of destinations within and outside the EU, and, therefore, has to compete with global competition for customers and sales. A key element of the decisions by these customers is price, and from a NI perspective having a low cost base is an important area to try to achieve at least competitive parity with dairy companies from other countries. After the cost of raw milk, energy is the next highest cost for NI dairy

companies, and these high costs relative to competitors is a significant disadvantage. Lower energy costs would improve the competitive position of NI dairy companies.

(ii) Planning

The administration of Planning in NI is in a transition phase as it moves to the new Councils. Although this should improve the efficiency of dealing with planning applications the concern is that the transition will not be smooth and seamless, and that delays and problems will arise. The NI Executive should take responsibility for ensuring that service delivery, especially in the area of planning, does not suffer as a consequence of the transition. Appropriate metrics should be established to assess the effectiveness of the transition, especially against time based targets, all of which should be placed in the public domain.

The NI dairy sector is well placed to continue to achieve year-on-year growth for the foreseeable future, and this will bring demand for the development of existing, and possibly new production and processing facilities. In a competitive global environment, the implementation of decisions to invest in new production and processing facilities needs to be quick, given the imperative to start to recoup return on investment. Slowness in planning, therefore, confers a competitive disadvantage compared to companies in GB and other countries, where planning is quicker and more efficient. It is also to be hoped that the move to the new Council structure in NI will remove the differences between Councils in their approach to dealing with planning applications. The provision of a quicker, more efficient planning service is needed from the new Council structures, and an integral and important element of the achievement of future growth within the NI dairy sector.

(iii) Access to markets

The delivery of future growth within the NI dairy sector will depend on increasing sales within the existing customer base, and developing the existing customer base through the identification of new markets and developing relationships with new customers. In achieving its growth potential in these ways, the NI dairy sector would benefit from assistance from the NI Executive. Opportunities for NI Executive assistance include:

- Working with the dairy sector to prioritise markets.

- Planned programmes for Ministerial involvement to help open potential new markets and assist in the development of relationships with potential new customers.
- Competitor dairy companies in other countries benefit from bilateral trade agreements in certain importing countries, such as China, placing NI dairy exporters at a competitive disadvantage. The process of achieving bilateral trade agreements at UK national level is complicated when placed alongside the benefit of having agreements that would benefit NI dairy companies, to the extent that the opportunities for the NI dairy sector to influence UK level bilateral trade agreements have been non-existent. Therefore, just as the NI Executive has achieved the opportunity to set a rate of Corporation Tax for NI, so it should progress the opportunity for NI to establish bilateral trade agreements specific to NI with countries with which there would be trade advantages for the NI agri-food sector generally. In the absence of such flexibility and autonomy, the NI agri-food sector will increasingly be disadvantaged in export markets.

(iv) Food business education and training

In terms of sources of competitive advantage for the NI agri-food sector, options are limited. Although each segment of the sector will have a different range of options, a core and common source of competitive advantage is having the best people who have higher levels of competence compared to competitors. NI should strive to be a world leader in food business education and training, with a reputation for having people of the highest competence levels across the various business disciplines. High levels of business education, generally, exist with NI's two universities, and in CAFRE the agri-food sector has an excellent facility for food technology education and training. The opportunity exists to build on these platforms to develop a food business education excellence in NI that not only provides a flow of well-educated and trained people for the agri-food sector, and who will be a sustainable source of competitive advantage, but also will be recognised as a world leader in this area.

The other main advantage of such an approach is that it would provide the opportunity to engage in leading edge research that would be of direct benefit to the management of companies within the NI agri-food sector.

(v) Rates

Rates, although a necessity, are an ongoing burden on NI dairy companies. The existing cap on business rates must be maintained, to ensure that the balance of burden does not make businesses uncompetitive.

(vi) Business regulation: environment

For NI dairy companies, environmental issues are very important. From a marketing perspective, the positioning of NI as good place to source dairy products because of its “green credentials” is an important source of competitive advantage. And as valued participants in their local communities dairy companies recognise their responsibility to contribute to a clean environment for all the community. However, on the down side there is an unacceptable level of bureaucracy associated with compliance with environmental legislation. Although the NI Environment Agency (NIEA) is attempting to have a more proactive relationship with dairy companies with a view to prevention rather than prosecution, nevertheless the assessment is that Agency staff are more concerned with minimising criticism of their actions rather than working with companies in a risk-based approach. Where it can be demonstrated that risk is minimal, then there should be a “proportionate engagement” by the Agency, which would mean less cost for dairy companies. In addition, there is lack of uniformity in approach across NI and between NI and both GB and RoI, and issue which the NI Executive should address.

(vii) Communications infrastructure

In today’s business environment, communication is the cornerstone of doing business. Ni dairy companies have global customer bases, and having an efficient and effective communications infrastructure is accepted as a pre-requisite to doing business with customers locally, nationally and internationally. In this respect the mobile telephone network in NI is like the curate’s egg, good only in parts. The NI Executive should ensure that an efficient communication infrastructure is available throughout NI.

(viii) Political climate (National)

As with any general election, there is uncertainty around the June 2015 Westminster election. This uncertainty extends beyond the nature of a new Government to the influence of the outcome on the UK’s relationship with the EU. A debate on UK membership of the EU will not be helpful in the efforts of NI dairy companies to secure new customers based on the advantages of doing business with a company based within the EU, and a prolonged debate will

certainly have adverse effects on the willingness of some customers to do business with companies which are entirely UK centric. Such a debate is likely to have an adverse effect on sterling, which will, in turn, have an adverse on export of dairy products from NI, and impact negatively on the revenue entering the NI dairy supply chain. The EU is not without its faults, and there is a case for reform, but the best place for the UK is within the EU, not outside it.