

Agri Vision 2015 Committee



Report of the Agri Vision 2015 Committee



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Foreword

The Agri Vision 2015 Committee was established by the then Minister for Agriculture and Food, Mr Joe Walsh TD, in January 2004 with the following terms of reference:

“Review the strategy and recommendations contained in the Agri Food 2010 Report in the context of developments since the report was completed.

While this review should be broad ranging it should focus in particular on:

- *The implications of the outcome of the Mid-Term Review*
- *Enlargement of the EU*
- *Developments in the WTO*
- *Competitiveness and efficiency of the production base*
- *Income and employment trends in agriculture and rural areas in general.”*

The members of the Committee were Mr Michael Behan, Mr Donal Cashman, Dr Noel Cawley, Mr John Dillon, Mr Michael Duffy, Ms Mary Finan, Mr Ciarán Fitzgerald, Mr Jim Flanagan, Mr Dan Flinter, Ms Ailish Forde (left the committee in June 2004), Mr Thomas Honner, Dr Mary Kelly, Professor Alan Matthews, Ms Lisa McAllister, Mr John Moloney, Mr Pat O'Rourke, Dr Pat Wall. They possess a wide range of skills and experience from farming, the food industry, the service sector, research, academia and the State agencies with a direct interest in the agriculture and food industries.

The recent reform of the European Union's Common Agricultural Policy (CAP) and a probable trade liberalising outcome from the World Trade Organisation's (WTO) Doha Round pose significant competitiveness challenges for the Irish agriculture and food industries. The multifunctional role of agriculture and particularly its role in the provision of public goods associated with agricultural production will become increasingly important as Irish society becomes more aware of the environment.

The Agri Vision 2015 Committee believes that this report, and the actions that will follow the recommendations of the report, will be important in enabling the Irish agri-food sector to maintain and improve its competitiveness over the next 10 years and contribute to the maintenance of a healthy and vibrant rural economy and environment. With proper implementation from the Irish agriculture and food industries, Government and the State agencies, the Committee is confident that the challenges that will be faced by the Irish agri-food industries can be successfully overcome.

The Committee anticipates that the report will provide the impetus for action by all the players in the agri-food sector. The Committee is confident that the agri-food sector has a rewarding future, and that it will remain important to the development of the wider rural and national economies of Ireland.

The Committee has examined the Agri Food 2010 Report in great detail to ascertain the changes that were not foreseen by the 2010 Committee. In the course of its deliberations the Committee examined work by staff from DAF, Teagasc, Bord Bia, Enterprise Ireland, DCRGA, and the Competition Authority. The Committee has also drawn on reports and work from a broad range of groups and individuals. Three of the working papers prepared for the Committee are included in the Appendices of this report.

At an early stage in its deliberations, the Committee invited submissions from organisations and

individuals that have an interest in the future of Ireland's agriculture and food industries. A list of the submissions received is included in the Appendices to this report and their full texts are available on the Committee's website (www.agri-vision2015.ie). These submissions provided the Committee with useful information and commentary on the issues that are faced by the Irish agriculture and food industries, and provided the Committee with some stimulus for debates. The Committee is grateful for the attention and interest of those who contributed to the work of the Committee.

Finally, the Committee wishes to thank its Secretariat in the Economics and Planning Division of DAF and the Rural Economy Research Centre of Teagasc for the work in preparing working papers and drafting the report.

Alan Dukes
Chairman

Vision 2015

Agriculture and food processing in Ireland in 2015.

The business of agriculture is an integral part of the knowledge-based economy.

It produces high-quality, pure, safe and traceable raw materials for a food-processing sector that is competitive on both export and domestic markets.

As a supplier, it is competitive with suppliers of similar products from competitor countries. It has interactive links with the food processing industry that helps both sides not only to respond to market trends and demands, but also to anticipate them and to innovate.

Its processes and practices centre on efficiency, competitiveness and responsiveness to the market; it respects the physical environment, promotes biodiversity and guarantees the maintenance of a healthy and health-giving countryside.

It benefits from a strong publicly-funded research and development strategy with rapid and effective mechanisms to transfer useful research results into farm practice and an educational infrastructure that equips operators to gain maximum benefit from the knowledge-based economy.

It is composed partly of full-time farms, each of which affords the operators and their dependants a satisfactory lifestyle and level of income, and partly of part-time farms, each of which makes a significant contribution to the income and lifestyle of the operators and their dependants.

It is an essential, though not the only large influence on the life and viability of the rural community. It supports other activities and sectors in shaping the rural community and, in its own turn, draws support and sustenance from those other activities and sectors.

The food processing industry is an integral part of the knowledge-based economy.

It produces high-quality, pure, safe and traceable consumer products, ingredients and materials for further processing.

It is a competitive actor in a global market with a small number of Irish controlled firms.

It has the capacity to generate and to attract development capital on a scale sufficient to maintain its competitive capacity in all markets.

It is a diversified sector, operating across the product spectrum from mass markets to niche opportunities.

It focuses on consumer markets and has strong marketing and innovation skills.

It has interactive links with all its suppliers, which help both it, and its suppliers not only to respond to market trends and demands, but also to anticipate them and to innovate.

It benefits from a strong publicly funded research and development capacity with rapid and effective mechanisms to transfer useful research results to the factory floor and an educational infrastructure that equips operators to gain maximum benefit from the knowledge-based economy.

Alan Dukes.
November 2004

Executive Summary

Context

The Agri Vision 2015 Committee was appointed in January 2004 by the then Minister for Agriculture and Food to look at the changes which are likely to take place within the agri-food sector over the coming decade. Specifically, the group was given the task of reviewing the strategy and recommendations contained in the Agri Food 2010 Report in the context of the developments, both external and internal, since that report was completed.

In examining the 2010 report, the Committee was struck by the degree to which the analysis, recommendations and strategy of that group remain valid today and still form the basis of a blue-print or vision for the sector. While acknowledging that certain recommendations of that report are still outstanding, this Committee takes the view that the vision set out in the Agri Food 2010 Report remains valid. The Agri Vision 2015 Committee decided therefore to concentrate the focus of this report on the new challenges being faced as a result of developments since the articulation of that vision and on the direction that the farming and food industries must follow to survive and prosper. Where further work is required in the implementation of the 2010 Report, the Committee has pointed to the direction needed and recommended accordingly.

The public policy environment for agriculture has changed fundamentally since the publication of the Agri Food 2010 report. The Luxembourg Agreement is a dramatic change in European agricultural policy, and will decouple agricultural direct payments from production. The new policy environment will lead to changes in both the volume of output and level of inputs used in Irish agriculture. The Reforms and probable further changes in agricultural policy arising from a future WTO agreement will lead to significant changes in the structure of Irish agriculture. Decoupled payments (such as the new Single Farm Payment) will change the relative returns to farm labour and will radically alter the structure of agricultural production in Ireland.

A full and detailed analysis of the impact of the Luxembourg Agreement on Irish farm numbers is presented in Appendix 4 of the Report. This paper entitled "Projecting Future Farm Numbers" was prepared at the Committee's request by Thia Hennessy of Teagasc's Rural Economy Research Centre. It is reproduced in full so that readers of this report have access to the analysis presented to the Committee, an analysis that the Committee considers to be reliable as to its methodology and persuasive as to its conclusions.

The Committee emphasises that the changes in farm numbers that are forecast in Appendix 4 are based on the expected reactions of many thousands of farm families to the changes they will face in the policy and economic environment, and as such do not, in any sense, constitute a prescription. Taking account of the foreseeable factors influencing the decisions of farm families, the forecast is that, by the year 2015:

- There will be a total of 105,000 farmers in Ireland;
- 45,000 will be non-viable (meaning that family income from the farm is insufficient to cover family labour and return on assets but the farmer and/or the spouse has an off-farm job); and
- 20,000 will be transitional (meaning that family income from the farm is insufficient to cover family labour and return on assets and there is no off-farm employment);
- These numbers will include 12,500 viable dairy farms, 1,500 non-viable part-time dairy farms and 1,500 transitional dairy farms.

Irish Government policy increasingly acknowledges the key role that education, research and

development (R&D), and innovation will play in maintaining Ireland's competitiveness. The agriculture and food industries will remain important to the national economy over the next 10 years and the competitive potential of these industries depends on their ability to develop as knowledge based industries. The 2010 Committee initiated studies on Ireland's agricultural competitiveness and productivity. These reports show that Ireland is in a weak competitive position when full economic costs are considered and that the rate of productivity growth in Irish agriculture is low when compared to other EU countries. On the basis of these and other reports the Agri Vision 2015 Committee strongly emphasises the ongoing need for public support of agricultural education, training and R&D.

For the food industry, markets will continue to be driven by globalisation, developments in consumer tastes, changes in consumption patterns, product innovation and retail concentration. The Irish food industry faces sharp competition on both export and home markets and must therefore keep abreast of or ahead of the industry elsewhere in order to remain competitive. The competitiveness of the Irish food industry, like the competitiveness of other manufacturing industries, is increasingly determined by its ability to develop new and innovative products and production processes. Continued and increased public support of food research and development by Teagasc and the Universities, and support of marketing services to the food industry are crucial if the industry's competitive position is to be maintained or advanced.

Primary agriculture in Ireland produces agricultural commodities, but it also produces public goods such as the rural landscape. The multifunctional role of agriculture as a provider of environmental public goods within what is known as the European Model of Agriculture will provide an increasingly important justification for the public support of agricultural incomes. The Agri Vision 2015 Committee supports the development and support of agriculture's role in this regard. EU Directives relating to the environment will continue to ensure that agricultural production and other economic activities do not overly degrade our environment.

Over the next ten years, agriculture will no longer be the primary driver of rural development in Ireland. In this context, the Committee is strongly of the view that Ireland's rural development policy agenda must be integrated into the wider regional planning and development policy frameworks. Despite the decline in the relative importance of agriculture, when expressed as a share of national income, some 40% of the population currently live in rural areas. Development policies relating to the agricultural and food industries that enhance their competitiveness and wider regional development policies (including but not exclusively rural development policies) that enhance the sustainability of Ireland's rural areas should remain, in the Committee's opinion, part of the core Irish economic development policy.

On the basis of the analysis undertaken by the Agri Vision 2015 Committee, a number of issues were identified as crucial to the Irish agri-food sector (these are presented in detail in Chapter 2). Proceeding from that point, the Committee identified a number of themes for action and associated recommendations. The Committee strongly feels that the implementation of these recommendations will provide a sound basis for the development of the Irish agriculture and food industries.

The broad thrust of the Committee's recommendations is that Government, together with the Irish agriculture and food industries should work:

- To facilitate and encourage market-driven development of the sector.
- To make explicit and to provide adequately for the sector's role in the production of environmental goods.
- To provide an appropriate framework to encourage an approach to rural development which takes account of the economic and social realities of rural Ireland today.
- To continue its role in regulating and controlling food safety, animal welfare and the protection of the environment.

Main Recommendations

The Committee's recommendations have been categorized as those applicable to agriculture and those applicable to the food processing industry. The competitive success of both agriculture and the food industry will continue to be interdependent. These recommendations are then followed by recommendations relating to the role of regulation of the agriculture and food industries, the management of the regulatory environment of agriculture and food, the all-island dimension to agriculture and food, the role of agriculture in the production of public good outputs, the rural development agenda and finally, recommendations concerning the need for an integrated policy response

The following are the main findings and recommendations made in this report.

For the farming and food sectors, the objective of public policy must be to provide for a profitable and sustainable sector. The State's primary role is to be supportive of the sector by continuing to provide income support within the parameters laid down by the EU policy framework, by facilitating business decisions, by sensibly implementing schemes and regulations and by clearing blockages in the functioning of the market.

Recommendation 1

The Committee recommends that the GNI-based Member State contribution key to the overall EU budget be maintained at its current level to ensure that agricultural and rural development policies are adequately funded for all existing and future Member States.

Developing a Competitive Irish Agricultural Industry

Farming should be a good place to work for existing farmers and an attractive occupation for those wishing to enter the industry. For farmers, the new mottos must be "freedom to farm" and "producing for the market". The market can, however, be an unfriendly place. Maintaining profitability requires the ability to respond to developments in the market place. Responding to the likely market and policy environment will, for some farmers, involve expanding the scale of their farm enterprises and for all farmers will necessitate improvements in the efficiency and productivity of their farm businesses.

Recommendation 2

The Committee recommends that Government measures currently in place to encourage the consolidation of farm holdings via long-term leases and the restructuring of milk quota should be maintained and expanded so as to allow farmers to respond to the competitive pressures that they will increasingly face over the next ten years.

Recommendation 3

The Committee recommends that the current quota reallocation process be examined, with a view to ensuring that it is not in conflict with the emergence of a competitive low cost milk production structure.

Recommendation 4

The Committee recommends that the agricultural sector together with the food processing industry investigate ways to connect farm production decisions more closely to market demands by institutionalising rewards for quality production.

Recommendation 5

The Committee recommends that dairy farmers and milk processors together investigate ways in which seasonal milk pricing structures can be modified to encourage a somewhat less seasonal production cycle, where this can generate profitable extra outlet possibilities and a net gain for all involved.

Recommendation 6

The Committee recommends that the live animal exports trade should continue. The difficulties that have arisen from time to time in the provision of the necessary transport capacity challenge those involved in the trade to develop contractual arrangements which take account of its specific characteristics.

Recommendation 7

The Committee recommends that funding through the REPS programme and the organic supplementary measure be continued.

Recommendation 8

In the context of current EU reform proposals for the sugar sector, the Committee recommends that the Minister for Agriculture and Food seek to have the Commission proposals modified to ensure the continuance of an efficient sugar beet and sugar processing industry in Ireland.

Recommendation 9

The Committee supports the planting targets of 20,000 ha per annum as described in the "Review and Appraisal of Ireland's Forestry Development Strategy". The Committee welcomes the option available to farmers who wish to plant forestry to stack entitlements on their land, thus providing farmers with additional income opportunities.

Developing Knowledge Based Irish Agriculture

In agriculture, as in every other industry, the development and application of new ideas will be the key to future competitiveness. Irish government policy in relation to the development of a knowledge based economy, especially through the provision of funding for R&D, must include the agricultural sector.

Recommendation 10

The Committee recommends that funding for agricultural research that provides Irish agriculture with productivity enhancing innovations and that evaluates the applicability of foreign innovations to the Irish agricultural production context should be increased. The Committee also recommends that increased collaboration between research institutes in Ireland (Teagasc and the Universities) should be encouraged.

Recommendation 11

The Committee recommends that the additional funding for agricultural and food research be provided through a competitive process similar to that utilised in the NDP Stimulus Fund.

Improving the technical efficiency and productivity performance of Irish farms will require closer links between the agricultural production research undertaken by Teagasc and the farming sector. The Committee is strongly of the view that Teagasc must keep abreast of production research in competitor countries, with a view both to the development of effective responses in Irish production systems and, where appropriate, the application of new productive technological developments on Irish farms.

Recommendation 12

The Committee recommends that Teagasc, through its agricultural production and advisory structures, develop links with the agricultural industry that will foster earlier and more widespread adoption of the technologies that it develops.

The Committee believes that the changes in the CAP brought about by the Luxembourg Agreement, the changed market environment that will follow from future developments in world trading rules, and the recognition of the importance of education in the achievement of a knowledge based agricultural industry necessitate a re-appraisal of the education and training needs of Irish agriculture.

Recommendation 13

The Committee recommends that educational courses that prepare young people for careers in the agri-food sector, including part-time and full-time farmers be further developed. Where appropriate, such courses should include modules on financial management, environmental perspectives, the importance of R&D and strategic planning. Teagasc should continue to be the primary provider of professional education for those entering farming and be the leading provider of a variety of continuing education courses for those already engaged in farming.

Recommendation 14

The Committee recommends that research be carried out on the socio-economic determinants of the productivity performance of Irish agricultural production so as to inform our understanding of the sector's competitive potential. Such research should be in addition to research on benchmarking the competitive performance of Ireland's key agricultural enterprises against international competitors.

Building a Knowledge Based Irish Food Industry

The Committee believes that, given the role accorded to research and development by Irish Government policy that seeks to develop Ireland as a knowledge based economy, the dependence of Irish food industry competitiveness on basic and applied R&D must be recognised and financially supported in a similar fashion to the support given to other high-tech industries. The maintenance and improvement of the competitiveness of the Irish food industry will demand improvements in the process efficiency of the industry and the development of new and innovative products.

Recommendation 15

The Committee recommends that the Irish food industry together with the Department of Agriculture and Food and the research community (Teagasc and the Universities) should actively seek ways of securing Science Foundation Ireland support for research that is of interest to the food industry.

Recommendation 16

The Committee recommends that structures be developed that will promote increased collaboration between the research institutes (Teagasc and the Universities) and Irish food companies so as to foster market-led R&D.

The Committee recognises the role that Enterprise Ireland plays in forging new relationships with other campuses and businesses involved in biotechnology.

Recommendation 17

The Committee recommends that this work of Enterprise Ireland in support of the development of the Irish food industry be continued and that the Department of Agriculture and Food liaise with Enterprise Ireland, the food industry and the research community to determine how best to ensure that biotechnological and other research is exploited and that funding is maximised.

Recommendation 18

The Committee recommends that next National Development Plan (NDP) funding give priority to food research and development.

Recommendation 19

The Committee recommends that, in the context of reduced public support for fixed asset investment in the food industry, continued and enhanced funding for R&D and marketing activity be made available to the industry.

Recommendation 20

The Committee recommends that the education system develop courses that prepare young people for careers in the Irish food industry, whether as entrepreneurs, managers or workers. Where appropriate, such courses should include modules on financial management, environmental perspectives, the importance of R&D, product development and strategic planning.

Developing a Competitive Irish Food Industry

The Committee emphasizes that, under the new CAP and with the probable further liberalisation of agricultural trade, increased reliance on returns from the market will be the key feature of Irish agriculture and food industries over the next ten years. The Irish agri-food sector must therefore align its production patterns and processes as closely as possible on consumer tastes and demand in all of its markets. The challenge for the food industry is, therefore, to get “ahead of the curve” in this regard.

Recommendation 21

The Committee recommends that the food processing industry, together with the agricultural sector, investigate ways to connect farm production decisions more closely to market demands.

[See Recommendation 4.]

Since CAP reform will almost certainly lead to reduced prices in dairying, there will be a need for considerable increases in milk output per farm in order to meet the competitive pressures arising from reduced EU support, international competition and higher production costs. The reallocation of quota from those leaving the sector to those wishing to expand, whether through a restructuring scheme or by an alternative means, needs to be made more flexible and more responsive to the needs of farmers in the post Doha Round context. The development of competitive milk production at the farm level is a key component of the competitiveness of Irish milk processors, who constitute one of the most important parts of the Irish food industry.

Recommendation 22

The Committee recommends that the current quota reallocation process be examined, with a view to ensuring that it is not in conflict with the emergence of a competitive low cost milk production structure.

[See Recommendation 3.]

Recommendation 23

The Committee recommends that dairy farmers and milk processors together investigate ways in which seasonal milk pricing structures can be modified to encourage a somewhat less seasonal production cycle, where this can generate profitable extra outlet possibilities and a net gain for all involved.

[See Recommendation 5.]

The reforms of the CAP under the Luxembourg Agreement and future liberalisation of agricultural trade present substantial competitiveness challenges to the Irish meat processing industry. The development of profitable cattle farming in Ireland and the future of beef processing will depend on the production of high quality cattle and beef products that consumers demand at competitive prices.

Recommendation 24

The Committee recommends that the Irish meat processing industry, together with the agricultural sector, investigate ways to connect farm production decisions more closely to market demands by institutionalising rewards for quality livestock production.

[See Recommendation 4.]

The Committee considers that the competitiveness implications of country of origin food labelling are of central importance to an industry that is overwhelmingly dependent on exports. Growth in consumer demand for source of origin food labelling is an inevitable market development to which the Irish agri-food sector should respond in a positive and aggressive manner.

Recommendation 25

The Committee recommends that, in order to meet the increasing consumer demands for food safety and traceability, the labelling of food products by Country of Origin Labelling should become the norm and that this be pursued by the Irish Government at EU level.

Recommendation 26

The Committee recommends that the development of food labelling regulations should be pursued so as to encourage and support the development of functional foods while at the same time protecting consumer interests.

The Committee recognises that the huge investment of resources required to launch a new global brand successfully makes such a development unlikely. However, for some companies with the capacity to develop new products, branding on regional or home markets may prove profitable and should be supported.

Recommendation 27

The Committee recommends that mechanisms be put in place to encourage local and regional branding opportunities.

The growth in the importance of the food ingredients market to the Irish food industry is recognised by the Committee. Future growth of this important sector will be contingent on the recognition by the Irish food industry of the importance of knowing the customer's customer, i.e. the final consumer.

Recommendation 28

The Committee recommends that the relevant state agencies and the food industry develop and maintain the capacity for innovation and the production capacity necessary to enable the Irish food industry to develop food ingredient products that their food processor customers demand.

Recommendation 29

The Committee recommends that consideration be given by the Irish food and biopharmacy industries to the development of strategic alliances that could harness potential synergies between the food industry and pharmaceutical companies in the productions of functional foods.

The production of artisan foods will, for a limited number of Irish food businesses, present profitable opportunities to move up the value chain. The Committee recognises that the importance of the artisan foods sector includes that industry's role in promoting Ireland and specifically rural Ireland, as a high-value tourism destination.

Recommendation 30

The Committee believes that the encouragement of the artisan food sector and speciality local producers will support the agricultural sector from which it sources its most important raw materials, will add value to the Irish hospitality and tourist industries by helping to differentiate the Irish tourism sector's product offering and will also support the rural development agenda.

The speciality food market is expected to grow over the next 10 years and niche branding will continue to be important. The general growth in local "farmers" markets will help this sector. There are also opportunities for marketing speciality Irish foods with the aid of EU designations as either PDO (Protected Designation of Origin) or PGI (Protected Geographical Indication).

Recommendation 31

The Committee recommends that the achievement of EU Protected Designation of Origin or Protected Geographical Indication status for local foods in Ireland be aided and encouraged.

Managing the Regulatory Environment of Agriculture and Food

In response to legislation and agreements at both world and EU level, the regulatory environment within which the Irish agri-food sector will operate for the foreseeable future will seek to ensure food safety and consumer confidence in food products.

Recommendation 32

The Committee recommends that the regulatory environment in Ireland must be such that it provides the necessary safeguards and transparency, while avoiding unnecessary costs and excessive bureaucracy.

The Committee noted the very wide range of regulatory requirements applying to agriculture and to the food processing industry. It recognises and accepts the concerns with safety, health, environmental protection and quality which underlie the regulatory regime. Given the comprehensive and complex nature of the regime, the Committee believes that it is necessary from time to time to examine the interplay of its various elements to ensure that the fundamental objectives are met in the most efficient way.

Recommendation 33

The Committee recommends that a systematic Regulation Audit be carried out into the provisions affecting agriculture and the food processing industry, with a view to ensuring that the fundamental objectives are met in the most coherent and effective way and, at the same time, in the way that is least onerous on primary producers and processors.

Legislation to replace the current Animal Remedies Regulations (1996) must be based on sensible, practical measures that will improve animal health while reducing the cost and bureaucratic burden on the farming and food processing sectors.

Recommendation 34

It is in the Committee's view, essential that the rules relating to animal remedies applied in Ireland, while making all necessary provision for human and animal health and safety, be no more onerous than those applied in other EU Member States.

Given that the continued good health and welfare status of Irish agriculture will be central to the competitiveness of Irish agriculture and food, the Committee believes the continued development of comprehensive surveillance strategies for the pathogens and contaminants of public health and animal health significance is of great importance.

Recommendation 35

The Committee recommends that the monitoring and control of animal diseases continue to be accorded the highest priority, with a view to their elimination and eradication.

The Committee accepts that the essential function of competition law is to ensure the maximum levels of competition in the economy, so as to protect the interests of Irish consumers and as a means of promoting the development of a cost competitive and efficient economy. At the same time, the Committee believes that there is a very pressing need for Irish food processing firms to achieve increased scale so as to operate efficiently. The means to facilitate the necessary consolidation, while respecting Irish and EU competition law, must be actively sought.

Recommendation 36

The Committee recommends that in examining plans for the rationalisation of Irish food industries, the Competition Authority take full account of the overwhelming export orientation of the Irish food industry and of the fact that the Irish market, which is fully open to external competition, constitutes only a fraction of the effective market for these industries.

The All-Island Dimension

The competitive challenges to the food sector north and south of the border are the same. The Committee believes that there would be substantial and productive synergies in pooling resources, sharing research and engaging in business collaboration on an all-island basis.

Recommendation 37

The Committee recommends the adoption of an all-island approach to the enhancement of competitive potential in the agri-food sector.

Recommendation 38

The Committee recommends that links with Northern Ireland, especially in the area of improved animal health standards, should be maintained and strengthened.

Supporting the Public Goods Output of Agriculture

Irish agriculture operates within what has come to be known as the European Model of Agriculture, which recognises the important multifunctional role of agriculture, as both a producer of food, and as a producer of public goods associated with the rural landscape, environment and culture. The Committee fully endorses this conceptualisation of the wider role of Irish agriculture in society.

Recommendation 39

The Committee recommends that greater official acknowledgement be given at both national and EU level to the role that direct income payments will play in encouraging the provision of public goods, in addition to their income support function.

Recommendation 40

The Committee recommends that in so far as is possible the recommendations of a report prepared by Mr Brosnan be reflected in the final implementation of the Nitrate Directive in Ireland.

Recommendation 41

The Committee recommends that the Rural Environment Protection Scheme (REPS), which has been the primary vehicle for the promotion of good environmental practice on Irish farms, should continue to be funded so as to encourage the maximum farmer participation, allow the participation of more intensive farmers and to secure greater provision of public good outputs from agriculture.

Recommendation 42

The Committee recommends that research that examines the issues surrounding the provision of public goods by agriculture and the demand for such goods by wider society should be encouraged.

Strengthening Rural Development

The objective of rural development policy is to provide the conditions for a fulfilling life for all those living in rural areas so that they can enjoy a standard of living and quality of life that make these communities attractive places in which to work and live. Today's concept of rural development must take account of the fact that, while farming and agri-food employment continue to be essential parts of the socio-economic structure, many rural dwellers are not linked to agriculture and their income and employment opportunities derive from the wider

economy rather than from agriculture or from the agri-food sector. To maintain an efficient and diverse rural economy, and to safeguard its social infrastructure, non-agricultural employment and adequately funded physical infrastructure are in the Committee's opinion essential.

Recommendation 43

The Committee recommends that the role of rural development policy as a key instrument, together with broader regional development and planning policies, in encouraging the development of economically vibrant rural areas be recognised and that funds to support the rural development agenda be provided.

Recommendation 44

The Committee recommends that negotiations on EU rural development funds for the period 2007 to 2013 focus on the need to obtain the highest level of funding attainable for Ireland in view of the importance of such funds for our least developed areas, especially those currently classified as having Objective One status.

Recommendation 45

The Committee recommends that the logic of the National Spatial Strategy be carried through so as to achieve the inherent development sequence and hierarchy in a way that has not so far been evidenced, for example, in the Government's decentralisation plans.

Recommendation 46

The Committee recommends that Community Employment Schemes, County Enterprise Boards, LEADER Groups, Area Partnerships and community groups work closely together to play their role in developing local resources through a bottom-up approach, and that they be provided with the necessary long-term financial resources.

Recommendation 47

The Committee recommends that the Farm Assist Scheme administered by DSFA continue to support low-income households and that vigorous measures be taken to improve on its current low take-up rate.

Recommendation 48

The Committee recommends that the uses of modulated funds arising from the Luxembourg Agreement of the CAP that are destined for rural development be tailored to deliver and support the achievement of the wide set of objectives of rural development policy.

Recommendation 49

The Committee recommends that within the context of the next National Development Plan, the Early Retirement Scheme (ERS), which supports the incomes of retiring farmers while simultaneously facilitating the restructuring of Irish agricultural production, be continued.

The Committee urges all parties to engage with Comhairle na Tuaithe in a positive manner to ensure that the countryside is open to access and enjoyment while addressing farmers' need to protect their property. The resolution of these issues will be central to the ability of wider society to enjoy and to benefit from the public goods produced by agriculture.

Recommendation 50

The Committee recommends that the membership of Comhairle na Tuaithe develop and agree a countryside code and a National Countryside Recreation Strategy and develop procedures to resolve any future difficulties in relation to access to the countryside.

Improving Integrated Policy Response

The Committee recognises the important role that the support provided to the Irish agriculture and food industries by various state agencies (Teagasc, Bord Bia, Bord Iascaigh Mhara, Enterprise Ireland among others) plays in the maintenance of a competitive knowledge based Irish agri-food sector. There are significant overlaps between the responsibilities and fields of operation of the different state agencies that actively support the development of these industries.

Recommendation 51

The Committee recommends that the state agencies involved in supporting the development of the Irish agriculture and food industries should co-operate more closely so as to co-ordinate more effectively the support provided to the development of Irish farming and food businesses.

Recommendation 52

The Committee recommends that the possibilities offered by information and communication technology be exploited to ensure the most efficient implementation of policy.

Increasingly, both rural development and wider development programmes will be funded from the National Exchequer. The Committee feels that it is essential that any national programme for rural development that arises from the ongoing discussions of the proposed EU Rural Development Regulation be capable of integration with Ireland's wider National Development Plan.

Recommendation 53

The Committee recommends that Government develop a CAP Rural Development Plan for the whole country that is capable of being integrated into the wider NDP and the National Spatial Strategy.

1 THE CHANGING WORLD

1.1 Introduction

Agriculture continues to play a very important role in our economy. The agri-food sector creates around 8.8% of GDP, employs approximately 9% of workers and annually generates €7 billion in exports.¹ By comparison with other sectors agri-food remains a major source of net foreign export earnings due to its relatively low use of imported inputs and the fact that most firms are primarily Irish owned.

While other sectors of the economy have been growing strongly over the last decade, primary agricultural output has remained fairly static. As a result, the relative share of GDP accounted for by agriculture has declined. Nevertheless agriculture is still a much more significant sector within our economy than in many other EU Member States. Direct payments to farmers have continued to increase since the MacSharry reforms in 1992 and now account for €1.6bn or 75% of aggregate farm sector income. Many Irish farms balance market losses against the “cheque in the post”. The link between production and support is now set to be broken following the Luxembourg Agreement, which resulted from the Mid-Term Review (MTR) of the Common Agricultural Policy (CAP). In Ireland, farmers will receive their Single Farm Payment (SFP) whether or not they produce agricultural output, so long as cross compliance criteria are satisfied.

The projected decline in full-time farming outlined in the Agri Food 2010 Report continues, as does the rise in part-time farming. Of the current total of 136,000 Irish farmers, 42% are estimated to be part-time. Nevertheless, Irish agriculture shows a positive age profile with 13% of Irish farmers aged under 35, well above the EU average of 8%.

A wide range of factors will affect the future development of the agri-food industry. The following are among the most important.

- Globally, population growth is increasing. World food demand will grow in line with population and be reinforced by growth in incomes worldwide.
- While consumers are demanding more choice and higher quality, price is still the main factor in the majority of purchasing decisions.
- More food is being eaten outside the home and is being purchased in an increasingly wide variety of outlets, ranging from take-away outlets to garage forecourts, to award winning restaurants. Growth in the food service market will continue to occur.
- At the same time, consumers increasingly shop in supermarkets, leading to greater retail concentration.
- Multiples use their market power to require higher standards from producers at lower prices.
- Food technology continues to develop, leading to new uses, new applications, new niche markets and, occasionally, new methods of processing or presenting traditional mass-market food products.

¹ DAF, Fact Sheet on Irish Agriculture, September 2004.

The 2004 enlargement of the European Union and increasing levels of trade liberalisation are also changes that have been well signalled. They hold out opportunities for market growth and expansion but may also put pressure on farmers' margins and threaten market share at home and abroad.

All of the above are well-established and powerful trends that will increase in intensity over time. For this reason, the Committee has considered it essential to focus on the ability of the Irish agri-food sector to compete and to confront the changes that are happening in consumer markets and in the external trading environment.

Many of the important factors outlined in the 2010 Committee's Report, such as EU enlargement or changing World Trade Organisation (WTO) rules, remain crucial. We are now in a better position to gauge the true extent of some of the changes predicted by the 2010 Committee. Since the 2010 Committee Report, public concern with the quality and the protection of the environment has become an increasingly important influence on public policy across the whole range of economic activity. This factor is a growing influence in the regulatory climate for the whole agri-food sector.

Concerns with health have come to impinge more and more on the agri-food sector. Some such concerns, such as those relating to obesity, are primarily rooted in consumer behaviour rather than in any intrinsic characteristics of a given class of food products.

In some areas, such as farm income support policy, changes have been more fundamental than could have been envisaged when the 2010 report was being compiled in 1999. The following sections outline the major changes.

1.2 Luxembourg Agreement

The MacSharry reforms agreed in 1992 involved the reduction of support prices and provided compensation for farmers by means of direct aids. Several rural development measures were introduced, notably to encourage more environmentally friendly and less intensive patterns of farming. This shift in emphasis in the CAP entered a new phase in 1999 with the "Agenda 2000" reforms. These reforms reinforced the move to make farmers more explicitly reliant on the market and improved incentives to farm in an environmentally sensitive way. A comprehensive rural development system, known as the "second pillar" of the CAP, was put in place and the budget available to the CAP was set out and capped for the period 2000 to 2006.

In June 2003, a further fundamental reform was agreed following an undertaking to carry out a Mid-Term Review of Agenda 2000. This reform, known as the Luxembourg Agreement, constitutes a fundamental change in the way the EU supports its farm sector. The aim of the Luxembourg Agreement is to take the concerns of consumers and taxpayers into account while giving EU farmers the freedom to produce what the market wants. In future, the greater part of farm support will be paid independently of the volume of production. Under the new system, direct income payments (in the form of a single farm payment (SFP) scheme based on specified reference years) will be linked to the respect of certain standards (see Cross compliance Section 1.4). Severing the link between subsidies and production (decoupling) is intended to make EU farmers more competitive and market-orientated while still providing a level of income stability.

The Luxembourg Agreement substantially breaks the link between the income support objectives of the CAP and agricultural production. Over the next ten years, however, EU agricultural policy will retain a reducing market management role via the provision of export refunds and continuing provisions for intervention purchases of agricultural and food commodities. It is probable that future trade agreements will further reduce the market management role of government. It appears unlikely that future changes in EU agricultural policy will reverse the trend towards decreased government involvement in

the market. It is to be expected, therefore, that market realities will increasingly drive the production decisions of farmers and the food industry.

Another consequence of the ongoing reform of the CAP is that the income support role of agricultural policy has shifted from market interventions that aimed to support agricultural prices (and indirectly incomes) to one where agricultural incomes are supported more directly. This in turn means that the financial resources for market management will be reduced, thereby limiting agricultural policy's ability to affect the price of agricultural output significantly.

The 2003 reforms include a major strengthening of rural development policy. Additional funding for rural development will be made available through direct budget allocation as well as by reducing direct payments to larger farms and transferring the funds into rural development measures (modulation). From 2007, direct payments, to any one farm, exceeding €5,000 will be reduced on an increasing scale starting at 3% and going up to 5%.

Spending on the CAP will be strictly controlled and a new financial discipline measure is in place to ensure that expenditure ceilings are not exceeded. The current envelope of CAP expenditure is intended to stay in place until 2013 in its current form. This is considered to be adequate to cover the financial needs of the enlarged EU of 25 Member States as well as the additional expenditure that could arise with the addition of two further Members (Bulgaria and Romania). This issue will have to be revisited politically if the agreed Financial Perspective is insufficient to fund agriculture and rural development expenditures.

1.3 Single Farm Payment (SFP)

Farmers in Ireland will now receive a SFP based on the levels of direct payments they received in a reference period. Under the new system, and from 2005, direct income payments will be linked to compliance with certain standards and to the maintenance of the farm in good agricultural and environmental condition (cross compliance). In this new situation, the motivation to produce will depend on market returns. In some cases, those not currently making positive market returns may reduce or cease production, while others may react by seeking to improve the cost competitiveness of their enterprise.

1.4 Cross Compliance

Cross compliance is the linkage of direct support to the maintenance of environmental, animal welfare and other conditions. Cross compliance means that those in receipt of a SFP must comply with eighteen European Community legislative provisions, including Directives or Regulations on the environment, the identification and registration of animals, animal welfare and public, animal and plant health.² The timing of the need for compliance with these laws will be staggered from the start of 2005 to the start of 2007. There will be a level of annual inspection and non-compliance can result in financial penalties reducing the level of the SFP.

1.5 Overall Economic Changes

Ireland's rate of economic growth continues to exceed the EU average and further growth is forecast over the foreseeable future.³ The labour force has increased substantially in

² For further details on the implementation of the cross compliance measures see the Department of Agriculture and Food's Consultation Paper on Cross Compliance, October 2004.

³ Department of Finance, 'Budgetary and Economic Statistics' March 2004 and CSO.

recent years, partly as a result of the inflow of returning emigrants and immigration by nationals of other countries. Unemployment remains low and below the EU average. The increased availability of off-farm employment opportunities has enabled many farmers and farm spouses to supplement their farm household's income by obtaining a part-time job off the farm while continuing to farm on a full-time basis. Other farmers and farmer spouses are choosing to work full-time off the farm and farm on a part-time basis.

In the thirteen-year period from 1991 to 2003, nominal aggregate farm income as measured by the CSO increased by 20%. Analysis of farm incomes using other indicators shows more substantial increases in income, reflecting the rationalisation of farm labour, greater productivity and a gradual consolidation in farm size.

According to the 2001 Living in Ireland Survey, farm households had the lowest incidence of consistent poverty, while urban households made the most significant improvement in the period from 1994 to 2001. Research by Keeney (2002)⁴ indicates that 3.1% of farm households were at risk of consistent poverty (60% line),⁵ compared to 6.5% of non-farm rural households and 4.2% of urban households.

On the export front, the strength of the Euro against other currencies has been a problem for those sectors of the Irish economy that trade or compete outside the Euro-zone. The exchange rate situation is important to Ireland as an exporting country. It is of particular importance to the agri-food sector, as much of its output is exported to non-Euro-zone members. The UK still accounts for a large proportion of external Irish trade, with approximately 48% of agri-food exports in 2003 going to the UK.⁶ The maintenance of a macroeconomic environment characterised by low price inflation and low interest rates will continue to be important to Ireland's competitiveness and to the competitiveness of the Irish agriculture and food industries in general.

Irish Government policy views the support of the "knowledge based" dimension of the Irish economy as the key to maintaining Ireland's competitiveness right across the economy, including the agriculture and food industries. Increasingly, Government support will focus on the provision of support to education, training and research and development (R&D) as the means of buttressing Ireland's comparative advantage in the global economy. As two of Ireland's most important industries, the Irish agriculture and food industries will survive and thrive with the active support of Government, by deepening their knowledge based comparative advantage. Government's role in supporting R&D and education and training for the Irish agriculture and food industries will become crucial, as public support for fixed asset investments in the Irish agriculture and food industries declines.

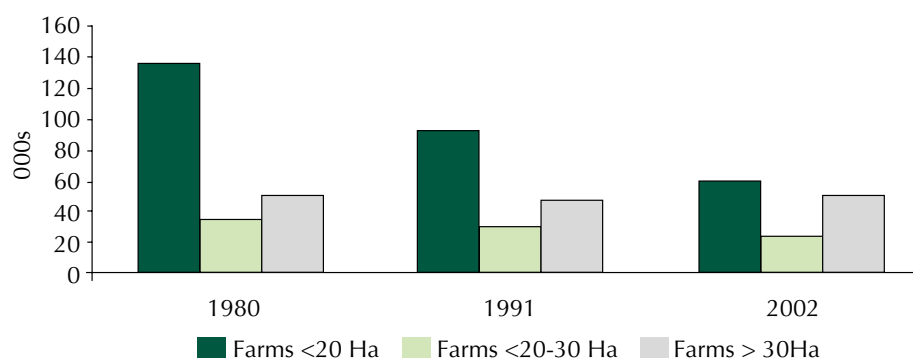
1.6 The Sociological Profile of Agricultural Production

The sociological profile of Irish agriculture has changed substantially over the last two decades. The changes, which are the consequences of decisions made by farm families responding to the market and policy environment, illustrate the constantly evolving nature of agriculture in Ireland. Historical data on farm numbers show a clear pattern reflecting the ongoing consolidation of farm structures. The total number of farms declined by over 23% between 1980 and 1991: between 1991 and 2002 this number fell by a further 20%. If we were to look even further back a similar pattern would be observed.

⁴ Keeney, M. (2002) Information Note on the Living in Ireland Survey, prepared for the Department of Agriculture and Food.

⁵ The 60% line refers to income levels that are below 60% of the average equivalised household income.

⁶ CSO Trade Statistics.

Figure 1.1 Number of Farms 1980-2002 in 000's

Source: CSO

The greater part of the decline in farm numbers has been in the number of smaller farms. The number of farms of less than 30 hectares has declined by over 30% over the twelve-year period 1991-2002, whereas the number of farms of more than 30 hectares actually increased by 10% over the same period.

These trends can be expected to continue. Work by Hennessy (see Appendix 4 of this Report) suggests that the decline in the number of farms observed over the last 20 years will continue. Within the remaining population of farms, farming activity will increasingly be undertaken as a part-time activity. This development reflects both changes in the wider economy (i.e. better off-farm employment prospects) and changes in agriculture and trade policy that can be expected to result in a lowering of the returns to agricultural activity.

1.7 Part-Time Farming⁷

There has been a clear tendency for increasing numbers of farm families to choose to combine running a farming enterprise with other occupations. This has probably been driven by two main factors:

- The difficulty in expanding farm businesses (in the context of quota regimes and the shortage of land coming on to the market), and
- The increased availability of off-farm employment as a result of the improved economic environment.

National Farm Survey data since 1993 show a steady increase in the proportion of farmers and their spouses having an off-farm employment. The reduction in the number of dairy farmers and the increase in the proportion of producers involved in beef production coincide with increases in the number of farmers with an off-farm occupation. In 2002, 58% of farmers (78,800) indicated that farming was their sole occupation compared with 74% in 1991. Off-farm employment is common throughout Europe with 30% of farm holders in the EU-15 in 2000 having another gainful activity.

The increased prevalence of part-time farming is supported by farm systems data from the NFS which show that since 1991 there has been a reduction in the proportion of farms classified as specialist dairy while the percentage of specialist beef farms has increased. There has also been a significant increase (30%) in the area of farmland

⁷ Hennessy, Thia, Projecting Future Farm Numbers, Agri Vision 2015 Committee, 2004, Appendix 4.

devoted to specialist beef production, which could well reflect a switch toward extensive beef production. National Farm Survey data also show that cattle and sheep farmers are more likely to have off-farm jobs than their dairy counterparts. The most recent data for 2003 show 12% of speciality dairy farmers having an off-farm job compared to 51% of cattle rearing farmers.

An analysis undertaken by Frawley and Phelan of 1998 NFS participants revealed that farmers with off-farm jobs were often engaged in the agriculture sector e.g. contracting, relief services, etc. (28%), with the construction industry accounting for approximately the same proportion of off-farm employment activity (28%). The remainder of farmer off-farm employment was distributed across a wide range of occupations including professional, transport/communications and services. In contrast, farmers' spouses were predominantly employed in professional occupations (38%) or in clerical positions (26%).⁸

1.8 The Role of Agriculture in Rural Development

Rural development needs to be placed at the centre of the broad economic development policy agenda as envisaged in the White Paper on Rural Development⁹ and the more recent National Spatial Strategy.¹⁰ It must also be an important factor in the rollout of the National Spatial Strategy. Agriculture will continue to play a significant role, but not the predominant role, in advancing the rural development agenda in Ireland. While agricultural policy based funding will remain the primary source of rural development funding, the development of rural areas is not solely contingent on public funds. Increasing numbers of rural households are not engaged in farming activity but commute to their places of work, while the increased degree to which farming activity in Ireland occurs on a part-time basis is contingent upon the availability of off-farm employment opportunities. The availability of employment opportunities and provision of goods and services (including infrastructure) in rural areas will be the key determinant of their economic development.

Following recent policy reforms, and with further agricultural trade liberalisation, the social role of agricultural policy has diminished. The level of agricultural production in Ireland will increasingly be determined by market realities. Because of this, public agricultural policy will no longer be the primary vehicle through which the State pursues its continuing rural development agenda. The further pursuit of rural development policy will primarily be advanced through policy instruments outside of agriculture and through the encouragement of a stable macroeconomic environment.

1.9 Future CAP and Rural Development Funding

Since 1988, the agricultural budget of the EU has been subject to a series of medium-term financial frameworks (known as Financial Perspectives), these lay down multi-annual expenditure limits.¹¹ In 2002, the European Council in Brussels set out a budgetary position that provided for the same financial arrangements up to 2006 as set out under Agenda 2000, with the cost of enlargement for the 10 new Member States

⁸ Frawley, J. and G. Phelan (2002) "Changing Agriculture: Impact on Rural Development." Paper in Signposts to Rural Change, proceedings of the 2002 Teagasc Rural Development Conference.

⁹ Ensuring the Future - A Strategy for Rural Development in Ireland: A White Paper on Rural Development. Department of Agriculture, Food and Rural Development, Dublin, 1999.

¹⁰ National Spatial Strategy for Ireland 2002-2020: People, Place and Potential. The Stationery Office, Dublin, November 2002.

¹¹ This is usually referred to as FEOGA or EAGGF (European Agriculture Guidance and Guarantee Fund)

being provided separately in the period to 2006. For the period beyond 2006, expenditure would increase by 1% per annum, providing annual funding of €48.6 billion for the EU 25 by 2013. Funding for Rural Development, including agri-environmental programmes, forestry and early retirement was not fixed for the period after 2006 and is to be decided separately.

In February 2004, the European Commission set out its proposals for the future policy direction of the EU and the financial resources required for its achievement i.e. the Financial Perspective. From 2007, a new EU budget would be established to include agriculture, rural development, fisheries and the environment. The ceiling for CAP market support and direct payment expenditure is to be based on the 2002 Brussels Agreement plus an additional amount to cover the cost of the accession of Bulgaria and Romania. The ceiling for Rural Development spending would increase from €10.5 billion in 2006 to €13.2 billion in 2013; this would not include the amounts transferred to rural development under modulation (€1.2 billion).

On rural development itself, the Commission has published proposals for support in the period 2007 to 2013. The main features include:

- The continuation of existing measures, but with some alterations e.g. possibly more restrictive classification of disadvantaged areas and limitations on forestry payments;
- Measures are to be grouped under priority thematic axes with a minimum share of funding; agri-competitiveness (15%), land management (25%), rural diversification (15%) and 7% for LEADER;
- Total funding of €96 billion is proposed over this period, of which €31.3 billion is proposed to be reserved for convergence regions.

1.10 World Trade Organisation

Background

There have been several WTO (previously GATT) multilateral agreements or "Rounds". The Uruguay Round Agreement, 1995-2000, introduced for the first time a comprehensive set of rules governing trade in agriculture and food products. The Agreement on Agriculture in the Uruguay Round, which remains in force until a successor agreement is negotiated, required commitments on WTO member countries to bind and reduce:

- Domestic support by 20%;
- Import tariffs by an average of 36% (a minimum of 15% per tariff line);
- Expenditure on export subsidies by 36% with a 21% reduction in volume.

Less onerous commitments (longer implementation period and lower reduction commitments) were demanded of Developing Countries (DC).

Domestic support was categorised into a system of three "Boxes"- Amber, Blue and Green. The Amber Box comprises of trade-distorting market support provided by government (that is measured as the difference between domestic prices and reference world price), and is subject to the full 20% reduction. The EU system of direct payments is categorised as Blue Box, i.e. production limiting and with minimal trade-distorting effect, and is exempt from reduction commitments. Green Box supports are non trade-distorting payments and are also exempt from reduction. The EU has honoured its commitments under the Uruguay Round in full.

Negotiation of New Round

Following the breakdown of the negotiations on the WTO round in Cancun in September 2003, the negotiations resumed in Geneva and agreement was reached in August 2004 on a framework for the Doha Round. The framework covers the general rules or structure of the new agreement. The specific reductions in the levels of protection and support, which will apply under the new round, were not discussed and will be the subject of further negotiations. The main elements of the framework agreement insofar as agriculture is concerned are as follows:

Domestic Support

- Substantial reduction in the overall levels of trade-distorting support; higher levels of support will be subject to higher cuts and there will be a “down payment” of 20% of the reduction in year 1 of the implementation period;
- Amber Box supports will be reduced substantially; product specific ceilings will be introduced;
- Blue Box payments will be capped (5% of value of production);
- Green Box eligibility criteria will be reviewed and clarified.

Market Access

- Substantial improvements in market access for all products through tariff reductions by the application of a tiered formula; the higher the tariff, the higher the cut;
- Member countries may designate a number, to be negotiated, of sensitive products for lower tariff reductions; the principle of substantial improvements in market access will still apply, with this to be achieved through a combination of tariff rate quota (TRQ) commitments and tariff reductions.

Export Subsidies

- Parallel elimination of all forms of export subsidies as well as disciplines on all measures with equivalent effect “by a credible end date”;
- Reductions will be implemented in annual instalments;
- Trade distorting practices with respect to the operations of State Trading Enterprises (STE) to be eliminated and disciplines to be imposed to prevent food aid being abused for surplus disposal.

All developing countries will benefit from special and differential treatment.

The EU decoupled direct payments will qualify for Green Box status and will, therefore, be exempt from reduction in the future.¹² The selection and treatment of sensitive products will be an internal matter for the EU, and Ireland will be seeking the most favourable treatment for what it views as nationally sensitive products, especially beef and dairy products. The parallel treatment for all forms of trade distorting export practices ensures that the new agreement will result in a level playing pitch for export competition – a long-standing issue of contention for the European Union.

¹² The ongoing WTO dispute between Brazil and the USA surrounding the allegedly trade-distorting nature of direct payments paid to US Cotton producers could call in to question the future Green Box status of the decoupled payments introduced in the most recent reform of the CAP. See the report of the WTO Dispute Panel WT/DS267/R, available at www.wto.org

The negotiations will continue on the actual reduction commitments that will apply under the new round. While agreement on the details is unlikely for some time, perhaps even for some years, it can be expected that trade liberalisation will continue apace and that this will have consequences for Ireland, particularly in the areas of market access and export subsidies. It is important to note that, if the changes in market access arrangements apply uniformly to all the developed countries (which is the intention), then exporters from the EU (including Irish exporters) will gain new market access opportunities even while their home markets are further opened to competition. In this context, the maintenance and development of competitiveness will be a crucial factor in the future prosperity of Ireland's agriculture and food industries.

1.11 Enlargement of the EU-15

On May 1st 2004 the EU expanded from 15 Member States to include 10 new Member States (NMS) from central Europe and the Mediterranean. The NMS are diverse in terms of size and economic activity. Many of the NMS are more reliant on the agricultural sector than Ireland or the EU-15. The NMS, apart from Latvia and Hungary, are not self sufficient in food. In the case of Member States that had previously been part of the Soviet system, radical market reforms led to a collapse in agricultural production in the early 1990s, from which they did not begin to recover for some years, while agricultural production in other NMS has increased.

In some States, there are many very small and very inefficient farms. In time, rationalisation leading to increased scale and efficiency will improve the competitiveness of NMS food industries. The flow of capital from EU-15 will influence the rate at which such modernisation occurs. Many processing plants are not up to EU hygiene standards and are not permitted to export their products to EU-15 markets. There is a relatively small adjustment period in which they may still serve their domestic markets.

There are market opportunities in the NMS. Despite easier access to these NMS from countries such as the Netherlands or Germany, these markets are in no way impregnable to Irish food exporters.

The Luxembourg Agreement on Agriculture sets out the total level of expenditure for the CAP through to 2013. The main issue still undecided concerns the proportion of EU rural development funds that will go to the NMS. There is a clear risk of a reduction in Ireland's share in rural development funds in the future. The accession of the 10 NMS and Ireland's recent strong record of economic growth mean that Ireland will lose Objective 1 status for the Border Midland and Western (BMW) and as it has already done for the more developed Southern and Eastern (S&E) Region. This will have implications for the proportion of EU funding for rural development expenditure in the less developed parts of Ireland.

1.12 Consumer and Retail Trends

The trends identified in the Agri Food 2010 Report are transforming the retail sector and will almost certainly continue to 2015. These main trends are:

- Changing and evolving consumer food products;
- Changing channels of food distribution and sale.

Consumers today want food to be cheap, safe, traceable and convenient. In practice, food safety is taken as a given and the most important factor in food purchases tends to be low price. There is evidence that consumers purchase foods from several stores to achieve maximum cost savings. There is also evidence that a shopping basket that is

largely focussed on value will also contain luxury or indulgence items. In parallel with these developments in consumer food purchases from retailers, an increasing share of Irish food consumption is taking place outside of the home, with purchases in restaurants and takeaways and from shops and forecourts. This is leading to dramatic growth in the food service sector.

Food processors and retailers are constantly evolving their ranges to suit the changing tastes of the consumer. Prepared Consumer Foods (PCF) are a common sight to consumers and range from prepared ingredients for a main meal to complete ready-made meals. There is also an increase in the availability and range of functional foods marketed at the health conscious consumer. These include fortified foods, such as breakfast cereals and juices, and designed foods such as pro-biotic yoghurt drinks. These segments of the overall food market are expected to grow in the future. Against this background, it appears that the functional foods sector in Ireland can continue to expand and that alliances between the food industry and the pharmaceutical sector might provide still further growth opportunities. Growth in the food ingredients sector will continue to be important to the Irish agri-food sector. The maintenance of competitiveness in this sector will require that Irish food ingredient firms focus on the demands of final consumers of food products so as to be in a position to supply their customers (other firms within the food industry) with the food ingredients they will demand.

The concentration of the retail sector is continuing along the lines predicted in the Agri Food 2010 Report. The three main supermarkets have a large and increasing share of the Irish retail sector. There is increasing competition between these stores and there may be cost squeezing of food processors as a result. A significant development since the 2010 Report has been the entrance into the Irish retail market of European discount retail chains. The presence on the domestic market of these chains increases the competitiveness pressures on the Irish food industry.

The development of multi-national retail chains, with their ability to source food products of a given quality trans-nationally from across the EU and further afield will continue to increase price competition in the Irish and EU retail sector and will put increasing pressure on the Irish food processing industry to be competitive. The development of central distribution facilities at national and international levels will have competitiveness impacts similar to those of the development of trans-national sourcing. The market for Irish food companies is now global. Developments in international food retailing, such as trans-national sourcing and central distribution networks, affect the profitability of Irish food industry's sales to Irish, European and wider global retailing customers.

Physical size of stores is increasing in suburban areas, and with increased size the ability of these stores to offer consumers a greater range of goods and products is further enhanced. In urban areas, many symbol groups offer a wide range of goods combined with longer opening hours than most of the main supermarkets. Own brands are becoming increasingly available and some stores have several own brands, such as luxury, standard and value brands, to suit their customers' budgets. Europe continues to have the highest own brand penetration in the world and further growth is expected.

1.13 Environmental Perspectives

In recent years, the environment, landscape preservation, the viability of the rural economy and maintenance of the country's cultural heritage have become increasingly prominent issues. This has been reflected in the enactment of environmental legislation at EU and Member State levels. The increasing importance of environmental concerns is

also reflected in the recognition of European agriculture's multifunctional role, particularly its role in the provision of public goods associated with agricultural production. These developments have led to a further shift in the emphasis of the CAP. Agri-environmental schemes were introduced in the CAP reforms in 1992. Schemes such as the Rural Environment Protection Scheme (REPS) are providing payments that take account of the additional costs that result from farming to higher environmental standards and the need to provide farmers with an incentive to change their farming practices.

Recent reforms of the CAP have led to an increase in the extent to which financial incentives provided to farmers are designed to encourage them to farm in ways that are better for the environment. These include schemes to help with the costs of nature conservation where farming takes place in nature reserves, encouragement to grow woodland and forests or produce biomass for environmentally friendly energy. The terms of the recent Luxembourg Agreement reform of the CAP require that farmers respect environmental laws and look after their land properly if they are to qualify for direct income payments.

There is increasing certainty amongst environmental scientists about the nature and scale of global climate change. Results from research in the Irish context show that, over the next half-century, expected climate changes may have a major impact on Irish agriculture.¹³ While the impact of any changes in climate on Irish agriculture are likely to occur beyond the time frame of this report and be mixed in nature (i.e. some might arguably enhance Irish agriculture's productivity) the agriculture industry will have to be ready to adjust its patterns of production and adopt new production technologies in order to maintain its competitiveness in the face of these exogenous factors.

Environmental regulations will be a factor of increasing importance in setting standards for Irish farming. EU Directives on water, waste, nitrates and Integrated Pollution Control are already in place: Directives will require significant changes in farming practices by 2015. These Directives will come into force over the coming decade and will lead to changes to the type of farming systems employed in Ireland and the costs of these methods of production.

¹³ For further details see N. M. Holden and A.J. Brereton "The Impact of Climate Change on Irish Agriculture". Chapter in *Climate Change: Scenarios and Impacts for Ireland (2000-LS-5.2.1-M1)*, Final Report. Environmental Protection Agency, Johnstown Castle, Wexford.

2 THE ISSUES

2.1 Introduction

The on-going changes for Irish agriculture that were signalled in the Agri Food 2010 Report, the subsequent major policy changes such as the Luxembourg Agreement, or those that are due to take place in the external (e.g. further significant trade liberalisation) and the internal environment (e.g. implementation of the Nitrates Directive) will have significant impacts on the manner in which the agri-food sector operates up to 2015. This chapter identifies the major issues that must be addressed and the challenges that lie ahead for the Irish agriculture and food industries.

2.2 The Implications of the Luxembourg Agreement

The Luxembourg Agreement of 2003 and its implementation in Ireland from 2005 onwards constitute a dramatic change in the European Union's (EU) agricultural policy. Direct payments, which over the 1990s became central to the operation of the CAP, are to be decoupled from production. Dairy commodity intervention support prices are being reduced and low limits are being placed on the volume of dairy commodity products purchased into intervention. The dairy quota will continue to exist until at least 2014/15.

These changes are expected to lead to changes in the volume of agricultural output produced in Ireland and in the level of expenditure on inputs in Irish agriculture.

FAPRI-Ireland analysis suggests that, compared to the period 2000-2002, the value of agricultural output produced in Ireland will have declined by almost 9% by 2012. Details of economic analyses of the impact of the Luxembourg Agreement are presented in Appendix 3 of this Report. Expenditure by the agricultural sector on inputs is forecast to decline by approximately 5%. With direct payment receipts by the sector being largely guaranteed (limited losses arise as a result of modulation), agricultural sector income is expected to increase marginally in nominal terms by 2012 compared to the period 2000-2002.

The implications of the Luxembourg Agreement at farm level are arguably more dramatic than those that can be expected to occur at the sector level. The reform is expected to lead to important changes in the structure of Irish agricultural production.

The decoupling of direct payments and reductions in milk prices will change the returns to farm labour. It is expected that these changes will lead to a reduction in the number of Irish dairy farmers and will increase the extent to which the Irish farm population is made up of part-time farms. Further details of the implications of recent policy changes for farm numbers are presented in Appendix 4 of this report. Total farm numbers are expected to decline by 23% to 105,000. The number of dairy farmers is expected to decline to 12,500, by 2015.

Dramatic declines in the number of farmers engaged in milk production together with the continuation of the milk quota system will lead to increased availability of milk quota, which in turn will allow farmers continuing in dairy production to expand their

milk sales. With the projected decline in dairy farm numbers, average milk deliveries per farm from Irish dairy farmers are projected to increase by 45%.

With decoupling, returns from agricultural production will no longer depend on direct payment receipts. The increased dependence on market returns that will flow from the Luxembourg Agreement poses a challenge for Irish agriculture. The profitability of Irish beef and sheep production will, with full decoupling, depend exclusively on the production of high quality animals at competitive prices. Farmers' ability to produce high quality animals will be conditional on the development by the meat industry of pricing strategies that, to a greater extent than heretofore, offer premium prices for higher quality animals and discount prices for animals of lower quality. Farmers must respond to such new market realities by improving the quality of animals delivered to Irish meat processors and live exporters by improving the productivity and efficiency of their farm level production systems.

The role of basic and applied agricultural production research, and of agricultural extension and advisory services in improving the productivity of the Irish agriculture industry and thereby improving its competitiveness will continue to be of central importance.

Lower agricultural output and lower expenditure on inputs that will occur as a consequence of the policy changes will have negative implications for industries upstream and downstream from the farm gate. Lower volumes of agricultural output available to the Irish food processing industry, particularly to the meat industry, will increase the need for consolidation of the industry's structure. The decline in input use by farmers will have an impact on suppliers of these inputs. While the negative implications of declining output and input use are clear, the positive implications for the Irish rural economy of increased farm incomes should also be noted.

The SFP, while decoupled from production of agricultural output, will remain coupled to land. Each farmer's entitlement is expressed in relation to farmed area. To activate an entitlement, a farmer must have an area of land equivalent to that farmed in the reference period. This maintenance of a link between land and receipt of SFP entitlements will have an impact on land rental rates and on the prospects for further consolidation of Ireland's agricultural production structure. This impact, however, is likely to be offset by the provision in the Luxembourg Agreement that allows farmers in certain circumstances to stack entitlements up to a rate of 50%.¹⁴

Under Agenda 2000 agricultural policy, many farmers were in effect "farming" direct payments. Entitlement to many of the direct payments was previously conditional on maximum animal stocking rates and this encouraged farmers to lease land so as to maximise their premium entitlements. This resulted in some of the value of the animal direct premiums being bid into the price of land. The 50% stacking provision changes the incentives farmers face in deciding to lease land. With stacking, farmers who previously leased land additional to owned land so as to maximise their premium payments will now only lease additional farmland when it is profitable for them to do so without regard to their direct payment receipts. This will allow some farmers to reduce the amount of land they farm in the future when compared with the reference period by up to 50% through discontinuing leases for agricultural land previously farmed. The land that such farmers previously farmed will be available for lease to other farmers who can profitably farm the land.

The numbers of farmers seeking to lease additional land in the post-decoupling environment can be expected to be outweighed by the numbers of farmers who, with

¹⁴ For details on the implementation of the single farm payment scheme see the Department of Agriculture and Food publication *The Single Payment Scheme: An Explanatory Guide*, May 2004.

SFP entitlements established, will be seeking to relinquish control of leased land. This increased supply of rental land without SFP entitlement should lead to lower land rental rates. Lower land rental rates can be expected to facilitate the expansion of farm enterprises by those farmers who, in the post decoupling environment, can make a positive gross margin on their chosen farm enterprise. Thus the stacking provision of the Luxembourg Agreement should further aid the consolidation of the structure of Irish agricultural land use. For owned land that is associated with a SFP entitlement, rental rates will continue to be affected by the value of the SFP entitlement.

The freedom farmers have to stack entitlements can also be used where farmers planted or plan to plant agricultural land to forests. A farmer who chooses to plant forests on land used to establish entitlements in the reference period will be allowed to plant up to 50% of land farmed and stack the SFP entitlements established during the reference period on the remaining farmed land. This provision of the agreement should, with the continued availability of government support to private afforestation, lead to an increase in the amount of land privately forested. The possible emergence, following the implementation of the Luxembourg Agreement, of farm forestry as a large user of land previously classified as agricultural would have adverse consequences for the availability of agricultural land to farmers wishing to expand their traditional agricultural enterprises. The extent to which such a development will occur, especially on land other than that traditionally considered "marginal", will depend on the returns that can be made on such land from alternative agricultural enterprises.

An important consequence of the ongoing reform of the CAP is that the income support role of agricultural policy has shifted from market interventions that aimed to support and to stabilise agricultural prices (and indirectly incomes) to one where agricultural incomes are supported more directly. This in turn means that the financial resources for market management will be consequently, and gradually, depleted, thereby reducing agricultural policy's ability to affect the price of agricultural output. Farmers and the food industry can expect output prices that will become somewhat more volatile than heretofore.

In order to receive the decoupled SFP, farmers have to continue to maintain their farms in line with standards of good agricultural and environmental practice and satisfy cross compliance criteria defined in the Luxembourg Agreement. This will mean that it is unlikely that there will be any large-scale abandonment of agricultural land. Over the next ten years, even with the maintenance of a stable macroeconomic environment characterised by low price inflation, the real value of SFP entitlements will be eroded. The reduction in the real value of SFP will lower the real income support provided and diminish the incentive effect of the SFP as payments for the provision of public goods by agriculture.

2.3 The Competitive Challenge Facing the Irish Agriculture Industry

The attainment of the vision for agriculture outlined in the 2010 Report remains a valid objective. This vision, in summary, is of an industry that is competitive in all aspects, capable of delivering high quality products demanded by the consumer and at a competitive price. Government policy increasingly acknowledges the key role that research and development (R&D) and innovation will play in maintaining Ireland's competitiveness. This is encapsulated in the idea of Ireland as a "knowledge based" economy. Agriculture remains an important component of the Irish economy and its future competitiveness also will depend on its ability to develop as a knowledge based industry. Ongoing public support to agriculture through funding of agricultural education and training and of agricultural research, extension and advisory services will be keys to the future competitiveness of the industry.

In commercial Irish agriculture there are currently full-time highly productive farms that can compete to the highest international standard; however, there are too many other farms that are not operating at the highest levels of feasible technical efficiency.¹⁵ Improvement in the average productivity of commercial Irish farming will have to be achieved in order to maintain competitiveness. In part, this can be done through narrowing the gap between best practice on Irish farms and practice on the average Irish farm. In addition, there are farms that operate on a relatively small scale or part-time basis that are capable not only of surviving but of operating efficiently and profitably. The need for further improvements in the productivity of Irish farming, achieved through the adoption of new technologies, will continue to provide the justification for the State's ongoing role in basic and applied agricultural production research and agricultural advisory and extension service provision.

In measuring the competitiveness of Irish farming, research by Thorne that was initiated in direct response to a recommendation from the 2010 Report, found that the competitive position of Ireland for the major production enterprises (milk, beef, cereals and sheep) was positive when cash costs were considered in isolation.¹⁶ When imputed charges for owned resources were considered, the competitive ranking for Ireland deteriorated for all commodities. It is further worth noting that on an economic cost basis, Irish beef and sheep farms appeared to be uncompetitive relative to the average for all other countries, when costs were expressed as a percentage of the value of market based output. This is important in the context of the introduction of the SFP and constitutes a warning signal for the future competitive performance of the beef and sheep sectors.

Other research initiated in response to the 2010 Report investigated the productivity performance of different Irish agricultural production systems.¹⁷ This research found that there was evidence of technical regress in some agricultural production systems (notably the cattle sector) and that the rate of productivity growth in Irish agriculture in general was low when compared to that observed in other EU countries. The research also highlighted the degree to which rates of productivity improvement varied across farming systems (dairying, cattle, sheep and tillage) and between farms within the same production systems. While variation in productivity performance between individual farms and between different agricultural production systems is to be expected across a population as varied as that involved in Irish agriculture, the narrowing of such differentials in productivity performance and successful efforts to improve the overall rate of productivity growth in Irish agriculture will be at the heart of improving the competitiveness of Irish agriculture.

2.4 The Competitive Challenge Facing the Irish Food Industry

The 2010 Committee's vision for the Irish food industry remains valid. This vision, in summary, is of a food industry that is competitive in all aspects, capable of delivering high quality products demanded by the consumer and at a competitive price.

The Irish food industry's role as an industry based on innovative and competitively priced products, produced using quality agricultural inputs through the application of the latest production, logistics and marketing technologies, means that even in the context of a likely decline in the volume of Irish primary agricultural production, the Irish food

¹⁵ Newman, C. and Matthews, A., *Measuring and Understanding Productivity Growth in Irish Agriculture*, Wissenschaftsverlag Vauk Kiel KG, Kiel, 2004

¹⁶ Thorne, F., *Measuring the Competitiveness of Irish Agriculture (1996-2000)*. Rural Economy Research Series No. 9, Dublin 2004.

¹⁷ Newman C., and Matthews A., (2004) op. cit.

industry can be expected to continue to be an important contributor to Irish national income. The future capacity of the Irish food industry to thrive as a knowledge based industry will be affected by issues involving public policy and market developments which we now outline.

As already noted in Chapter 1 of this report, agricultural and food output prices will be lower and will probably become more volatile in the future. This is likely to be a more significant factor for basic commodities than for more highly processed products. In addition, the dynamics of distribution, trade and consumer demand seem set to lead to a continuation of the decline in the real per unit profitability of primary agricultural producers and of the processing industry. In the Irish food industry, there are food-processing plants that deal only with basic commodities that are capable of surviving and of operating profitably. The danger for the food industry generally (and indirectly for agriculture as a source of some of its most important raw materials) lies in becoming too reliant on the production of basic food commodities.

While acknowledging these constraints, food industry firms must increase their levels of competitiveness to become more profitable. There are three broad approaches to this:

- They can cut costs and increase efficiency;
- They can add value to their product;
- They can diversify into new markets.

In the more competitive environment in which the Irish food industry will find itself, its economic health will increasingly depend on its ability to maintain or expand market share, both at home and in overseas markets. This necessitates producing what is demanded by its customers, both at internationally competitive prices and to the level of quality demanded.

Over the next ten years, the Irish food industry will face a new policy environment and, in all likelihood, a more liberalised world agricultural trade regime. In addition to these changes, demand for higher quality and safer foods as well as increased standards in terms of traceability will add to the competitive challenge. Ireland intends to require that all catering businesses inform their customers as to the geographic origin of the beef they sell. The introduction of this legal requirement reflects the growing concern of consumers with the methods involved in the production of the food they eat. In line with this concern, consumers will increasingly demand information on the geographic source of origin of food in general.

The Irish agriculture and food industries are essentially export-orientated. For this reason, the danger that wider source of origin food labelling, applied at EU level, could effectively constitute the re-nationalisation of EU Member States' food markets, is one that must be taken seriously. Notwithstanding this, the Committee is of the view that the trend towards across the board labelling of food by source of origin is inexorable. Food labelling by geographic source of origin is a development to which the Irish agri-food industry must strategically respond in a positive and consumer orientated fashion.

The 2010 Report recognised that developments in the field of biotechnology posed challenges and opportunities for the Irish agri-food sector. This continues to be the case. The most notable impact of biotechnology has been in the medical and pharmaceutical arenas. However, in the "Lisbon Strategy" the strategic and long-term importance of mastering biotechnological science and technology and its applications was stressed as a component of a broader strategy to allow Europe to become a knowledge-based economy.

Biotechnology-related sectors,¹⁸ much of which is food related, currently employ over 76,000 people in Ireland. Thus, developments in biotechnology will have a profound effect on a number of sectors that are vital to the future growth of the Irish economy. Research and development is the driving force for growth in biotechnology. However, the EU lags behind its major competitors in terms of investment in research and development (R&D). Gross expenditure as a percentage of GDP is 1.9% in the EU, compared with 2.7% in the USA and 3.1% in Japan.

Nevertheless, significant resources have been invested so as to develop research capacity in this area via the provision of National Development Plan (NDP) and Science Foundation Ireland (SFI) funding. Teagasc was allocated special funding by the Department of Agriculture and Food that was used to develop its biotechnology capacity. The potential benefits of the use of biotechnology innovations may also be associated with risks. Ireland should, as a society that seeks to develop the “knowledge basis” of its current and future economic competitiveness, continue to remain open to such technologies, while also remaining cognisant of the potential risks associated with their use.

The future competitiveness of the Irish food industry, like that of Irish manufacturing industry in general, will be based on its capacity to develop as a knowledge based industry. There is an ongoing need to seek improved efficiency of operation in food processing. The transfer of R&D information to the production line is vital, particularly for companies with high labour or regulatory costs. Irish companies must tailor their strategies to respond to opportunities in market sectors where they can successfully compete, change current structures to increase scale and improve marketing capabilities.

The food industry must think strategically about the make up of the markets for agri-food products. The food production and distribution chain has become increasingly complex and diverse. The market is not simply an undifferentiated mass of final consumers. The different market segments that face the Irish food industry vary in the levels of risk and in the levels of sophistication and technical innovation needed. Some segments may be more appropriate for larger companies; others may suit small companies. The market segments that are important for companies established in large-scale bulk commodity production are different from those that are important to companies that are able to develop a diverse portfolio of innovative products.

The principal characteristics of the five main market segments are as follows:

- The **ingredients sector** has become increasingly sophisticated and can provide market opportunities for innovative firms, which can develop new, commercially applicable technologies;
- The **“eating out” sector** continues to grow and diversify and provides an expanding range of opportunities in the food service market;
- There are niche opportunities for **value added products** such as functional foods or specialised gourmet products that are and will become available to Irish food firms. Alternatively, it may be an appropriate market response for some companies to seek ways (e.g. through joint ventures or through licensing arrangements) to get the benefit of already-established brands. The development of a new internationally competitive brand, which can command consumer loyalty, would take a huge commitment of resources and is unlikely to occur. The maintenance of those international brands that have been developed in the past by the Irish food industry will continue to be essential;

¹⁸ ICTSI (Irish Council for Science, Technology and Innovation) Report on Biotechnology, February 2002.

- The supply of **own brand products** for supermarket chains is another way for processors to move up the value chain. While the rewards per unit are typically less than those for successfully creating a brand, the resources needed and the associated risks are significantly less, making it a practical alternative;
- For some Irish food businesses, particularly those with limited resources, the production of **artisan foods** will present an opportunity to move profitably up the value chain. The development of the indigenous artisan foods sector will have spin off benefits for the Irish rural tourism industry through the creation of a high-value rural tourism product centred on the idea of good food.

There is no single or unique market solution for the food industry. The diverse nature of the market segments and the continuing development of new patterns of demand and distribution mean that there is a wide range of opportunities for Irish food firms across the spectrum of size, commercial approach and innovative capacity.

2.5 The Structure of Farming

Recent agricultural policy changes, together with changes in agricultural trade policy under WTO agreements and developments in the wider Irish economy over the next ten years will lead to changes in the structure of Irish agricultural production. Details of an analysis by Hennessy relating to the likely future structure of Irish farming are presented in Appendix 4 of this report.

The number of Irish farms is expected to decline by 23%, from 136,000 in 2002 to 105,000 in 2015. By 2015, one third of the farm population will be classed as economically viable, another third of farms will be economically unviable with the operators working primarily off the farm and the remaining third will be transitional farms characterised by adverse demographic features, such as having an elderly farm operator and/or lacking an identified heir.

Of the third of farms that will remain economically viable by 2015, 75% will be farmed on a part-time basis, with the on-farm enterprise providing a return sufficient to remunerate the labour and capital used. Of those farms that are operated on a full time basis, and which are economically viable, the vast majority are expected to be dairy enterprises.

The large reduction in the number of dairy farmers expected over the next ten years will make available milk quota that should enable farmers continuing in milk production to expand their milk sales. The ability of farmers remaining in dairying to expand and remain cost competitive will be affected by the mechanisms through which the available quota is allocated. Current quota re-allocation processes may be a hindrance to the efficient consolidation of Irish milk production within a policy environment where the milk quota regime remains in place.

The agricultural policy changes introduced by the Luxembourg Agreement will accelerate the changes in the composition of the Irish farm population. By changing the relative returns to agricultural labour when compared with income earned from off-farm activity, the policy is expected to reinforce the observed trend towards part-time farming in Ireland. By requiring that recipients of the decoupled SFP remain as farmers, and that these farmers satisfy cross compliance criteria and good farming practice, the policy will act as a brake on land abandonment and will support the continued existence of a large number of farm holdings in the state. This does not necessarily mean that the existence of the SFP will freeze existing farm structures. The freedom to stack entitlements in certain circumstances should, while maintaining overall farm numbers, encourage the redistribution of control of land to farmers actively engaged in agricultural production by

allowing them to increase their holdings of farmed land via the land rental market. The real value of the SFP will decline over time due to inflation. This development will inevitably reduce the extent to which receipt of the payment encourages farmers to remain farming.

2.6 The Constraints on Irish Agriculture and Food Industries

One of the central themes of this report is the importance of competitiveness, the increasingly important role it will play in the future, and the measures that the agri-food sector, with support from Government, must take to ensure that it maintains and improves its competitiveness. There are a number of factors at play within Irish and European agriculture that have implications for the maintenance and development of our competitiveness. The maintenance of the rural economy, the output of public goods, and provision for part-time or small full-time farms all have an influence on the environment in which the agri-food sector seeks to ensure competitiveness, and therefore play a part in the rationale of this report.

The following are some of the constraints under which Irish farming operates. Most are in place for a good reason, but it must be acknowledged that each of them restricts the competitive potential of the sector in one way or another.

Regulation

The positive impact which regulation has for the agri-food industry is rarely discussed as many focus on it only in a negative context. However, regulatory measures and laws have improved animal health, speeded up payments and prevented a small number of bad producers from undermining entire markets. Regulation is necessary to protect the environment, to ensure food safety and to give consumers confidence in the food they eat. It should not be forgotten, for example, that deliberate breaches of regulatory requirements put Irish agriculture at serious risk during the last outbreak of Foot and Mouth Disease (FMD) in the UK.

There will be less paperwork and fewer inspections of farmers and the food industry, as a result of the implementation of the Luxembourg Agreement. The SFP will reduce the number of forms needed for payment – there will be one per farmer per year or a total of 125,000 payments as against 500,000 at present. Farm inspections under the new cross compliance system are expected to fall from 20,000 at present to less than half of that number.

Some level of inspection and form filling will, however, continue to be required. Cross compliance requirements, auditing of payments and Hazard Analysis and Critical Control Points (HACCP) checks all require some degree of regulatory compliance to ensure that money is correctly paid or that the health of the consumer is protected. Policy should continue to ensure that, in the context of further trade liberalisation, the high food and consumer safety standards demanded of the Irish food and agriculture industries do not place them at a competitive disadvantage.

The regulatory framework has evolved significantly in recent years, principally with the objective of protecting human and animal health. While the Committee accepts and supports the overall objectives of the regulatory process, it sees a danger that insufficiently co-ordinated regulatory provisions could result in unnecessary and over-costly burdens on the production processes. It therefore takes the view that there should be, at suitable intervals, a systematic Regulatory Audit to assess the appropriateness of regulatory measures in force.

Funding

Access to the necessary funding is the key to the achievement of any policy target. The European Commission recently published proposals for the future policy direction of the EU in the period 2007 to 2013 and for the financial resources to achieve it. The proposed ceiling for the entire EU budget (including agriculture) is based on the existing Member State contribution of 1.24% of Gross National Income (GNI).

The ceiling for the CAP market support and direct payments expenditure is to be based on the existing European Council Agreement plus an additional amount to cover the cost of accession of Bulgaria and Romania. The ceiling for EU Rural Development spending would increase from €10.5 billion in 2006 to €13.2 billion in 2013: this figure does not include the €1.2 billion to be transferred to rural development annually from modulated funds. A total of €96 billion will be available from the rural development fund in the period 2006 to 2013.

The Committee noted with some concern the expressed view of six Member States (Austria, Germany, France, Netherlands, Sweden and the UK) that national contributions to the EU Budget should be reduced to 1% of GNI from 2007, moreover, the forthcoming negotiations on rural development will naturally focus on the needs of the NMS. Ireland has previously made good use of these rural development funds, via schemes such as the Disadvantaged Areas Payments scheme, and they are crucial to development in Ireland's least favoured areas. Any substantial reduction in this funding would curtail the policy scope and flexibility available to the Irish authorities in pursuing Ireland's rural development goals.

Environmental Perspectives

A series of Directives have been introduced with the objective of protecting the natural environment. These include Directives dealing with issues such as water quality, birds, habitats and the protection of the natural environment. These Directives are not just targeted at the potentially harmful effects of farming activity, but cover many other areas and sectors of society.

The positive contribution of farming and agricultural policy to the reduction of greenhouse gases and increased levels of carbon sequestration, should be noted in the context of Ireland's efforts to achieve the targets set out in the Kyoto protocol and Ireland's own National Climate Change Strategy. The extent to which climate change will negatively affect Irish agriculture within the next 50 years remains to be seen, but such exogenous changes could force unforeseen adjustments in Irish farming.

The introduction of the Nitrates Directive is a matter of the most direct interest to Irish farming. This Directive aims to protect water quality against pollution from agricultural sources, with a primary emphasis on better management of livestock manure and other organic fertilisers. This is one of a series of EU Directives on water quality. The Nitrates Directive sets a legal limit of organic nitrogen that can be applied per hectare, with this limit being fixed at a single level for the EU as a whole. The vast majority of Irish farmers would be unaffected by this limit. The chief concern is that this limit will constrain the ability of Ireland's more intensive (mainly dairy) farmers to operate efficiently and to expand in response to market opportunities. There is much evidence to show that Ireland's weather patterns, land conformation and grass based production systems warrant a higher limit. High priority attaches to the development and implementation of an Effective Action Programme under the Directive because continued funding of major payment schemes (including the SFP) is conditional on satisfactory implementation of the Directive. Early and full implementation is also required to avoid the possibility of fines

from the European Court of Justice following a recent judgement that Ireland has not fully complied with the Directive.

The Committee notes the important contribution made by Mr Denis Brosnan in facilitating the resolution among the interested parties of difference relating to the application of the Nitrates Directive and recommends that in so far as is possible the recommendations of a report prepared by Mr Brosnan be reflected in the final implementation of the Nitrate Directive in Ireland.

Off-farm Employment

Off-farm employment plays an increasingly important part in maintaining farming business viability and living standards for many Irish farm families. Off-farm employment and income are now standard parts of farm family work and income patterns. There seems to be no doubt that present patterns and trends will continue and that farm household reliance on off-farm employment will increase under the newly reformed CAP.

Farm households' increased reliance on off-farm income does not necessarily move their income sources away from the agri-food sector, since much of the employment in question is generated by this sector. New enterprises have also become an important source of additional income. These tend to be activities associated with farming such as tourism ventures, which may be physically located on the farm.

Household Budget Survey results indicate that average off-farm income accounts for approximately 60% of total farm household income.¹⁹ Access to off-farm income can have consequences for the farming sector itself. This income makes continuation in farming possible for farmers who operate on a small scale and who are not viable in economic terms with the income derived from farming alone. This mode of balancing on-farm activities and off-farm employment will become increasingly common and will enable a greater number of people to continue to be farmers than would otherwise be possible.

As a consequence of both the increased prevalence of part-time farming and the likely reduced agricultural activity levels on farms operated on a part-time basis, the proportion of Ireland's agricultural output produced by full-time farmers will increase.

2.7 Public Goods Output

The primary outputs of Irish agriculture are products that are in turn the key inputs to Irish and foreign food and food ingredient processing industries. There is increasing recognition, however, that the production of what are termed public goods is intrinsically associated with agricultural production, and that in the future the role of agriculture in the production of public good outputs will constitute an important rationale for Government's continuing role in agriculture.

Public goods include:

- Rural landscape;
- Cultural features;
- Heritage features;
- Biodiversity;

¹⁹ CSO, Household Budget Survey 1999-2000, October 2002.

- Carbon sinks;
- Wild life habitats.

Public goods have two key characteristics:

- They are non-excludable, meaning that no individual can be excluded from their benefits;
- They are non-rival, meaning that one person's consumption of the good does not affect consumption by others.

Goods that possess public good characteristics in whole, or in part, will in a free market generally be under-provided. This under-provision amounts to what is termed a market failure, and as such constitutes an efficiency rationale for government intervention that seeks to ensure, what is considered to be, the proper level of provision of such goods.

The market failure inherent in the provision of public goods is reflected in the absence of prices for such goods to which producers and consumers can respond. This absence of prices leads to the under-provision of public goods that are valued by society and the over provision of goods ("public bads") which society views as harmful.

The link between the production of agricultural output and public goods such as the rural landscape, cultural or heritage features, biodiversity and greenhouse gas absorption is reflected in what has been termed the European Model of Agriculture. This idea stresses the multifunctional character of European agriculture and provides a justification for government's role in support of agriculture and its provision of public good outputs. The provision of public goods by agriculture also reinforces the role that agriculture will play in sustainable rural development. The development of tourism in Irish rural areas will be contingent on the continued environmental health of rural Ireland to which agriculture makes, and will continue to make an important contribution. The work of Comhairle na Tuaithe in resolving the contentious issues surrounding access to the countryside will be of central importance in ensuring that the wider public has access to the public good outputs of Irish agriculture.

While European agriculture is associated with the provision of public goods and the support to European agriculture is justified in part on this basis (as well as on classic income support grounds), European agriculture is also associated with the over-provision of goods which society does not want. These "public bads" include polluted ground water, green house gas emissions and degraded landscapes and wild life habitats.

The response of public policy, at both national and EU levels, to such problems is in the main to adopt legislation to restrict activities that can produce such undesired outcomes. Agriculture, in common with other economic activities, will have to continue to operate within and be cognisant of such legal constraints.

Irish agriculture will continue to account for by far the greater part of Irish land use. Agricultural land currently constitutes over 64% of Ireland's land area. This means that Irish agriculture will be central to the ongoing provision of public goods associated with the rural landscape. The significant contribution that Irish agricultural production has made to Ireland's greenhouse gas emissions inventory and the sensitivity of the Irish landscape to the negative environmental impacts which can result from agricultural production also mean that Irish agriculture will have to develop in an environmentally sustainable fashion and respond to new environmental policies as they emerge. The emergence of alternative agricultural enterprises such as bio-fuel production and on-farm energy generation, as well as the role of farm afforestation as a carbon sink, will all play a part in Ireland's response to the global warming problem.

The Luxembourg Agreement, through its demands that farmers satisfy cross compliance criteria and that their agricultural production practices satisfy good farming and environmental practices, as a condition for the receipt of the SFP, will support Irish agriculture's ongoing provision of the public goods associated with agricultural production.

2.8 Rural Development

Notwithstanding the large growth in urban populations, there are still very significant numbers of people living in Ireland's rural areas. The results of the 2002 Census show that the national population increased by 8% from the 1997 Census. In 2004 the population stands at over 4 million, the highest population since 1871.²⁰ In 2002, 60% of the population lived in urban areas and 40% lived in small villages or the open countryside. The rural population has been relatively stable at around 1.5 million while the population growth has been largely concentrated in urban centres.

In policy terms, the focus of rural development has changed. These changes reflect the evolution of the rural economic environment. In the past, rural development policy was focused on farm diversification as a way of supplementing farm household income. The focus of rural development in Ireland must now be wider and address the more diverse range of needs of today's rural dwellers, the majority of whom are not involved with agriculture. The integration of rural development policy with wider regional planning and development policy will be essential if the broad objectives of rural development policy are to be achieved.

Agriculture is no longer the only driver of economic development in rural areas. Productivity gains have meant that agricultural output has increased while employment in the sector has contracted. In addition, a whole range of alternative employment opportunities has developed over the last decade.

Rural development policy must take account of and reflect the substantial regional differences in economic development in Ireland. Some rural areas display a diverse and prosperous economic base while others are neither as successful nor as diversified. Both rural development policy, broader regional development and planning policy should continue to reflect the continuing diversity in economic performance.

Alternative enterprises will continue to be important for the farming sector. The advent of the SFP is likely to increase the incentive for farmers to investigate alternative enterprises, such as organic production, on-farm energy production or farm tourism.

The Department of Community, Rural & Gaeltacht Affairs (DCRGA) operates a wide range of rural development schemes that support and encourage the economic development of Irish rural areas.

Access to the countryside is a particularly important issue for two reasons:

- First, it is in this way that many members of the public effectively "consume" the multifunctional outputs of Irish agriculture;
- Second, the walking and rambling opportunities of the Irish landscape provide a major incentive for tourists, both Irish and foreign, to travel to many parts of rural Ireland. A whole range of rural businesses such as tour operators, B&Bs, hotels, pubs and restaurants rely upon tourists having the opportunity to enjoy the Irish countryside.

²⁰ Population and Migration Estimates April 2004. Central Statistics Office (CSO), 7th September 2004.

Access to the countryside has become a contentious issue in recent years. The Committee is of the view that continuing contention will impair the contribution that enjoyment of the public goods in question can make to overall welfare and to the success of rural development initiatives. The Committee has decided to make no recommendation of its own on this matter in view of discussions currently under way under the aegis of Comhairle na Tuaithe.

Comhairle na Tuaithe was established in February 2004 as a “countryside council” to address issues relating to waymarked ways and access to land. Its aim is to ensure that those with an interest in the development and management of the recreational amenities of the countryside are fully consulted. Comhairle na Tuaithe will also work to resolve conflicts that arise in relation to access issues and will raise awareness of the benefits and the responsibilities attached to recreational use of the countryside.

2.9 Animal Health and Welfare

The high animal health status of our national herd is vital to safeguard consumers, to the development of a sustainable agri-food sector and to the promotion of animal welfare. Ireland’s high animal health status is essential to all forms of agricultural and food production and to the export trade in particular. The use of animal identification and traceability systems complements animal health measures and reassures consumers, at home and abroad.

In line with commitments entered into under the Good Friday Agreement and in the interests of mutual benefit, close liaison is maintained with the Department of Agriculture and Rural Development of Northern Ireland in the operation of schemes and in developing joint strategies on animal health.

Bovine TB, Brucellosis, BSE, Scrapie and Johnes Disease are diseases of major economic importance in Ireland. Significant progress has been made in controlling most of these diseases with a view to their eradication but the Committee notes that the rise in the incidence of Johnes Disease in the cattle herd is giving rise to concerns, inter alia, in relation to production losses and animal welfare. Outbreaks of exotic diseases such as FMD have the potential to severely affect the economic well being of Ireland’s agriculture and food industries. The successful response of Government and the agricultural and food industries to the limited FMD outbreak in 2001 and the subsequent development of a national Foot and Mouth Disease Contingency Plan leaves Ireland well prepared to deal with future outbreaks of animal diseases.²¹

A review of the legislation governing the regulation of the veterinary medicines market in Ireland (the Animal Remedies Regulations 1996) is currently taking place. The Department of Agriculture and Food is currently engaged in a round of consultations and has put forward proposals for changes which it claims to be designed to up-date the control regime in this area, with the aim of improving regulation, enforcement and compliance. The Committee approves of the timeliness of this review and is conscious of the crucial role that veterinary medicines play in the farming sector. In keeping with its central concern with competitiveness, the Committee emphasises the need to ensure that rules applied in Ireland are no more onerous or costly than those actually applied in competitor countries.

Consumers are increasingly aware of animal welfare issues. This makes it vital that current standards be maintained and, where necessary, improved. The establishment of the Farm Animal Welfare Advisory Council (FAWAC) was an important step in this

²¹ Foot and Mouth Disease Contingency Plan, Department of Agriculture and Food, April 2003.

respect. Ireland must be seen to be at the forefront in advancing animal welfare issues both at EU and national level to maintain public and consumer confidence.

The export market for live animals continues to be an important welfare topic. This is an essential outlet for Irish livestock farmers, providing a good economic return and vital competition within the sector. Ireland has been to the forefront in regulating this trade through the introduction of detailed rules in relation to animal transport, particularly by sea. Against the backdrop of the recent failure by Member States to agree new harmonised EU rules on the welfare of animals during transport, Ireland continues to implement existing EU and national rules in this area.

2.10 The Outlook for Commodities

Beef

Recent data show that, in 2003, the EU was a net importer of beef for the first time since the late 1970's. This trend will continue as consumption is increasing and indigenous EU production is likely to fall marginally. Imports are expected to increase over the short term. Exports from the EU have decreased from the high levels of the last decade due to reduced supplies of beef on the EU market and a more market oriented production system following CAP reform.

On the global market, OECD projections, which are to a ten-year horizon, show large increases in production of beef and veal in the Mercosur countries and Australia. While consumption in the Mercosur countries is expected to increase, they will continue to be large exporters to the global market and Europe will be a valued target for those exports. Consumption in Russia will continue to outpace production, thus opening up opportunities for the world's beef exporters.

Dairy Markets

The EU is the world's largest dairy market and cow milk producer. This position has strengthened following enlargement. The growth pattern of dairy production in the EU is set by the quota system.

World milk production is expected to increase by 20% between 2003 and 2013, an annual growth rate of 1.9%. Much of the growth in dairy commodity production will occur in those countries where production is not subject to a quota system. World demand for dairy commodities, over the next ten years, is also projected to increase.

The milk quota system policy has been extended at EU level until the year 2014/15 as part of the MTR of the CAP, with the provision for a review of policy in 2008/09. National quota policy has been agreed at an EU level and these quotas are unlikely to be increased further during that period. In Ireland there will be a growing need for greater flexibility in the movement of quota from those exiting milk production to those who need to expand in order to retain viability and withstand competitive pressures.

In Ireland the main vehicle for the redistribution of quota is the Restructuring Scheme. Under this scheme, outgoing producers sell their quota into a pool within their co-operative for subsequent sale in accordance with a defined scale of priorities to certain categories of producer within the same co-operative. The price of restructured milk quota in Ireland is fixed by the Minister for Agriculture and Food following consultation with the sectoral interests.

While the existing mechanisms have served their purpose well, there will be a need for considerable increases in milk output per farm in order to meet the competitive pressures

arising from reduced EU support, international competition and higher production costs. The restructuring of quota from those leaving the dairy sector to those wishing to expand, whether via a restructuring scheme or by an alternative means, needs to be made more flexible and more responsive in the post MTR context. While the cost of expanding output at farm level should be kept as low as possible, the return from the market for dairy products should be given a greater role in determining the price of quota and the restructuring of Irish milk production. The issue of regional imbalance in the availability of quota also needs to be addressed so as not to prejudice the competitive potential of Irish dairy farming. The Committee recognises that the "ring fencing" system currently in place leads to significant differences across the country in the availability of restructured milk quota. The impact of this on the development of competitive milk production in Ireland has been raised as a fundamental competitiveness concern for the whole dairy processing industry. For some dairy farmers availability of quota is not an issue and the concern of their processors with the abolition of ring fencing relates to possible reductions in deliveries to their plants if milk quota left their area. Possible short term solutions to the problems encountered with current milk quota restructuring policy may be found, nevertheless over the next decade, milk quota policy should not be allowed to become a serious obstacle to the maintenance of competitiveness in the dairy farming and milk processing sectors.

Organic Farming

In November 2000, the Organic Development Committee was established on foot of a recommendation in the Agri Food 2010 Report. In April 2002, the Committee published its Report. This led, inter alia, to the establishment of an Organic Market Development Group under the aegis of Bord Bia with overall responsibility for developing a national marketing strategy for organic food. Bord Bia predicts that the organic sector will show growth in the medium term and has potential for annual growth of 10%. The Committee takes the view that these predictions are unduly optimistic. The value of the European market for organic foods has doubled in the last five years and growth in the short term is expected to be approximately 8% per annum. The organic agricultural sector in Ireland has developed over the last 5 years, but not to the extent envisaged by the 2010 report. Since 2000, the number of approved operators has increased by only 4 per cent. This limited response by Irish farmers to the economic opportunities in organic production has been due to the substantial costs of switching to organic production systems and the relatively underdeveloped marketing structures for organic produce in Ireland.

The development of organic production will, for a small number of Irish farmers, constitute a viable response to the competitive challenges presented by CAP and further agricultural trade reform. Increased consumer demand for organic foods should improve the commercial returns to organic farming. The SFP may impact on the sector as farmers now have a guaranteed level of income support. This may encourage farmers who were not previously producing organic foods to enter the sector. Over time, the financial support provided to farmers who switch to organic production systems should encourage the more rapid development of the Irish organic sector.

Sugar

The production of sugar in all Member States is regulated by the EU sugar regime. The essential features of the regime are rules on prices, production quotas, and trade with third countries. Community support for the sector guarantees a minimum price for sugar beet which manufacturers pay to farmers and an intervention price for sugar at which

intervention agencies buy in all sugar offered to them by Community producers.

Sugar beet is an important element in the agricultural economy of Ireland, accounting in 2003 for less slightly than 2% of agricultural output at producer prices. About 3,800 farmers grow sugar beet and receive €75m annually for the crop. The sugar manufacturing sector directly employs 650 people.

The EU sugar regime has not been fundamentally reformed since its introduction in 1968. Sugar now sells in the EU market at more than three times the world price. The EU is a major figure on the world sugar market, accounting for 13% of world production and 15% of world exports. It produces about one million tonnes of sugar per annum in excess of EU consumption needs. That surplus and the 1.6 million tonnes of sugar imported under preferential trade agreements are exported outside the EU with the aid of export refunds.

With the EU intervention price having been frozen for 17 years, the EU sugar regime is in need of reform. The EU commitment to grant market access to the Least Developed Countries under the "Everything But Arms" Agreement and the pressure to liberalise the sector under the Doha Round have led the Commission to put forward reform proposals which include cuts in prices and quotas. The reform proposed by the Commission will have important repercussions for high cost beet production in a number of Member States, including Ireland.

Forestry

Forestry accounts for just over 9% of the land area in Ireland, which is far below the EU average for forestry cover of 30%. The Government's National Forestry Strategy was published in 1996 and set a target of planting 20,000 ha per annum until 2030 with a view to doubling forestry cover to approximately 17% of the land area.²² This programme is co-funded by the EU and its main emphasis is on the development of farm forestry. The planting levels were aimed at achieving critical mass for the sector, resulting in a scale of timber production which would support a range of processing industries and which would increase employment in the sector. The Strategic Plan also dealt with matters such as the environment, species diversity, forest management, amenity and recreation, forest protection and health, harvesting and transport, saw milling, research, education and training and legislation. The recently published "Review and Appraisal of Ireland's Forestry Development Strategy" has shown that the planting targets have not been reached and recommends an alternative approach.

The Luxembourg Agreement provision that allows farmers, in certain circumstances, to stack entitlements on up to 50% of their land could be an important factor in the development of this sector. This provision will allow some farmers to plant forest while still receiving their full SFP.

2.11 Integrated Policy Response

This report sets out a set of priorities and recommendations for the development of the agri-food sector up to 2015. The development of knowledge based agriculture and food industries requires that Government, State agencies and the agriculture and food industries work together. To ensure that headway is made on all major issues identified, a strongly co-ordinated focus on these strategic issues will be needed from all State bodies, farmers and industry participants.

²² Growing for the Future: A Strategic Plan for the Development of the Forestry Sector in Ireland. Department of Agriculture, Food and Forestry, 1996

The Committee believes that continued and increased NDP funding for agricultural research undertaken both by Teagasc and the Universities that develops productivity enhancing technologies for Irish agriculture and provides Irish agriculture with the capacity to evaluate the potential of technological advances from overseas will together with Teagasc's and the private sector's advisory services be central in enhancing the productivity of Irish agriculture. The successful transfer of new technologies to Irish agriculture will necessitate greater interaction between agricultural researchers in the Universities, Teagasc, the advisory services and the Irish farming industry.

The Committee believes that it is essential to encourage the provision of public goods that flow from agriculture and which are facilitated by the new system of SFP and cross compliance criteria. To facilitate this further, the advisory services should be orientated to advise farmers on meeting cross compliance requirements, in addition to putting a new emphasis on responding to market signals and the development of Irish agriculture's competitiveness.

The Committee believes that State agencies in the food industry should co-operate more closely so as to co-ordinate effectively the support provided to food business development. The support provided to the Irish food industry by different State agencies should be continued and become more co-ordinated, to facilitate the adoption of new technologies and process improvements by the Irish food industry.

The Committee has identified that food processing companies of various sizes will have a mix of strengths and will therefore need to find different ways to enhance their competitiveness. For some, it may be through innovative new products whereas others will focus on continually developing markets or on maintaining cost competitiveness in commodity products.

3 THEMES FOR ACTION

3.1 Introduction

On the basis of the analysis contained in this report, the Committee has identified a number of issues as crucial to the Irish agri-food sector. Proceeding from that point, the Committee has identified a number of themes for action. The implementation of these recommendations will provide a sound basis for the development of the sector.

The broad thrust of these recommendations is that Government together with Irish agriculture and food industries should work:

- To facilitate and encourage market-driven development of the sector;
- To make explicit and to provide adequately for the sector's role in the production of environmental goods;
- To provide an appropriate framework to encourage an approach to rural development which takes account of the economic and social realities of rural Ireland today;
- To continue its role in regulating and controlling food safety, animal welfare and the protection of the environment.

The Committee has noted that there are a number of issues that were identified by the Agri Food 2010 Committee as needing action where action has not been forthcoming for one reason or another during the intervening period.

Particularly notable examples identified by the Committee relate to the poultry sector. The 2010 Committee recommended that the sector should seek to improve its cost position through rationalisation and product differentiation on the basis of free range and organic products. In the pigmeat sector, the Committee felt that rationalisation would be useful to improve its cost competitiveness position. The 2010 Committee welcomed the proposed North/South study of pigmeat processing. In the area of education and training, the 2010 Committee suggested the development of a Nationally Accredited Food Industry Training System.

For farming, the objective must be to provide for a profitable and sustainable sector. Farming should be a good place to work for existing farmers and an attractive occupation for those who wish to enter. For those in farming and in food processing, the new mottos must be "freedom to farm" and "producing for the market". The market can, however, be an unfriendly place. Maintaining profitability requires the ability to respond to developments in the market place. The recommendations set out here are designed to help in achieving this aim.

We have categorised our recommendations into those applicable to agriculture and those applicable to the food processing industry. The competitive success of both agriculture and the food industry will continue to be interdependent. These recommendations are then followed by recommendations relating to the management of the regulatory environment of agriculture and food, the all-island dimension to agriculture and food, the role of agriculture in the production of public good outputs, the

rural development agenda and, finally, recommendations concerning the need for an integrated policy response.

The State's role is to be supportive of the sector by continuing to provide income support within the parameters laid down by the EU policy framework, by facilitating business decisions, by sensibly implementing schemes and regulations and by clearing blockages in the functioning of the market. The State's role in developing the knowledge base of the Irish economy will be increasingly important to the Irish agriculture and food industries. Within the context of a knowledge based Irish economy, Government must increasingly focus on the provision of funding for research and development and for education. The importance of the Irish agriculture and food industries to the Irish economy provides an important justification for the ongoing provision of government support to agricultural and food R&D and to education that enables the agriculture and food industries to maintain and improve their competitiveness. The Committee is conscious of the need for adequate national and EU budgets to facilitate this role.

Recommendation 1

The Committee recommends that the GNI-based Member State contribution key to the overall EU budget be maintained at its current level to ensure that agricultural and rural development policies are adequately funded for all existing and future Member States.

3.2 Developing a Competitive Irish Agriculture Industry

The changed EU agricultural policy environment and future developments in the WTO Doha Round of multilateral trade negotiations will lead to changes in both the value of agricultural output produced in Ireland and in the structure of the Irish agricultural industry. These and other changes will have important knock-on consequences for the Irish food processing industry. A number of themes for action emerge that the Committee recommends as strategies to enhance the agricultural industry's capacity to maintain and improve its competitiveness in the new market and policy environment.

Both the Luxembourg Agreement and the likely outcome of the current WTO Doha Round of multilateral trade negotiations will reduce the gross margins earned by all Irish agricultural production systems. The Committee recognizes that to survive in this environment, Irish farmers will have to improve their productivity through the adoption of new production technologies, become more efficient by reducing costs of production within the farm gate and, by becoming more responsive to the demands of their customers, increase the value of output sold off Irish farms.

Increasing the productivity of Irish agriculture will involve continued investment in agricultural production research that provides the Irish farming industry with new productivity enhancing innovations. Improving the efficiency of farm production systems will also require further consolidation of agricultural production structures, so as to exploit economy of scale opportunities, and will have to involve increased and more timely adoption of innovations that reduce production costs by enhancing productivity.

The following are the conclusions and recommendations of the Committee with regard to the agriculture sector:

The Committee believes that there will inevitably be a consolidation of farm production structures as a consequence of the Luxembourg Agreement and future developments in the EU external trade regime. This process of consolidation will be facilitated by the arrangements agreed for the implementation of the Luxembourg Agreement, particularly

the freedom to stack SFP entitlements under certain circumstances. This entitlement stacking provision should lead to lower rental rates in the agricultural land market and allow for a more economical expansion of viable farm enterprises.

Recommendation 2

The Committee recommends that Government measures currently in place to encourage the consolidation of farm holdings via long-term leases and the restructuring of milk quota should be maintained and expanded so as to allow farmers to respond to the competitive pressures that they will increasingly face over the next ten years.

The number of dairy farmers is expected to decline over the next ten years, due to agreed and likely future agricultural policy and trade developments. This will lead to increased availability of milk quota for those farmers seeking to expand the scale of their dairy enterprises.

There are two broad approaches as to how to reallocate the quota that will become available as less competitive farmers exit dairying. One approach is to continue the current practice of “ring fencing” quota within a given co-operative’s area. This could retard (if not seriously prejudice) the capacity of the dairy processing industry to maintain and improve its competitiveness in the current market based policy environment. It could create additional difficulties for the maintenance of competitive dairy farming.

The other approach involves the retention of “ring fencing”. This is held to be necessary to ensure the continuation of milk production and processing in certain areas independently of trends in the overall competitiveness of the Irish dairy sector as a whole.

The issues of quota ring-fencing and the process of milk quota reallocation remain crucial to the future economic health of both the primary and processing industries.

Recommendation 3

The Committee recommends that the current quota reallocation process be examined, with a view to ensuring that it is not in conflict with the emergence of a competitive low cost milk production structure.

The Committee emphasises that, under the new CAP and with the probable further liberalisation of agricultural trade, increased reliance on returns from the market will be the key feature of Irish agriculture over the next ten years. The Irish agri-food sector must therefore align its production patterns and processes as closely as possible on consumer tastes and demand in all of its markets. Market pressures will, in any case, impose this approach on the sector. The challenge for the sector is, therefore, to get “ahead of the curve” in this regard. The development of producer-processor production contracts, and pricing structures that pay a premium for goods produced to the high specifications demanded by consumers and that reward higher quality output would be of immense benefit in the process of getting “ahead of the curve”.

Recommendation 4

The Committee recommends that the agricultural sector together with the food processing industry investigate ways to connect farm production decisions more closely to market demands by institutionalising rewards for quality production.

The Committee recognises that the seasonality of much of Irish agricultural production is based on Ireland's comparative advantage in the production of grass-based forage. The cost advantages conferred by our climate are, however, at least partially offset by production cycles, especially in the dairy sector. These cycles lead to higher per unit processing costs and constrain the extent to which the Irish food processing industry can develop new, higher value-added consumer products.

Recommendation 5

The Committee recommends that dairy farmers and milk processors together investigate ways in which seasonal milk pricing structures can be modified to encourage a somewhat less seasonal production cycle, where this can generate profitable extra outlet possibilities and a net gain for all involved.

The live animal export trade has been and continues to be an important feature of the market for Irish farm output. It is a highly regulated trade, with increasingly strict standards of animal welfare being applied and policed. This trade is an important competitive factor: indeed, it is arguably a more powerful tool of competition than any legislative provision. In practice, it is a market mechanism that promotes rather than hinders the development of competitiveness and the addition of value in the Irish meat processing industry.

Recommendation 6

The Committee recommends the continuation of the live animal export trade. The difficulties that have arisen from time to time in the provision of the necessary transport capacity challenge those involved in the trade to develop contractual arrangements which take account of its specific characteristics.

The Committee considers that, for as long as price is the principal determinant of choice for the vast majority of consumers, organic production will not offer a feasible, competitive solution for the majority of Irish farmers, but that it will offer profitable opportunities for agricultural production to a small number of farmers.

Recommendation 7

The Committee recommends that the funding to the agricultural sector through the REPS programme and the organic supplementary measure be continued.

Sugar

Having examined the position of the sugar industry, the Committee is conscious of the need for reform of the regime and the vulnerability of the Irish sugar beet growing and processing industries to large-scale price and quota cuts.

Recommendation 8

In the context of current EU reform proposals, the Committee recommends that: the Minister for Agriculture and Food seek to have the EU Commission proposals modified to ensure the continuance of an efficient industry in Ireland.

Forestry

Recommendation 9

The Committee supports the planting targets of 20,000 ha per annum as described in the “Review and Appraisal of Ireland’s Forestry Development Strategy”. The Committee welcomes the option available to farmers who wish to plant forestry to stack entitlements on their land, thus providing farmers with additional income opportunities.

3.3 Building a Knowledge Based Irish Agriculture

In agriculture, as in every other industry, the development and application of new ideas will be the key to future competitiveness. Irish government policy in relation to the development of a knowledge based economy, especially through the provision of funding for R&D, must include the agricultural sector.

Recommendation 10

The Committee recommends an increase in funding for agricultural research that provides Irish agriculture with productivity enhancing innovations and that evaluates the applicability of foreign innovations to the Irish agricultural production. The Committee also recommends the encouragement of increased collaboration between research institutes in Ireland (Teagasc and the Universities).

Recommendation 11

The Committee recommends that additional funding for agricultural and food research be provided through a competitive process similar to that utilised in the NDP Stimulus Fund.

Improving the technical efficiency and productivity performance of Irish farms will require closer links between the agricultural production research undertaken by Teagasc and the farming sector. Evidence presented to the Committee indicates both a widening dispersion in the technical efficiency of Irish farming enterprises and comparatively low levels of productivity growth in Irish agriculture. Improvements in the average level of

technical efficiency across Irish farming will play a significant part in ensuring the maintenance of Irish agriculture's competitiveness. The Committee is strongly of the view that Teagasc must keep abreast of production research in competitor countries, with a view both to the development of effective responses in Irish production systems and, where appropriate, the application of new productive technological developments on Irish farms.

Recommendation 12

The Committee recommends that Teagasc, through its agricultural production and advisory structures, develop links with the agricultural industry that will foster earlier and more widespread adoption of the technologies that it develops.

The education system must provide courses that cater for the variety of needs of Irish agriculture in the future. The Committee believes that the changes in the CAP brought about by the Luxembourg Agreement, the changed market environment that will follow from future developments in world trading rules, and the recognition of the importance of education in the achievement of a knowledge based agricultural industry necessitate a re-appraisal of the education and training needs of Irish agriculture. This re-appraisal should cover both Teagasc and third-level institutions.

Recommendation 13

The Committee recommends that educational courses be further developed to prepare young people for careers in the agri-food sector, including part-time and full-time farmers. Where appropriate, such courses should include modules on financial management, environmental perspectives, the importance of R&D, and strategic planning. Teagasc should continue to be the primary provider of professional education for those entering farming and be the leading provider of a variety of continuing education courses for those already engaged in farming.

Recommendation 14

The Committee recommends that research be carried out on the socio-economic determinants of the productivity performance of Irish agricultural production so as to inform our understanding of the sector's competitive potential. Such research should be in addition to research on benchmarking the competitive performance of Ireland's key agricultural enterprises against international competitors.

3.4 Building a Knowledge Based Irish Food Industry

The knowledge based economy model extends beyond the confines of the ICT and biopharmacy sectors. It includes all sectors of primary production, including agriculture, all sectors of manufacturing, including food processing, and the whole range of the service sector. The maintenance and improvement of the competitiveness of the Irish food industry will demand improvements in the process efficiency of the industry and the development of new and innovative products.

The Committee believes that, given the role accorded to research and development by Irish Government policy that seeks to develop Ireland as a knowledge based economy, the dependence of Irish food industry competitiveness on basic and applied R&D must be recognised and financially supported in a similar fashion to the support given to other high-tech industries.

Recommendation 15

The Committee recommends that the Irish food industry together with the Department of Agriculture and Food, and the research community (Teagasc and the Universities) should actively seek ways of securing Science Foundation Ireland support for research that is of interest to the food industry.

The transfer and adoption by the food industry of product and processing innovations developed in Ireland and adaptations of technologies and innovations developed overseas will be vital in ensuring the ongoing competitiveness of the Irish food industry.

Recommendation 16

The Committee recommends that structures be developed that will promote increased collaboration between the research institutes (Teagasc and the Universities) and Irish food companies so as to foster market-led R&D.

The Committee is aware of the role that Enterprise Ireland plays in forging new relationships with other campuses and businesses involved in biotechnology.

Recommendation 17

The Committee recommends that the Department of Agriculture and Food liaise with Enterprise Ireland, the food industry and the research community to determine how best to ensure that biotechnological and other research is adequately funded.

Recommendation 18

The Committee recommends that priority is given to food research and development in the next National Development Plan (NDP).

The underlying logic of this case derives from the fact that the Irish agri-food industry, notwithstanding its importance at national level, is much smaller in scale than many of its competitors. Irish food processing companies have a far smaller capacity to fund pre-competitive research than many of their international counterparts. The research required includes research aimed at the development of new products, the adaptation of existing or traditional products and market development focused on consumer needs and tastes. The Committee believes that a strong publicly funded research base is necessary to overcome this scale problem for the Irish agri-food sector.

The Committee recognises that Government's role in supporting fixed asset investment in the food industry will decline. This makes it all the more important to ensure adequate levels of activity in R&D and marketing.

Recommendation 19

The Committee recommends that, in the context of reduced public support for fixed asset investment in the food industry, continued and enhanced funding for R&D and marketing activity be made available to the food industry.

The Committee believes that the changes in the CAP brought about by the Luxembourg Agreement and the changed market environment that will follow from developments in world trading rules, and the necessity to develop a food industry based in large part on our knowledge based comparative advantage mean that a re-appraisal of the educational needs of the Irish food industry is required. This re-appraisal must pay specific attention to the needs of the food industry for a mechanism to transfer research results to the production line and into the sales and marketing processes.

Recommendation 20

The Committee recommends that the education system develop courses that prepare young people for careers in the Irish food industry, whether as entrepreneurs, managers or workers. Where appropriate, such courses should include modules on financial management, environmental perspectives, the importance of R&D, product development and strategic planning.

3.5 Developing a Competitive Irish Food Industry

The Committee emphasises that, under the new CAP and with the probable further liberalisation of agricultural trade, increased reliance on returns from the market will be the key feature of Irish agriculture and food industries over the next ten years. The Irish agri-food sector must therefore align its production patterns and processes as closely as possible on consumer tastes and demand in all of its markets. Market pressures will, in any case, impose this approach on the sector. The challenge for the food industry is, therefore, to get “ahead of the curve” in this regard. The development of producer-processor production contracts, and pricing structures that pay a premium for goods produced to the high specifications demanded by consumers and that reward higher quality output would be of immense benefit in the process of getting “ahead of the curve”.

Recommendation 21

The Committee recommends that the food processing industry together with the agricultural sector investigate ways to connect farm production decisions more closely to market demands.

[See Recommendation 4.]

The Irish food and agricultural industries are closely connected. The recommendations for action that the Committee has enumerated for the agricultural industry are similar to or, in some cases, the same as those that it sees as necessary to meet the challenges faced by the Irish food industry. The following recommendations for action apply to both the food and agriculture industries and are, in large part, presented in section 3.2 of this report. (See recommendations 3 – 6).

Dairying

Since CAP reform will almost certainly lead to reduced prices in dairying, there will be a need for considerable increases in milk output per farm in order to meet the competitive pressures arising from reduced EU support, international competition and higher production costs. The reallocation of quota from those leaving the sector to those wishing to expand, whether through a restructuring scheme or by an alternative means, needs to be made more flexible and more responsive to the needs of farmers in the post Doha Round context. The development of competitive milk production at the farm level is a key component of the competitiveness of Irish milk processors who represent one of the most important parts of the Irish food industry.

Recommendation 22

The Committee recommends that the current quota reallocation process be examined, with a view to ensuring that it is not in conflict with the emergence of a competitive low cost milk production structure.

[See Recommendation 3.]

The Committee has recognised the difficulty that seasonality causes for the food processing industry, especially in the form of production cycles that lead to higher per unit processing costs, and believes that these difficulties constrain the extent to which the Irish food processing industry can develop higher value-added consumer products with shorter shelf lives.

Recommendation 23

The Committee recommends that dairy farmers and milk processors together investigate ways in which seasonal milk pricing structures can be modified to encourage a somewhat less seasonal production cycle, where this can generate profitable extra outlet possibilities and a net gain for all involved.

[See Recommendation 5.]

Beef

The CAP reforms under the Luxembourg Agreement and future liberalisation of agricultural trade present substantial competitiveness challenges to the Irish meat processing industry. The development of profitable cattle farming in Ireland and the future of beef processing will depend on the production of high quality cattle and beef products that consumers demand at competitive prices.

Recommendation 24

The Committee recommends that the Irish meat processing industry together with the agricultural sector investigate ways to connect farm production decisions more closely to market demands by institutionalising rewards for quality livestock production.

[See Recommendation 4.]

Labelling

The Committee considers that the competitiveness implications of source of origin food labelling are of central importance to an industry that is overwhelmingly dependent on exports. Growth in consumer demand for source of origin food labelling is an inevitable market development to which the Irish agri-food sector should respond in a positive and aggressive manner.

Consumers, regardless of location are entitled to traceability of their food products. In certain markets and for certain products, country of origin labelling has been an advantage for Irish products (e.g. dairy products on the German market). In some markets for beef, country of origin labelling has been perceived to be a disadvantage (e.g. because of problems of nationalisation of markets). This ambivalence has been both a result of and an excuse for failure to reach the highest standards of excellence in production, processing and marketing. It can be expected that, in the very near future, consumer demand for certainty and assurance in regard to quality, nutritional claims and traceability will become compulsory on all food products.

Recommendation 25

The Committee recommends that, in order to meet the increasing consumer demands for food safety and traceability, the labelling of food products by Country of Origin Labelling should become the norm and that this be pursued by the Irish Government at EU level.

Recommendation 26

The Committee recommends that the development of food labelling regulations should be pursued so as to encourage and support the development of functional foods while at the same time protecting consumer interests.

The Committee recognises that the huge investment of resources required for the successful launch of a new global brand makes such a development unlikely. However, for some companies with the capacity to develop new products, branding on regional or home markets may prove profitable and should be supported.

Recommendation 27

The Committee recommends that mechanisms be put in place to encourage local and regional branding opportunities.

The Committee recognises the growth in the importance of the food ingredients market to the Irish food industry. Future growth of this important sector will be contingent on the recognition by the Irish food industry of the importance of knowing the customer's customer, i.e. the final consumer.

Recommendation 28

The Committee recommends that the relevant state agencies and the food industry develop and maintain the capacity for innovation and production capacity that will enable the Irish food industry to develop food ingredient products that their food processor customers demand.

The Committee recognises that obesity is becoming a matter of major public concern. It takes the view that the principal origins of this problem lie in lifestyles and dietary habits. It acknowledges the fact that the food industry has already taken steps in relation to the ingredients used in many foods, particularly snack foods, to respond to developments in dietary science. It urges the industry to remain attentive to public concerns and urges legislators to be cognisant of the fact that consumer behaviour is not driven solely by product composition but is affected by many factors outside the range of influence of the industry.

Some Irish food companies are producing functional foods, which are becoming more important for the health conscious consumer, while most of the top pharmaceutical companies are engaged in production and research of beneficial medicines and products, some of which will in the future be incorporated in food products, known as nutraceuticals. As Europe's population ages, "wellness" products such as functional foods will become increasingly important in the European food basket.

Recommendation 29

The Committee recommends that consideration be given by the Irish food and biopharmacy industries to the development of strategic alliances that could harness the potential synergies between the food industry and pharmaceutical companies in the production of functional foods.

The production of artisan foods will, for a limited number of Irish food businesses, present profitable opportunities to move up the value chain. The Committee recognises that the importance of the artisan foods sector includes that industry's role in promoting Ireland, and specifically rural Ireland, as a high-value tourism destination.

Recommendation 30

The Committee believes that the encouragement of the artisan food sector and speciality local producers will support the agricultural sector from which it sources its most important raw materials and will add value to the Irish hospitality and tourist industries by helping to differentiate the Irish tourism sector's product offering and also support the rural development agenda.

The speciality food market is expected to grow over the next 10 years and niche branding will continue to be important. The general growth in local "farmers" markets will help this sector. There are also opportunities for marketing speciality Irish foods with the aid of EU designations as either PDO (Protected Designation of Origin) or PGI (Protected Geographical Indication). Of over 500 such designations in Europe to date, only three are Irish.

Recommendation 31

The Committee recommends that the achievement of EU Protected Designation of Origin or Protected Geographical Indication status for local foods in Ireland be aided and encouraged.

3.6 Managing the Regulatory Environment of Agriculture and Food

In response to legislation and agreements at both world and EU level, the regulatory environment within which the Irish agri-food sector will operate for the foreseeable future will seek to ensure food safety and consumer confidence in food products.

Recommendation 32

The Committee recommends that the regulatory environment in Ireland must be such that it provides the necessary safeguards and transparency, while avoiding unnecessary costs and excessive bureaucracy.

Recommendation 33

The Committee recommends that a systematic Regulatory Audit be carried out of the process affecting the agriculture and food processing industries with a view to ensuring that the fundamental objectives are achieved in the most cost-efficient way and, at the same time, in the way that is least onerous on primary production and processing.

Legislation to replace the current Animal Remedies Regulations (1996) must be based on sensible, practical measures that will improve animal health while reducing the cost and bureaucratic burden on the farming and food processing sector. The Committee believes that discussions on these issues are proceeding in a satisfactory direction.

Recommendation 34

The Committee's recommends that the rules relating to animal remedies applied in Ireland, while making all necessary provision for human and animal health and safety, should be no more onerous than those applied in other EU Member States.

The Committee acknowledges the improvements in animal health and welfare that have been brought about following the Report of the Agri Food 2010 Committee (inter alia, the work of the Animal Health Forum, animal identification systems, rapid tests, sow tethering and battery cage rules). The Committee recognises the rise in the incidence of Johnes Disease in the cattle herd and recommends that efforts to reduce the incidence of this disease continue and be augmented. Given that the continued good health and welfare status of Irish agriculture will be central to the competitiveness of Irish agriculture and food, the Committee believes that the continued development of comprehensive surveillance strategies for the pathogens and contaminants of significance to public and animal health is of great importance.

Recommendation 35

The Committee recommends that the highest priority continue to be placed on the monitoring and control of animal diseases, with a view to their elimination and eradication.

The Committee accepts that the essential function of competition law is to ensure the maximum levels of competition in the economy, to protect the interests of Irish consumers, and to promote the development of a cost competitive and efficient economy. At the same time, the Committee believes that there is a very pressing need for Irish food processing firms to achieve increased scale so as to operate efficiently. The means to facilitate the necessary consolidation must be actively sought, while respecting Irish and EU competition law.

The Committee is concerned that the application of competition law in Ireland seems to be based on the assumption that the domestic market is the main area of operation of Irish firms. The reality is that the Irish consumer market is an integral part of the EU Single Market. The effective market for many Irish food processing firms is EU-wide, if not indeed wider. Even for those Irish food processing firms for which the Irish market is the main field of activity, the market place is open to competition from firms in other EU Member States, so that the competitive framework is, in fact, much wider than the Irish market.

Recommendation 36

The Committee recommends that, in examining plans for the rationalisation of Irish food industries, the Competition Authority take due account of the overwhelming export orientation of the Irish food industry.

3.7 The All-Island Dimension

The competitive challenges to the food sector north and south of the border are the same. The Committee believes that there would be substantial and productive synergies in pooling resources, sharing research and engaging in business collaboration on an all-island basis.

Recommendation 37

The Committee recommends the adoption of an all-island approach to the enhancement of competitive potential in the agri-food sector.

Recommendation 38

The Committee recommends that links with Northern Ireland, especially in the area of improved animal health standards, should be maintained and strengthened.

3.8 Supporting the Public Goods Output of Agriculture

Irish agriculture operates within what has come to be known as the European Model of Agriculture, which recognises the important multifunctional role of agriculture as both a producer of food and as a producer of public goods associated with the rural landscape, environment and culture. The Committee fully endorses this conceptualisation of the wider role of Irish agriculture in society.

The new decoupled Single Farm Payment entitlements will be conditional on satisfaction of cross compliance criteria (including the Nitrates Directive) and the use of production systems that satisfy good farming and environmental practice.

Recommendation 39

The Committee recommends that greater official acknowledgement be given at both national and EU level to the role that direct income payments will play in encouraging the provision of public goods, in addition to their income support function.

The Committee draws particular attention to the fact that the cross compliance inspections, which will facilitate the payment of the Single Farm Payment, will act as an incentive to the better delivery of the public goods outputs associated with agriculture.

Recommendation 40

The Committee recommends that, in so far as it is possible, the recommendations of a report prepared by Mr Denis Brosnan be reflected in the final implementation of the Nitrates Directive in Ireland.

Recommendation 41

The Committee recommends that the Rural Environment Protection Scheme (REPS), which has been the primary vehicle for the promotion of good environmental practice on Irish farms, should continue to be funded so as to encourage the maximum farmer participation, allow the participation of more intensive farmers and secure greater provision of public good outputs from agriculture.

Recommendation 42

The Committee recommends that research that examines the issues surrounding the provision of public goods by agriculture and the demand for such goods by wider society should be encouraged.

3.9 Strengthening Rural Development

The primary purpose of rural development policy is to underpin the economic and social well being of rural communities. The objective is to provide the conditions for a fulfilling life for all those living in rural areas so that they can enjoy a standard of living and quality of life that make these communities attractive places in which to work and live.

Today's concept of rural development must take account of the fact that, while farming

and agri-food employment continue to be essential parts of the socio-economic structure, many rural dwellers are not linked to agriculture and their income and employment opportunities derive from the wider economy rather than from agriculture or from the agri-food sector. For the rural economy to flourish, there must be opportunities not just for agriculture but also for other businesses, particularly for alternative enterprises.

Agriculture will nevertheless continue to play a vital role in rural development not only as the principal economic activity and social milieu but also as the motor of environmental preservation and the essential foundation of the tourism infrastructure.

To maintain an efficient and diverse rural economy, and to safeguard its social infrastructure, non-agricultural employment and adequately funded physical infrastructure are essential.

Recommendation 43

The Committee recommends that due recognition be given to the role of rural development policy as a key instrument, together with broader regional development and planning policies, in encouraging the development of economically vibrant rural areas and that funds to support the rural development agenda be provided.

Recommendation 44

The Committee recommends that negotiations on EU rural development funds for the period 2007 to 2013 focus on the need to obtain the highest level of funding attainable for Ireland in view of the importance of such funds for our least developed areas, especially those currently classified as having Objective One status.

Recommendation 45

The Committee recommends that the logic of the National Spatial Strategy be carried through so as to achieve the inherent development sequence and hierarchy in a way that has not so far been evidenced, for example, in the Government's decentralisation plans.

Recommendation 46

The Committee recommends that Community Employment Schemes, County Enterprise Boards, LEADER Groups, Area Partnerships and community groups work more closely together to play their full potential role in developing local resources through a bottom-up approach, and be given the necessary long-term financial resources to realise this potential.

Recommendation 47

The Committee recommends that the Farm Assist Scheme administered by DSFA continue to support low-income households and that vigorous measures be taken to improve on its current low take-up rate.

Recommendation 48

The Committee recommends that the use of modulated funds arising from the Luxembourg Reform of the CAP that are destined for rural development be tailored to deliver and support the achievement of the wide set of objectives of rural development policy.

Recommendation 49

The Committee recommends the continuation of the Early Retirement Scheme (ERS), which supports the incomes of retiring farmers while simultaneously facilitating the restructuring of Irish agricultural production.

The Committee believes that the tourist industry constitutes one of the best means of encouraging greater diversity in the rural development agenda. In this context, the emotive topic of access to the land is a pertinent one and it must be resolved in a harmonious and satisfactory manner. The Committee urges all parties to engage with Comhairle na Tuaithe in a positive manner to ensure that the countryside is open to access and enjoyment while addressing farmers' need to protect their property. The resolution of these issues will be central to the ability of wider society to enjoy and to benefit from the public goods produced by agriculture.

Recommendation 50

The Committee recommends that Comhairle na Tuaithe develop and agree a countryside code and a National Countryside Recreation Strategy and develop procedures to resolve any future difficulties in relation to access to the countryside.

3.10 Improving Integrated Policy Response

The Committee recognises the important role that the support provided by various State agencies (Teagasc, Bord Bia, Bord Iascaigh Mhara, Enterprise Ireland and others) to the Irish agriculture and food industries plays in the maintenance of a competitive knowledge based Irish agri-food sector. There are significant overlaps between the responsibilities and fields of operation of the different State agencies that actively support the development of the Irish agriculture and food industries.

Recommendation 51

The Committee recommends that the State agencies involved in supporting the development of the Irish agriculture and food industry should co-operate more closely so as to co-ordinate more effectively the support provided to development of Irish farming and food businesses.

ICT can potentially be utilised to improve the speed and efficiency of information provision between State agencies and their clients. As things stand, many such clients are not yet equipped to use current ICT technology.

Recommendation 52

The Committee recommends that the possibilities offered by ICT be exploited to ensure the most efficient implementation of policy and that measures be taken to develop the capacity of the client base to avail of this technology.

Funding for rural development as well as wider development programmes will increasingly be funded from the national exchequer. The Committee believes that it is essential that any national programme for rural development that arises from the ongoing discussions of the proposed EU Rural Development Regulation be capable of integration with Ireland's wider National Development Plan.

Recommendation 53

The Committee recommends that Government develop a CAP Rural Development Plan for the whole country that is capable of being integrated into the wider NDP and the National Spatial Strategy.

Appendix

1 AGRI VISION 2015 COMMITTEE MEMBERSHIP

The Terms of Reference:

“Review the strategy and recommendations contained in the Agri Food 2010 Report in the context of developments since the report was completed.

While this review should be broad ranging it should focus in particular on:

- *The implications of the outcome of the Mid-Term Review*
- *Enlargement of the EU*
- *Developments in the WTO*
- *Competitiveness and efficiency of the production base*
- *Income and employment trends in agriculture and rural areas in general”*

Membership

Mr Alan Dukes

Mr Michael Behan
Mr Donal Cashman
Dr Noel Cawley
Mr John Dillon
Mr Michael Duffy
Ms Mary Finan
Mr Ciarán Fitzgerald
Mr Jim Flanagan
Mr Dan Flinter
Ms Ailish Forde
Mr Thomas Honner
Dr Mary Kelly
Professor Alan Matthews
Ms Lisa McAllister
Mr John Moloney
Mr Pat O'Rourke
Dr Pat Wall

Chairman

Chairman, Irish Meat Association
President, ICOS
Chief Executive, Irish Dairy Board
President, IFA
Former Chief Executive, Bord Bia
Managing Director, Wilson Hartnell PR
Director, Food and Drinks Industry Ireland
Director, Teagasc
Former Chief Executive, Enterprise Ireland
Director General, RGDATA
President, Macra na Feirme
Director General, EPA
Trinity College Dublin
Chief Executive, WDC
Group Managing Director, Glanbia
President, ICMSA
Former Chief Executive, FSAI

Secretariat:

Mr Kevin Smyth Chief Economist, DAF
Dr Kevin Hanrahan FAPRI-Ireland, RERC-Teagasc
Mr Mark Winkelmann Economics and Planning Division, DAF
Mr John Holland Economics and Planning Division, DAF

Appendix

2 SUBMISSIONS RECEIVED BY THE AGRI VISION 2015 COMMITTEE

The following is a list of all the submissions received by the Agri Vision 2015 Committee. All submissions have been made available on the committee's website at www.agri-vision2015.ie

Submission 1.	Patrick Hogan
Submission 2.	Forestry Assessment Companies
Submission 3.	Oxfam
Submission 4.	Irish Rural Link
Submission 5.	Pfizer
Submission 6.	Sustainable Energy Ireland
Submission 7.	Irish Farmers Association
Submission 8.	Irish Creamery Milk Suppliers Association
Submission 9.	Michael Flynn
Submission 10.	TASTE Council
Submission 11.	IFA Equality Office
Submission 12.	North-South Roundtable Group

Appendix **3** SUMMARY OF FAPRI-IRELAND AND EU COMMISSION ANALYSES OF THE CONSEQUENCES OF THE MTR AGREEMENT OF JUNE 2003²³

Introduction

This paper is comprised of two parts. The first summarises the analysis of the Luxembourg CAP Reform Agreement (CEC, 2003) that was published by the FAPRI-Ireland group in October of 2003 (Binfield et al. 2003b).²⁴ The second part of the paper summarises the latest EU Commission publication that examines the prospects for agricultural markets and incomes in the EU in light of the Luxembourg CAP Reform Agreement (EC, 2004).

The Commission's projections of the prospects for EU agricultural markets are only presented for the EU15 aggregate, the 10 Accession Countries (EU-10), and the new enlarged Union (EU-25). No member state detail is available and the discussion and comparison of the EU Commission results with those produced by the FAPRI-Ireland group needs to be framed by the differing units of analysis of the two studies. The Commission's analysis is based on a partial equilibrium economic model developed within DG Agriculture which projects agricultural commodity prices, supplies and uses and agricultural sector income for the EU 15 as an aggregate.

The analysis published by the FAPRI-Ireland group based at the Rural Economy Research Centre (RERC), Teagasc is undertaken in conjunction with colleagues at the Food and Agricultural Policy Research Institute (FAPRI) at the University of Missouri-Columbia. The analysis utilises the world and EU models developed at FAPRI and the models of Irish agricultural sector developed at RERC.

The FAPRI-Ireland group has over the last 4 years produced a series of annual analyses that have examined prospects for EU and Irish agriculture under status quo policy conditions (the Baseline) and under scenarios designed to illustrate, via comparison with the Baseline, the likely impact on Irish and EU agriculture of European Commission policy proposals, newly agreed EU policies and external trade reform proposals and agreements.

Although the Baseline represents a projection of commodity prices, production and quantities traded, it should be noted that these projections of the future are not the main aim of the FAPRI system. The main purpose of the FAPRI system and the FAPRI-Ireland Partnership is the analysis of different policy measures, either proposed or actual, and the quantitative measurement of the effects of policy and market changes relative to the Baseline. The Baseline projections allow us to highlight key medium term market developments and draw some conclusions about future policy developments and their likely impact on Irish agriculture.

The Luxembourg Agreement

The Luxembourg CAP Reform Agreement was both the end of a negotiation process that began in July 2002 with the European Commission's (EC) original communication to the Council, and

²³ Prepared for the Agri Vision 2015 Group, by Dr Kevin Hanrahan, Co-secretary Agri Vision 2015 Committee

²⁴ Earlier analyses published in January 2003 (Behan et al., 2003) analysed elements of the original communication from the European Commission (EC) to the Council in July 2002 (EC, 2002), while analysis published in May 2003 (Binfield et al., 2003a; Hennessy and Breen, 2003) analysed the impact of the EC legal proposal published in January of 2003 (EC, 2003). Full details of all the analyses undertaken are available from the FAPRI-Ireland website. Donnellan and Hanrahan (2003a) examined the impact of the reforms on agriculture's green house gas emissions. The FAPRI-Ireland website is www.tnet.teagasc.ie/fapri, where full details of the analysis of the Luxembourg Agreement as well as all previous analyses are available to download.

the beginning of a process of CAP reform. Most EU Member States (MS) are still currently choosing how to implement the agreed Reform and they have until August 2004 to inform the EC about which of the many Luxembourg Agreement decoupling options they are choosing to implement. Ireland has already chosen to 'fully' decouple all direct payments and to decouple these payments from agricultural production at the earliest possible date, the choices of other MS is as yet unclear.

Figure 1: The Mid-Term Review of the CAP and FAPRI-Ireland Analyses in 2003

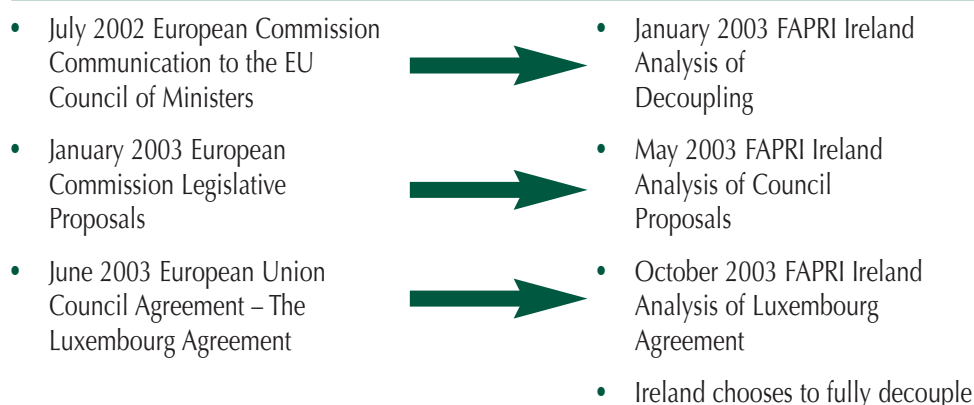


Figure 1 presents a schematic representation of the MTR process and of the FAPRI-Ireland analyses published during 2003 that examined the impact of the proposed reforms on the EU and Irish agricultural sectors.

In the FAPRI-Ireland analysis published in October 2003 (prior to Ireland's decoupling decision) it was necessary to make assumptions about which decoupling options Ireland, and equally importantly, other EU MS would choose. The number of possible decoupling possibilities within the Luxembourg Agreement is very large. The October analysis examined three scenarios relative to the FAPRI-Ireland Baseline (of the continuation of Agenda 2000 agricultural policy) published in May 2003.

The first of the October 2003 scenarios, which was termed the MAX scenario, assumed that all EU member states would "fully" decouple all direct payments (including the new dairy compensation payments) at the earliest possible date (2005). The second scenario analysed was termed the MIN scenario. Under this scenario it was assumed that all EU MS decoupled to the least extent allowable under the Agreement and deferred the decoupling of direct payments to the latest possible date (2007). Under a third scenario analysed, termed the MAX* (MAX-star) scenario, all EU MS other than Ireland fully decouple at the earliest opportunity while Ireland retains the link between production and receipt of the slaughter premium only.

In all three scenarios analysed external trade reform as specified in the EU proposal for Modalities in the WTO Agriculture Negotiations was also analysed.

The EU in all of the FAPRI-Ireland work to date refers to the EU 15. The accession to the EU of states from central and Eastern Europe that is to take place in May of 2004 is excluded from the FAPRI-Ireland analysis. The EU Commission analysis of March 2004 incorporates projections of the likely impact of accession and the Luxembourg Agreement on the agricultural sectors of the new EU members.

The problems of defining the Luxembourg Agreement implementation scenario that were faced in the FAPRI-Ireland analysis of the Luxembourg Agreement also arises in the EU Commission's later analysis. In the Commission's analysis an attempt was made to examine what they considered the "most plausible" implementation scenario. The exact details of the

implementation scenario assumed are unfortunately not provided, but what they assume is that the implementation of the Luxembourg Agreement's decoupling options results in a partial decoupling outcome that is less extreme than the MIN scenario analysed by the FAPRI-Ireland group. Thus, the implementation scenario assumed is likely to be closer to what is currently transpiring in terms of MS choices concerning the implementation of the Luxembourg Agreement than either the MIN or the MAX scenario assumed in the earlier FAPRI-Ireland analysis.

In light of what the Commission acknowledges as the "uncertainty" that remains concerning the market impacts of the remaining MS choices about Luxembourg Agreement implementation the Commission examined the sensitivity of their results with respect to what they term "maximum" and "minimum" decoupling options. The Commission used two scenarios to examine the sensitivity of their analysis to their interpretation of MS Luxembourg Agreement implementation choices. These two scenarios that are entitled the "minimum" and "maximum" decoupling scenarios are equivalent to the MAX and MIN scenarios examined in the FAPRI-Ireland analysis of October 2003 (Binfield et al., 2003b).

FAPRI-Ireland Results

There are three dimensions to the FAPRI-Ireland Partnership's modelling capacity. The results from analysis of only one of these dimensions (sector level results from the partial equilibrium model) are presented in this summary paper (Binfield et al., 2003b). The second and third dimensions are farm level analysis and the general equilibrium implications of the agricultural policy and trade reform. The results from farm level analysis of the implications of the Luxembourg CAP reform agreement (Breen and Hennessy, 2003b) are summarised in another paper being prepared by the Secretariat to the Agri Vision 2015 Committee. The general equilibrium (or economy wide) consequences of agricultural policy reform are beyond the scope of the models developed in RERC. However, colleagues and FAPRI-Ireland Partnership members at Trinity College Dublin have developed this capacity and have published initial results of research examining the general equilibrium consequences for Ireland of the Luxembourg Agreement (Matthews, O'Toole and Jensen, 2003).

In this paper the results from the partial equilibrium models of the Irish and EU agricultural sectors (Binfield et al., 2003b) are summarised. All results are expressed as percentage changes relative to the May 2003 FAPRI-Ireland Baseline. This summary focuses on the MIN and MAX scenarios. Full details of the impact of the MAX* scenario can be found in Binfield et al. (2003b).

Underlying the Baseline (and the scenario analyses) are forecasts of macroeconomic variables obtained from Global Insight (an international macro-econometric forecasting firm based in Boston, MA) and the HERMES model maintained by the Economic and Social Research Institute (ESRI), Dublin.²⁵ The real world evolution of macroeconomic aggregates such as price inflation, economic growth and exchange rates have important consequences for agriculture and other economic sectors. Large deviations in these forecasts, ex post, can have important implications for the projections produced. It is important, however, to note that the same macroeconomic conditions are assumed to prevail under the Baseline and the scenarios. This means that the FAPRI-Ireland results in terms of percentage differences under a given scenario from the Baseline should be unaffected, so long as the developments in agriculture do not significantly affect the overall macroeconomy.

All of the of the monetary results presented by FAPRI-Ireland are in nominal rather than real terms. The analysis fully takes into account general price inflation and changes in the specific costs faced by Irish farmers and the Irish agricultural sector. All economic decisions take place

²⁵ Global insight website is <http://www.globalinsight.com/>. The Economic and Social Research Institute's website is www.esri.ie

in response to real (i.e. inflation adjusted) variables and within the FAPRI-Ireland modelling systems all such decisions are modelled as a function of real prices and real incomes. However, market transactions that involve money are always transacted in nominal terms and it is thus in these terms that all of the FAPRI-Ireland results are presented.

Under the Luxembourg Agreement reforms to the Common Market Organisations (CMO) relating to dairy markets, beef, sheep, and cereals and oilseeds were agreed. Other sectors, such as the sugar sector, were not reformed. The current discussion of reforms in this sector is thus not accounted for. The CMO for other sectors, such as the pig and poultry sectors, were not reformed.

The impact of the agreed reforms on sectors that are seemingly unaffected operates via the impacts on related markets. In this summary the focus is on the impact of the reform on those sectors for which the CMO concerned was reformed. Readers should consult Binfield et al. (2003b) for details of the impact of the reforms on sectors not explicitly referred to.

Dairy

Box 1: Main Features of Dairy MTR for Ireland

- Agenda 2000 intervention price decreases would begin a year earlier in 2004/05
- Quota guaranteed to 2014/15. Any further increase on current quotas subject to review.
- Intervention butter price reduced by 10 percent relative to Agenda 2000 reductions. SMP support price reduction as agreed in Agenda 2000
- Progressive reduction from 70,000 tonne to 30,000 tonne limit on intervention (before tendering) by 2008
- From 2004 direct payments progressively increasing to €35.50 per tonne from 2006

Under Agenda 2000 policy (the Baseline policy) further limited increases in the milk quota of EU member states and reductions in the intervention prices for butter and skimmed milk powder were scheduled to occur in the 2004/2005 and subsequent marketing years. Compensation (in the form of direct payments) was due to dairy farmers from 2005 onwards.

The main features of the Luxembourg Agreement as it affected the dairy CMO are summarised in Box 1. The Baseline evolution of the Irish and EU farm gate milk price are given in Table 1 together with percentage changes from this Baseline level under the MAX scenario.

In the FAPRI-Ireland model Irish and EU milk quota remains filled despite the projected reduction in the farm gate milk price of 4 percent from the Agenda 2000 Baseline level. The Agenda 2000 Baseline milk price level in itself is projected to be

approximately 11 percent lower than the price level observed in 2002.

Table 1: EU and Irish Farm Gate Milk Price (Euro/100Kg)

	2002	2004	2006	2008	2010	2012
			Euro/100 Kg			
EU-Baseline	30	30	28	27	27	27
MAX % Change	0%	2%	2%	2%	3%	4%
			Euro/100 Kg			
Ireland-Baseline	26	26	24	23	23	23
MAX % Change	0%	2%	2%	2%	3%	4%

Source: FAPRI-Ireland Partnership Model (2003).

Behind the evolution of the EU and Irish farm gate milk prices lies the evolution of the supply and utilisation of dairy commodities including cheese, butter, skimmed and whole milk powder. On the demand side, lower EU product prices leads to higher dairy commodity consumption relative to the Baseline. Static overall EU milk quotas and the continued protection offered by EU import tariffs will each help to tighten the supply side in future years. Overall the FAPRI-Ireland analysis projects that there will be reduced volumes of EU dairy products available for export and this will ease the pressure that would come from the new lower export subsidy outlay limitations specified in the EU WTO modalities proposal. These lower subsidised export limits are binding for some dairy commodities and, *ceteris paribus*, lead to lower dairy commodity prices.

Relative to Ireland's existing product mix the Baseline and MTR scenario Irish milk price projections involve some modest movement away from butter and SMP and towards cheese. If, on the one hand, the Irish product mix remains unchanged into the future, Irish milk prices would be lower than projected here. Equally, if the utilisation of milk in higher value uses changes to a greater degree than projected, a higher milk price could be possible.²⁶

Other things being equal the Luxembourg Agreement will reduce the gap between world and EU prices that must be bridged by an export subsidy. EU dairy product prices will fall because of these lower supports but world price will also rise over and above the Baseline level due to reduced availability of EU dairy products for export.²⁷

Beef

Box 2: Luxembourg Agreement Scenarios: Beef

Minimum Decoupling (MIN)

- In all EU Member States the suckler cow premium and 40% of the slaughter premium remain coupled to production
- All other direct payments are decoupled from production and their value incorporated in the single farm payment
- The single farm payment (and decoupling) introduced in 2007

Maximum Decoupling (MAX)

- All direct payments are decoupled to the fullest extent allowed for under the Luxembourg Agreement
- The Single farm payment (and decoupling) introduced in 2005

The reforms agreed to the beef CMO are arguably the most complex of the Agreement. This complexity arises from the number of policy instruments in the CAP beef CMO and the discretion the Agreement affords to MS in terms of implementing the decoupling of direct payments partially.

Box 2 summarises the beef CMO reform scenarios analysed in FAPRI-Ireland's October 2003 analysis of the Luxembourg CAP reform Agreement. In this summary the results under the MAX* scenario are not presented, full details of the results of this scenario are available from Binfield *et al.* (2003b). The results from the MAX and the MIN scenarios represent what were considered the opposite ends of the spectrum of reform possibilities offered by the Luxembourg Agreement.

How these two scenarios compare with the political choices that will be ultimately made by MS is at this stage unknown. They do however place bounds on the likely effects of agreement on EU and Irish beef sectors.

²⁶ However, large-scale change in the Irish product mix would require considerable new investment at a processing level.

²⁷ The increase in the value of the euro versus the US dollar on foreign exchange markets, *ceteris paribus*, increases the costs of subsidising EU farm exports. The FAPRI-Ireland analysis used an exchange rate forecast that envisaged a lower euro/dollar exchange rate. Binfield *et al.* (2000) provides an analysis of the impact of euro/US dollar exchange rate change on EU and Irish agriculture.

Table 2 summarises the May 2003 FAPRI-Ireland Baseline results for the EU beef sector. The Baseline (Agenda 2000) projections together with the percentage differences from the Baseline outcome under the MAX and MIN Luxembourg Agreement scenarios, as described in Box 2, are presented. Table 3 presents the same data for Ireland.

Table 2: Luxembourg CAP Reform Agreement and the EU Beef Market

	2002	2004	2006	2008	2010	2012
			Million Head			
Suckler Cows – Baseline	12.0	11.8	11.9	11.8	11.8	11.9
MAX %	0%	0%	-5%	-10%	-12%	-11%
MIN %	0%	0%	1%	-2%	-5%	-5%
			Thousand Tonnes			
Beef Production – Baseline	7,431	7,396	7,425	7,347	7,242	7,151
MAX %	0%	0%	1%	-2%	-3%	-4%
MIN %	0%	0%	0%	0%	0%	-1%
			Thousand Tonnes			
Beef consumption	7,390	7,386	7,387	7,370	7,300	7,209
MAX %	0%	0%	0%	-1%	-1%	-2%
MIN %	0%	0%	0%	0%	0%	-1%
			Euro/100 Kg			
Cattle R3 Price	251	251	241	237	241	245
MAX %	0%	0%	-1%	4%	7%	8%
MIN %	0%	0%	0%	-1%	1%	3%

Source: FAPRI-Ireland Partnership Model (2003).

The results at the EU and Ireland levels are similar in that decoupling (both full and partial) is expected to lead to a decline in the EU and Irish suckler cow herd. The decline in suckler cow herds is expected to be greater under full decoupling (MAX) than under the partial decoupling scenario analysed (MIN). The decline in Ireland is expected to be greater than in the EU as a whole due to the greater dependence of Irish cattle farmers on direct payments.

The declines in EU and Irish suckler cow herds are reflected in a decline in overall EU beef production, this decline in turn reflects the share of the suckler and dairy cow herds in the total EU cow population. The continuation of the dairy quota regime for the whole of the projection period means that the scenarios analysed have little impact on the projected downward path in the number of dairy cows (arising from improving milk yields) and almost all of the change in beef production arises from the suckler cow herd's reduction.

The decline in beef production within the EU that occurs under both of the decoupling scenarios analysed is projected to lead to increases in EU cattle prices when compared with the Agenda 2000 projection. The increase in prices reduces EU domestic consumption of beef. Higher prices and reduced production lead to reduced volumes of beef exported from the EU and increases in EU beef imports.

Under the Agenda 2000 Baseline the EU is projected to become a consistent net importer of beef (imports exceeding exports). Under both of the decoupling options analysed EU net imports of beef grow relative to the Baseline due to both decreased exports and increases in third country imports. Nevertheless, the FAPRI-Ireland analysis indicates that the increase in third country beef on EU markets is not sufficient to off set the increases in beef prices that occur due

Table 4 provides projections on ending ewe numbers and sheep meat prices for the EU and Ireland under the Baseline with percentage changes from this Baseline under the MIN and MAX scenarios.

The results indicate that the complete removal of the link between farming sheep and receipt of subsidies in the context of full decoupling in other sectors will lead to a reduction in ewe numbers relative to what would have happened in the absence of any policy change. The decline in ewe numbers is larger under full decoupling than under the partial decoupling scenario.

The direction of the change in the results at the EU level and in Ireland differs under the MIN scenario. In Ireland the higher sheep meat prices that arise as a result of the impact of partial decoupling across the EU is sufficient to offset the negative impact on ewe numbers of the partial decoupling of the ewe premium. When compared with Baseline of Agenda 2000 policy the Irish ending ewe numbers under the partial decoupling scenario (MIN), are slightly higher.

Cereals

The Baseline (Agenda 2000) results for the cereals sectors in Ireland and the EU are presented in Table 4. The details of the Luxembourg Agreement scenarios relating to the cereals sector that were analysed are provided in Text Box 4.

Box 4: Luxembourg Agreement Scenarios: Cereals

Minimum Decoupling (MIN)

- 25% of the arable aid payment or 40% of the durum wheat payments
- The single farm payment (and decoupling) introduced in 2007
- Other sectors as detailed in text boxes 1, 2, and 3.

Maximum Decoupling (MAX)

- All direct payments are fully decoupled from production.
- The Single farm payment (and decoupling) introduced in 2005
- Other sectors as detailed in text boxes 1, 2, and 3.

It should be noted that the use of the May 2003 Baseline in the analysis means that developments observed during the spring and summer of 2003 has dramatically changed the expected path of cereals supply, use and prices in the EU. However, the comparison of the Baseline projections with projections under the scenarios analysed in terms of the sign and the magnitude of the effects expected remain valid, see Binfield et al. (2003b) for more on this.

The decoupling of direct payments (arable aid and set-aside payments) from production has a generally negative effect on cereals area harvested and on production of cereals. The magnitude of the changes in supply that occur in response to decoupling are small by comparison with the supply effects of decoupling direct payments in the livestock sector.

The difference between the magnitude of the impact of decoupling in the cereals and

livestock sectors is due to the fact that direct payments under the crop and oilseeds programs of the CAP were already partially decoupled under Agenda 2000. Farmers largely already had freedom to plant the cereal that they wanted to and still receive their arable aid payment. This partial decoupling means that when these arable aid and set-aside payments are further decoupled that the negative impact on supply is relatively small.

The supply effects at the EU level of the full and partial decoupling of arable aid payments are modest. Table 5 presents the Baseline projections for EU soft wheat area harvested and EU soft wheat price as well as the percentage changes from these projections under the MAX and MIN scenarios. The area harvested declines as expected but the difference from the Baseline is less than 1%.

The impact of decoupling for the other main cereals and oilseeds is similar, the decoupling of direct payments leads to modest declines in area harvested, some increases in average yield as less productive land is idled and small overall increases in market prices for cereals due to the reduced supply.

The impact of the decoupling of arable aid payments is somewhat larger in Ireland than in the EU as a whole. Under the full decoupling scenario (MAX) cereal area harvested declines by approximately 4 percent in Ireland. This decline occurs because the returns to planting are reduced with the decoupling of arable aid payments. The somewhat larger effect in Ireland when compared with the EU average is due to the greater dependence on direct payments in Ireland. With Irish cereal prices determined by prices on EU markets, there is little change in the cereals output price due to either partial or full decoupling.

Table 5: Luxembourg CAP Reform Agreement: EU and Irish Cereals sector

	2002	2004	2006	2008	2010	2012
Thousand Hectares						
Baseline EU –						
Wheat Area Harvested	14,085	14,030	14,084	14,197	14,319	14,408
MAX%	0.0%	0.0%	-0.7%	-0.2%	-0.9%	-0.6%
MIN%	0.0%	0.0%	-0.2%	-0.1%	-0.7%	-0.4%
Thousand Hectares						
Baseline Ireland –						
Barley Area Harvested	176	181	181	180	180	180
MAX%	0.0%	0.0%	-1.9%	-3.3%	-3.8%	-3.9%
MIN%	0.0%	0.0%	-3.8%	-6.9%	-7.6%	-7.8%
Euro/Tonne						
Baseline EU –						
Wheat Price	113	117	113	111	109	107
MAX%	0.0%	0.0%	0.4%	-0.4%	0.0%	-0.3%
MIN%	0.0%	0.0%	-0.6%	-0.6%	-0.1%	-0.4%
Euro/Tonne						
Baseline Ireland –						
Barley Price	99	102	98	96	94	93
MAX%	0.0%	0.0%	-0.1%	0.3%	0.3%	0.1%
MIN%	0.0%	0.0%	-1.0%	0.0%	0.3%	0.0%

Source: FAPRI-Ireland Partnership Model (2003).

The decline in Irish cereal area harvested is larger under the partial decoupling (MIN) scenario than under the MAX scenario. Under the MIN scenario the larger decline in area harvested that occurs relative to the Baseline is due to negative changes in the returns to a cereal farming when compared with livestock enterprises. The partial decoupling of arable aid payments and the compulsory set-aside provisions of the agreement under the MIN scenario shift the balance of returns towards livestock production. Some of the land that under the Baseline that was planted with cereals is instead used as pastureland in the MIN scenario.

Agricultural Expenditure and Sectoral Income

The Luxembourg CAP Reform Agreement gives MS the freedom to choose which version of decoupling they want from a large set of alternatives. The FAPRI-Ireland analysis examined the effect on EU and Irish agricultural markets if all EU member states chose one or other of two of the most extreme of the decoupling options offered in the Agreement. These two extremes were called the MAX and MIN scenarios.

To this point this summary has examined the effect of the decoupling of direct payments and the lowering of intervention prices for dairy commodities on the individual sectors in terms of volume of output produced and value of output from the sector. If the direct payments being decoupled positively affected farmers' production decisions, the decoupling of such payments is expected to be negative in terms of its effect on future supply. The negative impact of reductions in the volume of agricultural commodities produced on agricultural sector revenue is offset, at least partially, by the increases in prices that result from reduced domestic supply (this positive effect is offset to a degree by increased extra-EU imports). However, across most sub-sectors of Irish agriculture, under both the MIN and MAX decoupling scenarios, the FAPRI-Ireland analysis shows that the value of output from the sector declines.

While the declining value of the agriculture sector's revenue is a cause for concern, the decline in the volume of output produced by the sector is associated with declining expenditure on the variable inputs that are necessary for agricultural production. The FAPRI-Ireland analysis shows that the decline in input expenditure is larger under the MAX scenario than under the MIN scenario. This is because under the MAX scenario a much larger decline in the suckler cow herd and ewe flocks occurs. The smaller number of animals and associated production activity under the MAX scenario gives rise to a lower demand for agricultural inputs.

Table 6: Agricultural Output, Expenditure and Income

	2002	2004	2006	2008	2010	2012
	€uro million					
Agricultural Output	4472	4601	4393	4316	4321	4328
MAX%	0%	-1%	-2%	-1%	-1%	-1%
MIN%	0%	-1%	-1%	-1%	-1%	0%
	€uro million					
Agricultural Input Expenditure	3122	3131	3101	3090	3097	3130
MAX%	0%	0%	-4%	-6%	-7%	-7%
MIN%	0%	0%	0%	-1%	-1%	-1%
	€uro million					
Subsidy Receipts	1620	1650	1766	1802	1796	1788
MAX%	0%	4%	6%	4%	4%	5%
MIN%	0%	2%	6%	3%	3%	4%
	€uro million					
Operating Surplus	2381	2521	2426	2361	2341	2270
MAX%	0%	1%	4%	9%	11%	12%
MIN%	0%	0%	3%	2%	3%	4%

Source: FAPRI-Ireland Partnership Model (2003).

Under the MAX scenario the agricultural sector as a whole establishes the maximum single farm payment (SFP) entitlement possible. Under the MIN scenario the sector as a whole establishes a

somewhat smaller total SFP entitlement. Under both decoupling scenarios subsidy receipts are larger than under the Baseline. This is because under the Baseline with direct payments 100 percent coupled as agricultural production declines, as it is projected to do under the Baseline, the value of subsidies received declines. With decoupling at least some, and with full decoupling all, of subsidy receipts in the establishment period are locked in.

The projected declines in input expenditure (under both MIN and MAX scenarios) when coupled with the single farm payment entitlement levels that are locked in under both the MAX and MIN scenarios mean that agricultural sector income (what is officially termed Operating Surplus) increases to levels in excess of those projected under the Baseline. Table 6 presents Baseline projections for the value of agricultural output, input expenditure, subsidy receipts and operating surplus together with percentage changes from the Baseline under the MAX and MIN Luxembourg CAP reform scenarios that were analysed in FAPRI-Ireland's October 2003 publication (Binfield *et al.*, 2003b).

Conclusions

The reform scenarios analysed in FAPRI-Ireland's October analysis (Binfield *et al.*, 2003b) represent just a small subset of some of the possible options that could be chosen across the 15 current EU Member States within the terms of the Luxembourg Agreement. In this summary we have concentrated on two of the three scenarios analysed, the so-called MIN and MAX scenarios.

As already reflected in earlier analyses (Behan *et al.*, 2003a; Binfield *et al.*, 2003a), the aggregate income effect of the scenarios analysed is positive when compared with the projected outcome under Agenda 2000. The policy choices made in Ireland and those made and yet to be made in other EU member states have important and serious implications for Ireland, especially for its two largest agricultural sectors – beef and dairy.

Under the scenarios examined, relative to current levels there is a pronounced decline in milk prices and the value of milk sector output. However much of the reduction had already been agreed to as part of Agenda 2000. The extent of the decline is such that it is unlikely that the compensatory payments being made available will be sufficient to offset the reduction in the output value of the sector.

The FAPRI-Ireland analysis indicates that the decoupled dairy direct payments will increase the incentive to exit the sector faced by marginal milk producers. However these payments and the price cuts are smaller than suggested in the European Commission's January 2003 (EC, 2003) legislative proposals and this may temper the rate of exit and the degree of quota consolidation at farm level.

The analysis conducted by FAPRI-Ireland also suggests that the restrictions on the value of export subsidies that are proposed under the WTO modalities proposal would create difficulty for cheese and "other" dairy product exports from the EU. This implies that exports from the EU may be constrained and in order that the surplus output can be absorbed within the EU, internal EU prices would have to decline further so as to bring the EU market into balance.

Under the Luxembourg Agreement reform scenarios analysed by FAPRI-Ireland, the EU WTO Modalities proposal is not projected to impact the EU beef sector, for further discussion see Binfield *et al.* (2003a) and Donnellan and Hanrahan (2003b). Variations in the beef sector outcomes across scenarios analysed are solely attributable to the Luxembourg Agreement policy options selected. Under all reform scenarios analysed suckler cow numbers are projected to decline across the EU with the largest declines expected to occur in Ireland.

Relative to the Baseline of no policy change (Agenda 2000) the reduction in suckler cow numbers reduces EU beef supply and brings EU beef market into greater balance and leads to prices that are above Baseline levels. In all of the policy reform scenarios analysed following

initial declines in the value of output relative to the Baseline, the value of the Irish beef sector by the end of the projection period is relatively unchanged compared to the Baseline level.

Despite the reduction in the value of agricultural sector output under all of the Luxembourg Agreement reform scenarios, reduced expenditure on inputs, combined with more stable direct payment receipts produce increases in overall agricultural operating surplus. The MAX scenario by construction “locks-in” a greater proportion of the direct payment entitlement than the MIN scenario and with the lower expenditure on inputs that occur (when compared with the MIN scenario and the Baseline) results in operating surplus levels in excess of both the Baseline and the MIN reform scenario outcomes.

The FAPRI-Ireland analysis suggests that outside of milk production the effects on EU and Irish agriculture of the WTO elements of the scenario analysed would be somewhat modest. The changes that arise under the scenario relative to the Baseline in these sectors arise largely due to policy changes contained within the Luxembourg Agreement. However, more extensive trade reforms might have a more widespread impact on agriculture in the EU and Ireland. Results will also be sensitive to the future exchange rate between the euro and the US dollar.

All of FAPRI-Ireland results are presented in nominal terms. Consequently with inflation projected to rise by about three per cent annually over the projection period, real agricultural income under the Baseline and under all of the Luxembourg Agreement reform scenarios analysed is set to decline over the period 2003-2012. However, the presentation of the results in nominal terms does not affect the key conclusion that each of the reform options examined provides a higher level of agricultural income in 2012 compared with the Baseline projection.

EU Commission Results

The European Commission’s March publication presents medium-term projections for the key EU agricultural products in the current (EU-15) and enlarged European Union for the period 2003-2010. It also presents the main findings of an impact analysis of the reform of the CAP adopted in June 2003 on EU agricultural markets and income of the current (EU-15) and the enlarged European Union (EU-25). No attempt is made in the Commission analysis to examine the consequences for the EU of possible developments arising from the WTO Doha Round. In this respect and others noted below the scenarios analysed differ from those examined by FAPRI-Ireland.

In this summary we focus on the results for the EU 15 under what the EU Commission term the counter-factual scenario of a continuation of the Agenda 2000 reforms (the Baseline in the FAPRI-Ireland analysis) and the Commission’s Baseline, i.e. the implementation of the Luxembourg Agreement and an expanding EU.

In the Commission’s analysis no country level results are available. For this reason no comparisons can be made with the FAPRI-Ireland results for the impact of the reforms on the Irish agricultural economy. All of the Commission’s results are for the EU-15 aggregate and any comparisons with the FAPRI-Ireland results occur at this level of aggregation.

Cereals and Oilseeds

For the cereals and oilseed sectors the impact of the CAP reform agreement identified in the Commission’s analysis are modest. Total area of cereals harvested is projected to decline by approximately 1 percent with the implementation of the Luxembourg Agreement. A large part of this small decline arises due to reductions in the levels of direct market support provided to the durum wheat and rye sectors. However the decoupling of direct payments also contributes to the projected decline. The overall decline in cereal area in the Commission’s analysis is the approximately the same as that identified in Binfield et al. (2003b).

Oilseed area in the EU is expected to decline by approximately 1 percent. Due to increasing average yields per hectare (as less productive land is let go fallow) the decline in cereal and oilseeds production that occurs because of the Luxembourg Agreement is 0.6 percent.

Total cereal consumption and exports also decline when compared with the Agenda 2000 scenario owing to lower availability (due to declining production) and reduced demand due to falling animal numbers. The Commission's research projects that the changes arising from the Luxembourg Agreement will lead to slightly improved cereals prices (+0.1 percent) and largely reduced (though not eliminated) stocks of cereals in the EU-15.

Livestock

The introduction of the decoupled single farm payment in conjunction with the retention across the EU-15 of a degree of partial coupling of animal premia is according to the Commission's analysis, projected to have a "significant impact on the livestock sector." When combined with slight increases in cereals prices the Luxembourg Agreement is by 2010 projected to lead to reduction in the level of EU beef production. After a short-term increase in beef production (due to the culling of unwanted suckler cows) beef output is projected to decline to levels approximately 2 percent below those that would have arisen under Agenda 2000 policies (equivalent to a fall of approximately 130,000 mt).

Given the continuation of the dairy quota the vast majority of this adjustment in beef production occurs as a consequence of changes in the suckler cow herd. The EU 15 herd is projected to decline by approximately 7 percent compared to the Agenda 2000 level.

The Commission's projected reductions in beef production and animal numbers due to the implementation of the Luxembourg Agreement are more moderate than those projected by the FAPRI-Ireland group (Binfield et al., 2003b) where full decoupling is assumed. They are greater than those projected by the FAPRI-Ireland group under its minimum decoupling scenario. This comparative result is what would be expected a priori, given that the Commission's analysis incorporates information about MS choices vis-à-vis full and partial decoupling and assumes an implementation choice outcome that lies between the two extreme positions analysed by the FAPRI-Ireland group in October 2003 (Binfield et al., 2003b).

The Commission's projection of lower domestic availability of beef is expected to lead to beef producer prices that, following a short-term decrease, exhibit what they term a "strong rise". By 2010 with the implementation of the Luxembourg Agreement beef prices are projected to 6 percent above the levels projected under a continuation of Agenda 2000 policies. Higher prices in turn lead are projected to lead to lower domestic consumption (down 1 percent) and lower levels of beef exports from the EU (down 6 percent). Beef imports are under the Commission's projections expected to increase by 7 percent when compared with the levels that would occur under Agenda 2000.

The Commission projects that the impact on the EU sheep sector of the Luxembourg Agreement will when compared with the Agenda 2000 outcome be characterised by an acceleration of the ongoing declining in ewe flocks that leads to a reduction in lamb production of 1.4 percent by 2010 when compared with the Agenda 2000 outcome. Lamb exports are projected by the Commission to increase due to better use by third countries of their market access commitments.

In the Commission's analysis both the pig and poultry sectors are unaffected directly by the Luxembourg Agreements reforms. These sectors are indirectly affected by the changes in the beef and sheep sectors via the demand side effects of strongly increasing beef and sheep prices. Compared with the outcome that are projected under a continuation of Agenda 2000 policy both prices and the volume of pig and poultry production are slightly increased by 2010.

Dairy

The reforms of the EU dairy CMO that were agreed as part of the Luxembourg Agreement principally revolve around the 10 percent reduction in the support price for butter (that is additional to the Agenda 2000 price reductions) and the earlier implementation of the agreed price cuts. The Reform also see the introduction of compensatory direct payments to milk producers. The asymmetric cuts in support prices for butter and SMP over the period 2004/05 to 2008/09 are projected by the Commission to lead to a significant fall in the farm gate milk price (some 8.8 percent below the Commission's projected Agenda 2000 price level by 2010).

When comparing the FAPRI-Ireland and Commission's analysis of the impact of the dairy reforms it should be noted that the Commission view of the evolution of world dairy product markets is for lower prices that those projected by FAPRI in their 2003 analysis.

The cut in the support price for butter together with increased fat availability due to agreed increases in milk quota is expected to lead to butter prices that by 2010 are 10.7 percent below the levels that would be expected with a continuation of Agenda 2000 policy.

With lower prices some reduction in butter production is projected to occur, with the Commission's analysis projecting a 2.5 percent reduction. The low price responsiveness of EU consumer demand for butter to prices results in a slight increase in EU butter consumption of less than 1 percent. The Commission projects that with slightly higher domestic use of butter and reduced availability a large reduction in butter exports from the EU, some 23 percent lower than under Agenda 2000 policy, will occur by 2010.

The Commission's projections are noteworthy in that they suggest that while butter production will decrease, this will not result in increased cheese production, but instead it see additional milk going to fresh dairy products. Overall, the production and consumption of cheese are both expected to be affected negatively by the agreed reform, as cheaper milk-fat matter is channelled, together with scarce protein, towards non-cheese dairy products. Overall, the Commission projects that EU cheese production will decline by approximately 0.4 percent and that cheese prices will be slightly higher with the agreed reform than under the Agenda 2000 policy set.

With higher volumes of milk proteins being used in fresh dairy products and reduced production of SMP as a by product of reduced butter production, the Commission's analysis projects that EU SMP production will decline by 4.5 percent by 2010 when compared with the Agenda 2000 outcome.

Despite the lower prices (due to support price cuts), lower availability and reduced consumption subsidies are expected to lead to a decline in both domestic use and exports of SMP by 2010 when compared with Agenda 2000 levels. In the Commission's analysis SMP prices are projected to fall by 2.1 percent by 2010 when compared with Agenda 2000 prices.

Overall, when compared with the results published by the FAPRI-Ireland group the Commissions projections of the impact of the reforms of the Dairy CMO are more extreme. The Commission's projected declines in the butter and SMP prices are more extreme than those from the FAPRI-Ireland research. The Commission's cheese price projection by contrast is higher than that of the FAPRI-Ireland group. Overall the milk price projection in the Commission's analysis (down 8.8 percent compared to Agenda 2000 levels by 2010) is lower from the perspective of milk producers than the FAPRI-Ireland projection of the Luxembourg Agreements impact on farm gate milk prices (down 4.4 percent).

While the FAPRI-Ireland dairy projections of the Luxembourg Agreement Analysis are made under a binding WTO commitment (based on EU WTO proposal January 2003), the Commission analysis is based on final year URAA export subsidy and tariff levels. This suggests that it is likely that sizeable WTO reforms could be accommodated without affecting dairy market outcomes in the Commission's Luxembourg Agreement analysis.

Agricultural Sector Income

The Commission projections on agricultural sector income are less positive than those produced by the FAPRI-Ireland team based at Teagasc. This is due to the continued partial coupling of direct payments in their analysis and their more pessimistic dairy market outlook. As they note "... the full decoupling option would for example generate a very slight increase in income against Agenda 2000." They find that the value of the livestock sectors is largely unaffected by the reforms due to the fact that price increases largely offset the negative impact of the reductions in the volume of output produced. In the dairy sector the reforms are expected to lead to a decline of approximately 5 percent, while cereal sector receipts are projected to stagnate.

Overall, by 2010 the agricultural sector income at an EU level given the Commission's assumptions vis-à-vis the implementation of the Luxembourg Agreement are expected to result in slight reduction in agricultural sector income when compared with Agenda 2000 (down by 0.5 percent in 2010).

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Appendix

4 PROJECTING FARM NUMBERS²⁸

Executive Summary

- This paper classifies existing farms into groups based on their economic viability, whether the farmer or spouse or both have an off-farm job and on demographic viability.
- Results show that less than one-third of farms are economically viable, on over 40 percent of farms, either the farmer or spouse or both are engaged in off-farm employment and 45 percent of farms are transitional, that is the farm business is not economically viable and neither the farmer nor spouse have an off-farm job.
- The classification of the current population is compared to similar classifications of the 1998 population. Over that period, total farm population declined by about 2 percent per year, numbers of full-time farms declined more rapidly while the number of part-time farms remained relatively static.
- A continuation of these trends would result in a farm population of 105,000 in 2015 with about one-third economically viable, another third non-viable but with off-farm employment and the last one-third in the transitional category.
- The policy changes that lie ahead are likely to change recent trends. Decoupling is likely to result in more farmers taking off farm jobs, income increasing on some farms and declining on others.
- When the future policy changes and expectations for the macroeconomic climate are accounted for, the total farming population is expected to remain the same but more significant restructuring is expected. In particular the number of part-time farms is expected to increase more significantly while the number of transitional farms is expected to decline. Following the reductions in the intervention prices for dairy products and given the preference for part-time farming, dairy farm numbers are also expected to decline.

Projecting Future Farm Numbers

This paper presents,

- Existing farm numbers by category
- Projections of farm numbers in 2015 in a baseline situation²⁹
- Projections of farm numbers in 2015 under a policy change which primarily includes the Luxembourg Agreement but also ongoing changes in the wider macro-economy.

²⁸ Paper prepared for the Committee by Ms Thia Hennessy, FAPRI-Ireland, Teagasc. Thia would like to acknowledge the input provided by Teagasc colleagues Mr James Breen, Dr James Frawley and Dr Kevin Hanrahan, officials of the Economics and Planning Division of the Department of Agriculture and Food, Professor Alan Matthews, and staff of the CSO and Teagasc's National Farm Survey.

²⁹ A baseline assumes a continuation of past trends and current policies. No new policy changes are assumed.

1. Introduction

This paper initially classifies existing farms into two broad groups, economically viable and non-viable. While viability is a multi-dimensional concept that can cover both the farm business and the farm household, in this paper economic viability refers to the viability of the farm as a business only and does not purport to make any inferences about the economic viability of the farm household. An economically viable farm is defined as one having (a) the capacity to remunerate family labour at the average agricultural wage, and (b) the capacity to provide an additional 5 per cent return on non-land assets, (Frawley and Commins 1996).

Farms are also segregated according to their off-farm job status, part-time farms are identified that is, farms where the farmer or spouse or both participate in off-farm employment. Farms that are not economically viable but where the farmer and/or spouse participate in off-farm employment are classified as part-time. Although these farms are not economically viable as businesses, the farm household may be sustainable in the longer term due to the presence of an off-farm income. Non-viable farms where neither farmer nor spouse is involved in off-farm employment are considered transitional. Due to the poor economic return on these farms and the lack of any other gainful activity, the farm business is unlikely to be sustainable in the longer term. Transitional farms are grouped according to their demographics. Frawley and Commins (1996) classify households where the farm holder is over 55 years of age and where there is no one in the household under 45 years of age as having 'poor demography'. Households with good demography have a household member less than 45 years of age or else the farm holder is under 55 years of age.

Table 1: Farm Categories

Viable	
Family farm income is sufficient to cover family labour and return on assets	
Viable Large Full-time	Economically viable, neither farmer or spouse have an off-farm job and farm labour supplied is greater than 0.75 of a labour unit
Viable Small Full-time	Economically viable, neither farmer or spouse have an off-farm job and farm labour supplied is less than 0.75 of a labour unit
Viable Part-time	Economically viable, farmer and/or spouse has an off-farm job
Non-Viable Part-Time	
Family farm income is insufficient to cover family labour and return on assets but farmer and/or spouse has an off-farm job	
Non-Viable Part-time	Economically non-viable, the farmer and/or spouse has an off-farm job
Transitional	
Family farm income is insufficient to cover family labour and return on assets and there is no off-farm employment	
Transitional Good Demography	Economically non-viable, farmer is 55 or younger or another member of the household is under 45 years and neither farmer or spouse have an off farm job
Transitional Poor Demography	Economically non-viable, farmer is 55 or more and there is no one else in the household under 45 years and neither farmer or spouse have an off farm job
Micro Farms and Alternative Systems	Farms excluded from National Farm Survey due to their size, less than 2 ESUs or less than 1 hectare and farms in pigs and poultry

Table 2 shows the current farm population segregated into the farm groups described in Table 1. Less than one-third of current farms are economically viable. Of the approximately 40,000 viable farms, almost half, 18,700 are classified as part-time. It is worth noting that on about 10,000 of these part-time farms the farmer is working full-time on the farm, while the spouse is participating in off-farm employment. About 27 percent of farms, approximately 37,000 in all, are not economically viable but are part-time and thus the business may be sustainable in the longer term. Thus on over 55,000 farms, 41 percent, either the farmer or spouse or both have an off-farm income. The remaining 45 percent of farms are classified as transitional; these farms are economically non-viable and neither farmer nor spouse works off the farm. They are considered transitional as neither the farm business nor the household is likely to be sustainable in the longer term. One third of transitional farmers has poor demography and therefore is likely to retire within the next ten years. Another third are classified as micro farms; these are farms with farm income of less than 2 ESUs, land area less than a hectare or farms involved in alternative systems, such as pigs and poultry.³⁰

Table 2: Current State of Farming Population

Farm Group	2002
Viable Farms (Percentage)	38,700 (28)
<i>Viable Large FT (Percentage)</i>	<i>16,325 (12)</i>
<i>Viable Small FT (Percentage)</i>	<i>3,600 (3)</i>
<i>Viable PT (Percentage)</i>	<i>18,774 (14)</i>
Non-Viable Part-time (Percentage)	37,200 (27)
Transitional (Percentage)	60,400 (45)
Transitional Good Demo. (Percentage)	22,880 (17)
Transitional Poor Demo. (Percentage)	17,566 (13)
Micro (Percentage)	20,000 (15)
All Farms	136,000

Source: Irish National Farm Survey Data (2002)

2. Baseline

Projections of farm numbers under a baseline situation assume a continuation of past trends. The baseline projections presented here, are arrived at by reviewing the changes in the population of the identified categories of farms over the last five years. The trends in Table 3 show the percentage change in the population each year. Approximately 2 per cent of farmers exited the

³⁰ European Size Unit = €1,200 using 1996 standard gross margins. Pigs and poultry are considered alternative systems as they are surveyed by the CSO but are not included in the National Farm Survey.

sector each year over the last five years. Some groups declined more rapidly in population than the total. For example, the two viable full-time categories declined in population by 6 and 7 percent per year for the large and small farms respectively. Over the same period, the proportion of farms in the part-time farming categories increased. In 1997, 37 percent of farms were part-time; by 2002 this figure had increased to 41 percent.

Table 3: Review of Historical Changes in Farming Population

Farm Group	1997	2002	Change per year (%)
Viable Farms (Percentage)	46,035 (31)	38,700 (29)	-3
<i>Viable Large FT (Percentage)</i>	<i>22,960 (16)</i>	<i>16,325 (12)</i>	<i>-6</i>
<i>Viable Small FT (Percentage)</i>	<i>5,545 (4)</i>	<i>3,600 (3)</i>	<i>-7</i>
<i>Viable PT (Percentage)</i>	<i>17,530 (12)</i>	<i>18,774 (14)</i>	<i>+1</i>
Non-Viable Part-time (Percentage)	37,018 (25)	37,000 (27)	-
Transitional (Percentage)	64,600 (44)	60,400 (45)	-1.5
Transitional Demo. (Percentage)	28,798 (20)	22,880 (17)	-4
Transitional Demo. (Percentage)	16,320 (11)	17,566 (13)	-2
Other CSO Farms - Micro (Percentage)	19,500 (13)	20,000 (15)	-
All Farms	147,800	136,000	-2

Source: Irish National Farm Survey Data (1997) and (2002)

Table 4 shows projections of farm populations in the various categories in 2015 if past trends continue unabated. These projections are compared to the baseline projections produced by the 2010 committee. The 2010 committee projected that under a baseline situation, total farm numbers would decline to 120,000 by 2010. It is projected here that by 2015 under a baseline situation total farm numbers will have declined to 105,000. This is a simple continuation of the annual 2 percent decline in population trend from 2002 to 2015.

If the decline of 3 percent per annum in the number of economically viable farms continues, there will be 30,000 economically viable farms in 2015. Within this group, the number of farms where either the farmer or spouse has an off-farm job is likely to increase. In 2002 about half of all economically viable farms were part-time. It is projected that by 2015 three quarters will be part-time. Therefore, there will be only 10,000 economically viable full-time farms, this compares to 20,000 at present. It should be noted that on a large number of farms, which are classified as part-time, the farmer is actually employed full-time on the farm and it is the spouse who takes up off-farm employment.

The number of farms that are economically non-viable but either the farmer or spouse works off the farm, and thus where the farm household may potentially be economically viable, is projected to remain more or less static despite the declines in the total population. From 1997 to 2002 the number of farms in this category was more or less maintained despite a decrease in

total numbers. If this trend continues, then it is projected that there will still be 37,000 farms in this group.

Table 4: Baseline Projections of Farm Population

Farm Group	2002	2010 Baseline*	2015 Baseline [±]
Viable Farms (Percentage)	38,700 (29)	35,000 (29)	30,000 (29)
<i>Viable Large FT</i>	<i>16,325</i>	<i>Changed[‡]</i>	<i>8,500</i>
<i>Viable Small FT</i>	<i>3,600</i>	<i>Changed</i>	<i>1,500</i>
<i>Viable PT</i>	<i>18,774</i>	<i>Changed</i>	<i>20,000</i>
Non-Viable Part-time (Percentage)	37,000 (27)	50,000 (42)	37,000 (35)
Transitional (Percentage)	60,400 (45)	35,000 (30)	38,000 (36)
Transitional Good Demo.	22,880	9,000	8,000
Transitional Poor Demo.	17,566	21,000	17,000
Micro	20,000	10,000	8,000
All Farms	136,000	120,000	105,000

*Taken from the 2010 report

±Own calculations

‡ The definition of these categories is different from the 2010 report

It is projected that by 2015, 57,000 farms or 54 percent of the population will be part-time, compared to 41 percent at present. Apart from an increasing number of farmers working off the farm, the trend of increasing numbers of women participating in the workforce is likely to result in a greater number of part-time farms. In the 25 years from 1971 to 1996, the number of women at work grew ten times faster than the number of men. In 1996, 37 percent of mothers participated in the workforce compared to just less than 25 percent in 1991, (CSO 1998). The number of transitional farms is expected to decline from 60,000 to 38,000. This is slightly higher than the 2010 committee's projection. Over the last five years, this group has declined in size at a rate of 1.5 percent each year, slower than assumed in the 2010 report.

3. Policy Change

Baseline projections are based on the hypothesis that recent trends continue. There are a number of reasons why it is reasonable to expect that future developments will differ from past trends. By 2015, the policies governing agriculture will have changed considerably from those in place in the 1998 to 2002 period. In particular, the Luxembourg Agreement is likely to cause significant restructuring within the sector and result in trends differing substantially from those observed in the recent past. The Luxembourg Agreement has allowed for the decoupling of all direct payments from production and has significantly reduced the intervention prices for dairy products.

It could be argued that the Luxembourg Agreement has created a disincentive to exit farming. Under previous agricultural policies, farmers were obliged to grow crops, produce milk or rear animals to qualify for financial support in the form of direct payments. Typically when the returns to these activities declined, farmers exited the sector or retiring farmers were not replaced. With the Luxembourg Agreement, farmers can continue to receive direct payments

without engaging in agricultural activity and without allocating substantial amounts of labour to farm work. Additionally, farmers can stack their payment entitlements on a portion of their land and plant forestry on the remainder, thereby benefiting from both decoupled payments and forestry premia. Farmers can also participate in the REPS scheme, which has recently become financially more attractive, without forfeiting their decoupled payment. Due to these factors, it is envisaged that the Luxembourg Agreement will not result in any acceleration of the trend of farm exits but is likely to result in a restructuring of the sector.

The decoupling of direct payments will reduce the coupled return to agricultural production, thereby reducing the return to farm labour. As a result, decoupling is likely to have ramifications for the allocation of farm labour and ultimately the number of farmers engaging in off-farm employment. Consequently, we would expect an acceleration of the trend toward part-time farming. With respect to family farm income and viability, there will be winners and losers from decoupling. Some farmers will gain through higher beef prices. Others will gain by specialising in enterprises that return a higher market profit rather than simply farming the subsidy. On the other hand, family farm income will decline on some farms as a result of reduced milk prices, lower calf prices and modulation. The Luxembourg Agreement is likely to cause some shifting of farms between the economically viable and non-viable categories.

The age structure of the farming population is such that we can expect a large number of retirements from farming over the next number of years. The perceived poor economic outlook for farming, the positive macroeconomic outlook and the increasing rate of participation by farmers' children in third level education is resulting in a decline in the number of young people entering full-time farming. In 1980, approximately 30 per cent of school leavers from farm households continued in full-time education to the third level, by 1998 this had increased to 75 per cent (HEA 2000). Research by Hennessy (2002) has shown that there is a significant negative correlation between participation in third-level education and the probability of a young person entering full-time farming. If the number of young people participating in third level education continues to increase, then we would expect that the number of farmers involved in full-time farming would decline more rapidly.

In summary we would expect the structure of Irish farming to be different from that projected under the baseline because;

- Economic research (Breen and Hennessy) has shown that decoupling is likely to increase incomes on some farms while reducing income on others thereby affecting farm viability
- Economic research has shown that the Luxembourg Agreement is likely to cause a reduction in the profitability of dairy farming thus affecting farm viability and farm numbers
- Decoupling will affect how farmers allocate their labour and is likely to result in an increase in the number of part-time farms
- Due to the age structure and general macroeconomic trends, the number of new entrants is expected to decline

While all of these factors will affect the composition of the farming population, the policy changes that have been agreed are unlikely to significantly affect total farm numbers. It has been argued that there is no additional pressure or incentive to exit farming under the Luxembourg Agreement than there has been in recent years. Therefore, we conclude that the total farming population will not decline any faster than has been estimated under the baseline but that significantly more restructuring will occur.

3.1: Retirement and Succession

Given the current age structure of Irish farmers, a number of retirements are expected over the next 10 years. Most research conducted on retirement from farming concludes that retirement is

not a single event but a series of transitions and in most cases it is impossible to pinpoint a definite age of retirement for farmers. Here we take the simplifying assumption that all farmers retire at approximately 68 years of age. Table 5 presents expected retirements from the farm groups identified earlier in the text.

Table 5: Farmers Retiring

Farm Group	2002
Viable Farms	11,900
<i>(Percentage)</i>	<i>(31)</i>
<i>Viable Large FT</i>	<i>5,200</i>
<i>Viable Small FT</i>	<i>2,100</i>
<i>Viable PT</i>	<i>4,600</i>
Non-Viable Part-time	8,600
<i>(Percentage)</i>	<i>(23)</i>
Transitional	36,000
<i>(Percentage)</i>	<i>(60)</i>
<i>Transitional Good Demo.</i>	<i>10,400</i>
<i>Transitional Poor Demo.</i>	<i>17,500</i>
<i>Micro</i>	<i>8,400</i>
All Farms	57,000
<i>(Percentage)</i>	<i>(42)</i>

Source: Irish National Farm Survey (2002)

The data presented in Table 5 indicate that 42 percent of all farmers will retire over the next ten years. A recent survey of farmers concerning their succession plans has revealed information about possible entry rates, i.e. what proportion of retiring farmers will be replaced by the next generation. This succession information can be related to other farm, household and income characteristics. Through this research, occupational choices of heirs in the different farm groups can be estimated. Table 6 describes the occupational choices of farmers' heirs.

Table 6: Occupational Choices of Farmers' Heirs

Percentage of Heirs	Full-time	Part-time	Not at all
<i>Viable Large FT</i>	<i>44</i>	<i>44</i>	<i>11</i>
<i>Viable Small FT</i>	<i>13</i>	<i>80</i>	<i>6</i>
<i>Viable PT</i>	<i>5</i>	<i>95</i>	<i>-</i>
<i>Non-viable PT</i>	<i>3</i>	<i>89</i>	<i>8</i>
<i>Transitional Good Demo.</i>	<i>12</i>	<i>86</i>	<i>2</i>
<i>Transitional Poor Demo.</i>	<i>24</i>	<i>66</i>	<i>10</i>
<i>Micro*</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>All Farms</i>	<i>20</i>	<i>73</i>	<i>7</i>

Source: Irish National Farm Survey (2002)

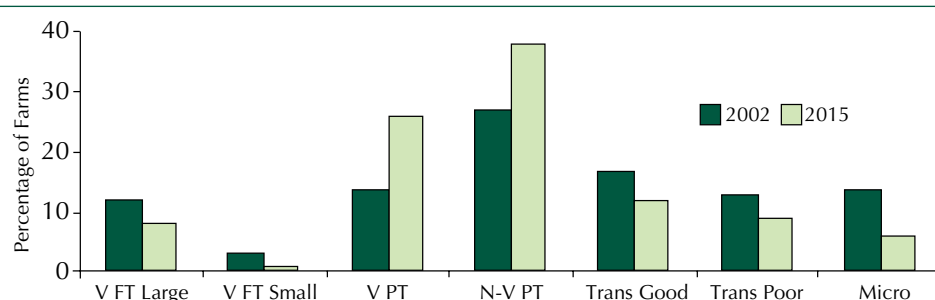
* Data for micro farms is not available

On average across all farms, 20 percent of farmers' heirs have indicated that they will enter full-time farming. Almost three quarters of heirs are opting for part-time farming while just 7 percent of farmers' heirs plan to exit farming completely. These rates vary by farm type. For example, almost half of all heirs to large viable full-time farms plan to continue full-time farming compared to just 3 per cent of heirs to non-viable part-time farms.

If we assume that the occupational decision of heirs as recorded by the NFS in 2002 will be similar over the next ten years, we can use this information along with the data on expected retirements to examine the effect of retirement and succession on the number of farms in the different categories.

To make projections of changes in farm structure as a result of retirement and non-succession, it is necessary to make a number of assumptions. All viable farms continuing in full or part-time farming are assumed to remain viable. All non-viable part-time farms are assumed to remain non-viable. For transitional farms with heirs entering part-time farming, some of these farms are assumed to become viable when they are operated on a part-time basis. If family farm income covers at least 75 percent of the remuneration of labour and the return on assets, then the transitional farm is assumed to be viable when operated on a part-time basis. Given these assumptions, projections of changes in the population composition based on retirement and succession effects only are presented in Figure 1.

Figure 1: Projection of Population Composition based on Retirement Pattern



Source: Own calculations

The proportion of viable full-time large farms is projected to decrease from 12 percent of the population down to 8 percent based on retirement effects alone. The number of small viable farms is projected to halve from 3 percent of the population to 1.5 percent. Both part-time farming categories are projected to increase; the number of farms in the viable part-time group is projected to almost double from 14 percent farms to just over 28 percent. The population of the non-viable part-time category is projected to increase to 37 percent of the population. The numbers in all the transitional farm groups are projected to decline, these farms typically are only being continued on a part-time basis so as the current generation in these categories reach retirement age the farm moves out of this population grouping. Due to the age effect, many of the farmers in the good demography category move into poor demography.

3.2: Decoupling

The previous section examined the impact of retirement and succession on the structure of Irish farming. In this section, we look at the changes farmers that are not expected to retire over the next ten years are likely to face. First the effect of decoupling on labour allocation is addressed, second the effect of decoupling on farm profits and in turn viability is considered and finally the financial pressure on dairy farmers as a result of the Luxembourg Agreement is considered.

3.2.1: Decoupling and labour allocation

Economic theory suggests two avenues through which government subsidies affect farmers' labour allocation decisions: (1) by increasing the marginal value product of farm labour and (2) by increasing non-labour income. If a payment is coupled to production it will increase the marginal value of time spent farming but if it is decoupled it will not. A coupled payment requires that farmers produce a certain product to receive the subsidy and therefore it is the equivalent to an increase in the implicit farm wage rate. Decoupled payments do not by definition require production and therefore the introduction of a decoupled payment can be considered a source of non-labour income or as an increment to exogenous farmer wealth, which does not affect the marginal value of farm work. However, replacing coupled payments with decoupled payments is likely to affect the marginal value of farm work. When payments were coupled to production in the EU, as they were throughout the 1990's and the early 2000's, the value of farm labour increased as the payments were included in the return to production and therefore the return to farm labour. When these payments are decoupled in 2005, there will be two effects. First the return to farm labour will decline significantly as the payments are removed from the production related profit and second direct payments will form a new source of non-labour household wealth.

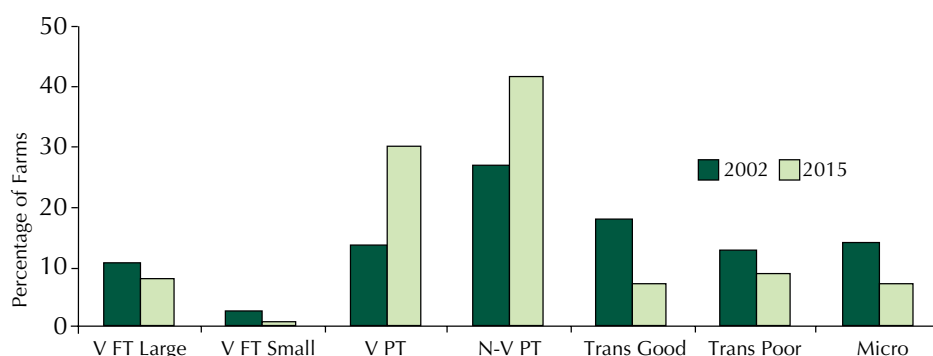
Here we focus on the effect of decoupling on the labour allocation of the non-retiring population that are currently engaged in full-time farming, that is about 25 percent of the total population. The age structure of these farms is such that they are all 'young' enough to participate in the off-farm employment market if they wish to do so. Here we estimate the probability of these farmers opting into part-time farming when payments are decoupled from production.

Previous research (Breen and Hennessy 2003) modelled the effect of decoupling on labour allocation. Results show that the number of non-dairy farmers projected to participate in off-farm employment increases by 10 percent under a decoupling scenario relative to a continuation of Agenda 2000, in other words 10 percent more farmers opt into part-time farming that under the baseline. Breen and Hennessy identified the factors that statistically significantly influence the decision to work off farm. Farm system is important, dairy farmers are almost 20 percent less likely to work off-farm than other farm types. Farmers' age and farm size negatively influence the probability of off-farm work. This research is used here to estimate the number of farmers moving into part-time farming. Farmers with a high probability of working off the farm, as calculated by the labour allocation model, are assumed to move into the part-time farming group.³¹

About 1 percent of large viable farms become part-time as a result of decoupling. The rate of change is low because the majority of these farms are either dairy farms or large profitable non-dairy farms and therefore have a lower probability of becoming part-time. The results are similar for small viable small farms. These farms are small but have very profitable labour input hence the relative return to labour is such that the probability of off-farm work is low.

The group most likely to become part-time is the transitional good demography farms. It is projected that almost half of these farmers will become part-time as a result of decoupling and this group will represent just 5 percent of the population with the remainder moving into part-time categories. Figure 1 presented changes in the population due to retirement and succession. Figure 2 presents these estimates along with changes in labour allocation.

³¹ Labour allocation is modelled using a legit model. Participation in off-farm work is the binary dependent variable. The factors hypothesised to influence this variable include farm size, system, farmer's age and so forth. The coefficients of the significant variables are used to estimate the probability of engaging in off-farm employment. Those with a probability exceeding 0.50 are assumed to become part-time farmers.

Figure 2: Projection of Farm Numbers Using Retirement and Labour Allocation Patterns

Source: Own calculations

When the labour decisions of non-retiring farmers are considered, we see a continuation of the trend toward fewer full-time farms and more part-time farms.

3.2.2: Decoupling and Farm Profit

The decoupling of direct payments from production will increase farm profits for a number of cattle, sheep and tillage farmers. Farmers that returned a negative market based margin in recent years could increase their profits by reducing or removing crops or animal based enterprises from their farms. Studies by Breen and Hennessy (2003) showed that the majority of non-dairy livestock farms would be financially better off post decoupling. They estimated that by 2012 two-thirds of non-dairy livestock farms would benefit from decoupling. About 45 percent of cattle farmers would be significantly better off, i.e. would experience between a 25 and 50 percent increase in their income, as a result of decoupling. The farmers that are worse off tend to be large profitable farms that are losing profit due to modulation; on average these farmers experience a 10 per cent reduction in their profits. Those that are benefiting are generally smaller and very unprofitable farms.

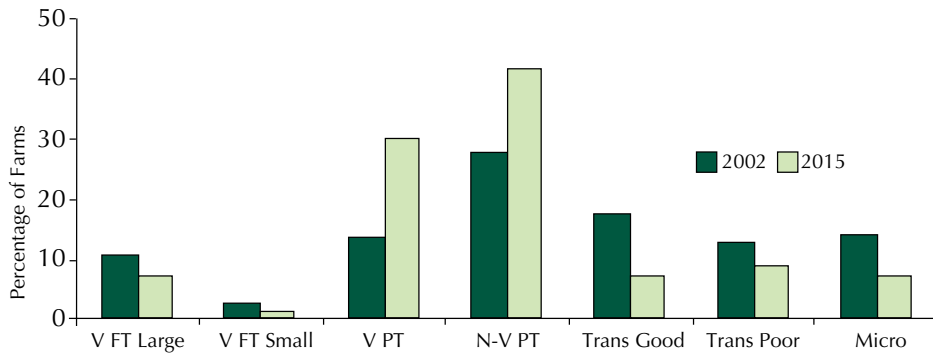
We assume that the most profitable one third of large viable non-dairy livestock farms experience a 10 per cent decrease in their income as a result of modulation. We then check whether this affects their viability. Just 1 percent of farmers move from viable to non-viable. Even with the decrease in income, the number becoming non-viable is quite low because a 10 per cent decline in income does not render them non-viable. We also assume that the least profitable 45 percent of all transitional farms experience a 33 percent increase in their income as a result of decoupling. As a result, 1 percent of the population move from transitional to viable.

Significant reductions in milk and calf prices are expected as a result of the Luxembourg Agreement. The compensation provided for the milk price decline is decoupled from production. This means that farmers can cease producing milk but still receive compensation. Research by Breen and Hennessy has shown that the 'coupled' return to milking cows would decline significantly over the next ten years. This will make dairy production a relatively less attractive enterprise and is likely to result in a decline in the total number of dairy farms. Breen and Hennessy have shown that apart from the natural attrition from the dairy sector more farmers are projected to exit the sector as a result of the Luxembourg Agreement. They project that 24 percent more farmers will exit the sector as a result of decoupling than would have exited under a continuation of Agenda 2000 policies. These 24 percent of farmers are not of retiring age and therefore these exits will come from the younger portion of the population.

Here we assume that the smallest dairy farmers, in terms of volume of milk production, exit the sector as a result of decoupling.³²

If the smallest 24 percent of dairy farmers exit the sector due to financial difficulties, then the dairy farming population will decline by approximately 4,000, on top of those discontinuing as a result of retirement and non-succession. As the farms exiting are assumed to be the smallest, the majority of them are already non-viable. Almost 3,500 of these farmers are in transitional categories. Even if they cease dairy production it is unlikely that they will become economically viable. Therefore it is assumed that while they change systems they don't change farm groups. The majority of the remaining dairy farms are in the two full-time viable categories. It is assumed that these farms will move into the non-viable full-time good demography group. Figure 2 presented estimates of farm numbers in 2015 based on retirement patterns and changes in labour allocation. Figure 3 presents these figures but also includes estimates of changes in viability as a result of decoupling.

Figure 3: Projection of Farm Numbers Based on Retirement Patterns, Changes in Labour Allocation and Changes in Viability



Source: Own calculations

5: Analysis of Farming Systems

Table 7 shows the farm population groups in 1997 and 2002 with the number of dairy farms in each group identified. Total farm numbers declined by 8 percent over the five year period but dairy farm numbers declined by 25 percent according to National Farm Survey data. The discussion of recent trends in the general farming population provided earlier in the text highlighted the growth in part-time farming. Table 7 clearly indicates that dairy farms typically tend to be full-time, just 35 percent of dairy farmers were in part-time categories in 2002.

With fewer new entrants opting for full-time farming and more full-time farmers shifting into part-time categories, the incidence of part-time farming is expected to increase and as a result the number of dairy farmers is expected to decline. According to National Farm Survey figures, approximately 33 percent of dairy farmers are expected to retire over the next ten years. Surveys conducted on farm succession plans revealed that approximately 45 percent of retiring dairy farms would be continued on a full-time basis by farm heirs, with a further 36 percent being continued on a part-time basis.

Due to the perceived difficulty of combining a time consuming and time critical dairy enterprise with an off-farm job, the incidence of part-time dairy farming remains low. According to Table 7 about one-third of dairy farms are part-time, but in most of these cases it is the spouse rather

³² It could be argued that exits may also occur from the large viable full-time category. Farmers with large milk quotas may choose to exit the sector to liquidate the asset value of their quotas before the projected decline in milk quota values occurs. However, even if this is so, we still have no reason to believe that these farms will become non-viable.

than the farmer who works off the farm. On closer examination of the data we find that only 12 percent of dairy farmers work off farm. Given this information we have reason to believe that the majority of new farming entrants that are opting for part-time farming will not continue in dairy production, if this is so, then the consequences for dairy farm numbers are serious.

Table 7: Farm Population Groups and Farm Systems

Farm Group	1997	2002
Viable Farms <i>(Of which are in dairy)</i>	46,035 <i>(24,000)</i>	38,700 <i>(17,200)</i>
<i>Viable Large FT</i> <i>(of which are in dairy)</i>	22,960 <i>(16,000)</i>	16,325 <i>(10,500)</i>
<i>Viable Small FT</i> <i>(of which are in dairy)</i>	5,545 <i>(860)</i>	3,600 <i>(580)</i>
<i>Viable PT</i> <i>(of which are in dairy)</i>	17,530 <i>(7,000)</i>	18,774 <i>(6,000)</i>
Non-Viable Part-time <i>(of which are in dairy)</i>	37,018 <i>(4,600)</i>	37,000 <i>(5,000)</i>
Transitional <i>(of which are in dairy)</i>	64,600 <i>(12,500)</i>	60,400 <i>(9,000)</i>
<i>Transitional Demo.</i> <i>(of which are in dairy)</i>	28,798 <i>(10,000)</i>	22,880 <i>(7,300)</i>
<i>Transitional Demo.</i> <i>(of which are in dairy)</i>	16,320 <i>(2,500)</i>	17,566 <i>(1,600)</i>
<i>Other CSO Farms – Micro</i> <i>(of which are in dairy)</i>	19,500 –	20,000 –
All Farms <i>(of which are in dairy)</i>	147,800 <i>(41,229)</i>	136,000 <i>(31,371)</i>

Source: National Farm Survey (1997) and (2002)

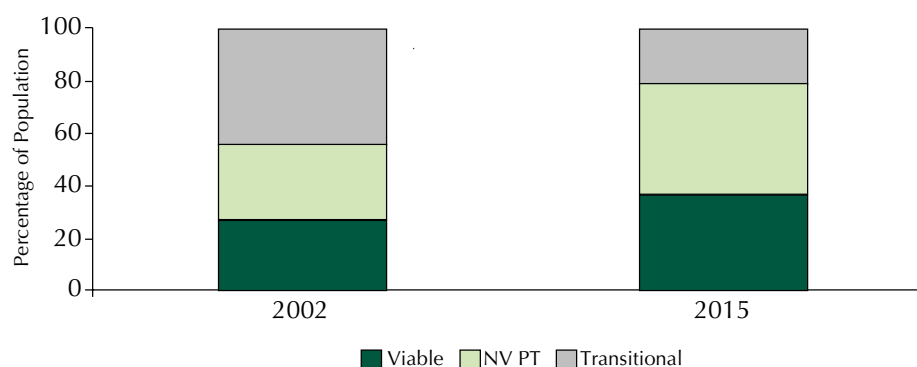
According to Department of Agriculture and Food figures, there are approximately 25,000 active milk producers in Ireland at present. We can expect almost 8,500 of these producers to retire over the next ten years. Surveys on succession plans show that 45 percent of dairy farm heirs intend to farm full-time while 36 percent intend to farm part-time. If we assume that all those opting for full-time farming remain in dairy production and that only 12 percent of part-time entrants remain in dairy farming then we can expect 4,300 dairy farms to cease milk production as a result of retirement and succession factors alone. This results in a dairy farming population of just over 20,500 by 2015.

Earlier discussions of the Luxembourg Agreement reported the financial difficulty that dairy farmers are likely to face as a consequence of the Luxembourg Agreement. Analysis conducted by Breen and Hennessy (2003) concluded that 24 percent more dairy farmers would exit production as a result of the Luxembourg Agreement, than would have exited under a continuation of past trends. If we allow for the exit of an additional 24 percent of dairy farmers apart from those that are leaving the sector due to retirement and non-succession, then it is projected that by 2015 there will be approximately 15,500 dairy farmers.

4. Conclusions

Figure 4 shows the composition of the farming population in 2002 and the projected composition in 2015. The 2015 estimates are based on retirement and succession patterns, changes in the number of full and part time farms as a result of decoupling, changes in the number of viable farms as a result of decoupling and finally changes in the number of dairy farms as a result of the Luxembourg Agreement.

Figure 4: Projection of Farm Numbers Based on Retirement Patterns, Changes in Labour Allocation, Changes in Viability and Exits from Dairy Farming



Source: Own calculations

In 2002 28 percent of farms were classified as economically viable, by 2015 given the policy changes ahead and the other issues discussed here it is projected that 38 percent of farms will be economically viable. However, on three quarters of these farms either the farmer or spouse will have an off-farm job. Substantial changes are expected in the number of farms where either farmer or spouse has an off-farm job. On 41 percent of farms, the spouse or operator is employed off-farm at present. Given the policy changes ahead, it is projected that by 2015, 70 percent of farms will be in this position. Substantial declines in the number of farmers in transitional categories are also projected. The proportion of farmers with good demography is projected to decline from 17 per cent to 7 percent, while those with poor demography are expected to decline from 13 to 9 percent by 2015.

The issues discussed here and the graphical representation in Figure 4 show changes in the composition of the population. These figures do not provide any insight into what may happen to total farm numbers. Table 4 above showed us that if recent historical trends continue into the future, the total number of farms would decline to 105,000 by 2015. It is argued here that the impending policy changes will not necessarily result in an acceleration of the exit trend. While decoupling represents a substantial change to the method of farmer support, it is still linked to the activity of farming the land. Therefore it is argued, that there is no greater incentive to exit farming now than there has been over the last ten years and therefore recent historical trends will continue unabated even under a new policy regime. Estimates of farm numbers in the different categories under a policy change scenario are presented in Table 8. These estimates are based on the issues discussed above and the assumption that total numbers are the same as under the baseline.

It is projected that there will be 15,500 active dairy farmers in 2015. Table 9 shows the projections of total farm numbers in 2015 allowing for policy change along with the projections of dairy farm numbers.

Table 8: Projections of Farm Population³³

Farm Group	2002	2015 Baseline [±]	2015 Scenario [±]	2010 Scenario*
Viable Farms (percentage)	38,700 (29)	30,000 (29)	40,000 (38)	20,000
<i>Viable Large FT</i>	16,325	8,500	7,000	<i>Changed</i>
<i>Viable Small FT</i>	3,600	1,500	1,500	<i>Changed</i>
<i>Viable PT</i>	18,774	20,000	31,500	<i>Changed</i>
Non-Viable Part-time (percentage)	37,000 (27)	37,000 (30)	45,000 (43)	60,000
Transitional (percentage)	60,400 (45)	38,000 (40)	20,000 (19)	20,000
Transitional Demo.	22,880	8,000	5,500	5,000
Transitional Poor Demo.	17,566	17,000	8,500	10,000
Micro	20,000	8,000	6,000	5,000
All Farms	136,000	105,000	105,000	100,000

*Taken from the 2010 report ± Own calculations

Table 9: Projections of Farm Population

Farm Group	2015 Scenario [±]
Viable Farms (of which are dairy)	40,000 (12,500)
<i>Viable Large FT (of which are dairy)</i>	<i>7,000 (5,000)</i>
<i>Viable Small FT (of which are dairy)</i>	<i>1,500 (500)</i>
<i>Viable PT (of which are dairy)</i>	<i>31,500 (7,000)</i>
Non-Viable Part-time (of which are dairy)	45,000 (1,500)
Transitional (of which are dairy)	20,000 (1,500)
Transitional Demo. <i>(of which are dairy)</i>	5,500 (500)
Transitional Poor Demo. <i>(of which are dairy)</i>	8,500 (1,000)
Micro <i>(of which are dairy)</i>	6,000 –
All Farms (of which are in dairy)	105,000 (15,500)

± Own calculations

³³ The differences in the categories of farmers used in this paper and those used in the Projecting Farm Numbers Annex of the 2010 Committee's Report should be recalled. In the 2010 Report what are classed as viable farms includes only full time farms and specifically excludes farms farmed viably, but on a part time basis. In this paper the viable farm category includes farms that are farmed on a full time as well as on a part time basis. If one compares the 2010 report's projections with this paper's projections, see Table 8, the number of viable full time farms (8,500) is significantly lower than the number of viable (full time) farms projected in the Annex to the 2010 report (20,000).

It is projected that by 2015 80 percent of dairy farmers will be economically viable, compared to 60 percent in 2002. This is mostly due to the larger amounts of milk quota per farm. Over half of the economically viable dairy farms are projected to be part-time, although it is envisaged that in the majority of cases the farmer will work full-time on the farm while the spouse is likely to have an off-farm job. Approximately 10 percent of dairy farms are projected to be transitional farms by 2015, this compares to almost 30 percent at present. It is expected that many of the dairy farmers that are currently classified as transitional will retire over the next ten years and will not be continued as dairy businesses. It is projected that by 2015 a further 10 percent of dairy farms will be non-viable but part-time. These farms, although economically non-viable, may be sustainable in the longer term through the support of income from outside the sector.

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Appendix

5

PAPER ON FARM INCOMES

Background

Primary agriculture remains more important to Ireland than to most other EU Member States. The agri-food sector accounts for 8.5% of GDP, 9% of employment and 8.3% of Irish exports. Because of its relatively low import content, the agri-food sector accounts for approximately one fifth of our total net foreign earnings from the trade of merchandise.

In this paper we review the different farm incomes concepts that are used in debates relating to Irish agriculture. Recent developments in farm incomes are then reviewed using farm incomes concepts outlined below. The paper concludes with projections for the likely evolution of Irish farm incomes in the future.

Farm Income

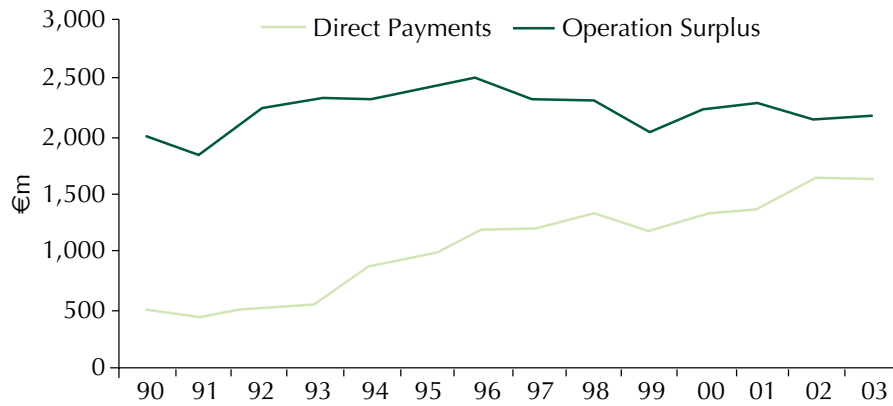
In Ireland, detailed annual data are available on farm incomes at the aggregate level from the Central Statistics Office (CSO), data on farm income developments at the level of individual farm businesses are available from Teagasc's National Farm Survey (farm level).

The CSO publish the Output, Input and Income in Agriculture statistical release each year. This release provides estimates of agricultural accounts and total aggregate agricultural sector income (operating surplus). This operating surplus is a national income accounting measure of the contribution of agriculture to value added in the Irish economy. The National Farm Survey (NFS) publishes detailed farm level data and computes family farm income on an annual basis with farms categorised by farming system (dairy, beef, tillage, etc.) and by size (defined by labour utilised, land area farmed).

Aggregate Agricultural Sector Income

The growth in agricultural sector income has since 1990 reflected the intermittent crises that have affected the sector (BSE, FMD, closure of the Russian market to Irish beef exports) and the changing agricultural policy environment within which the sector operates. Agricultural sector income increased between 1990 and 1996 as Irish farming responded positively to the policy environment introduced by the MacSharry reforms. The BSE Crisis of 1996 and subsequent market difficulties especially in beef markets led to reduction in sector income. At the end of the decade the sectoral income picture improved with farm sector income increasing in 2000 and 2001 despite the FMD crisis of 2001. Farm income declined in 2002 due to a combination of bad weather, a drop in beef slaughterings and lower prices for many commodities. In 2003 aggregate farm income increased by 2.6% to €2,175m. The increase was as a result of increased beef slaughterings including a significant rise in live exports, an increase in the value of milk mainly due to a volume increase and a substantial increase in the value of the cereals arising from good weather conditions during the year.

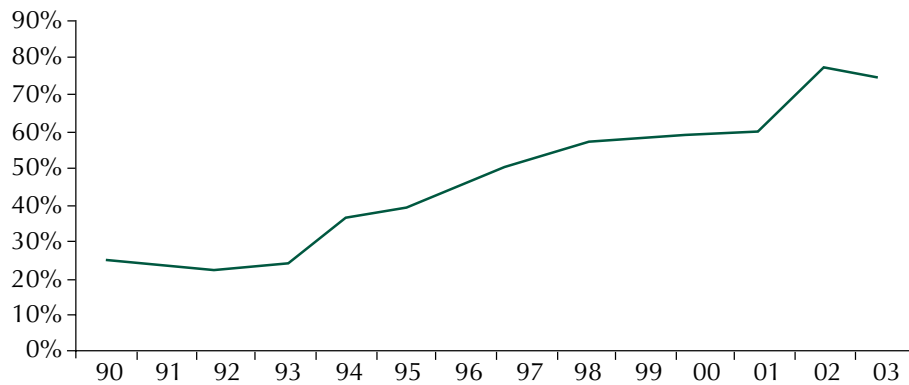
Figure 1 Operating Surplus and Direct Payments, 1990-2003



Source: CSO and DAF

Since the MacSharry CAP reform in 1992 direct payments to farmers have risen dramatically while market support measures such as intervention, export refunds and aid to private storage have declined. In 1990 direct payments accounted for 25% of aggregate farm income, by 2003 this proportion had risen to 75%.

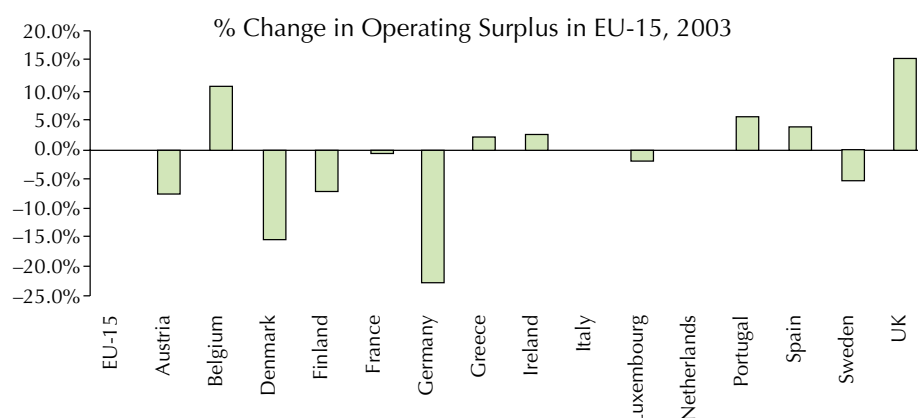
Figure 2 Direct Payments a % of Operating Surplus 1990-2003



Source: CSO and DAF

EU Farm Income Comparison

In Figure 3 the changes in agricultural sector income in the EU between 2002 and 2003 are presented. The small increase in Irish agricultural sector income in 2003 of 2.6% is above the average EU increase of 0.7%.

Figure 3 % Change in Operating Surplus in EU-15, 2003

Trends in Farm Sector Income, 1990-2003

Between 1990 and 2003 aggregate farm income increased by 24% in current terms but declined by 15% in real terms. Over this period the number of farmers has also dropped substantially (-20%).

Table 1: Aggregate Farm Income – Current and Real Terms 1990-2003

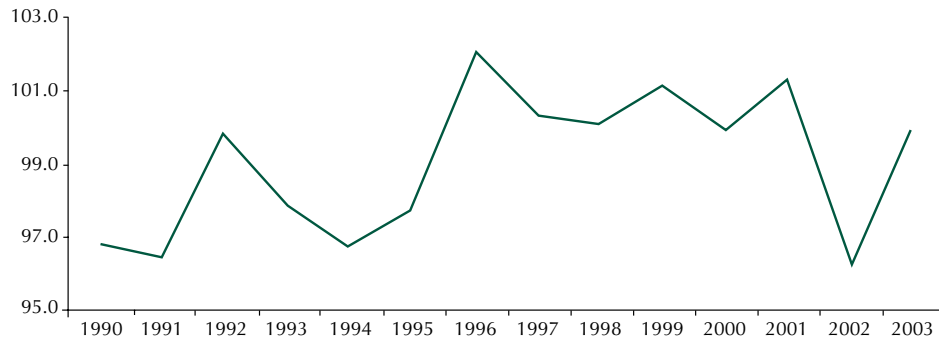
Year	Operating Surplus	Current Income Index (A)	Consumer Price Index (B)	Real Income Index (A/B x 100)
	€m	1990= 100	1990=100	1990 = 100
1990	2,094	100	100	100
1991	1,925	92	103	89
1992	2,288	109	106	103
1993	2,411	115	108	107
1994	2,489	119	110	108
1995	2,597	124	113	110
1996	2,758	132	115	114
1997	2,566	123	117	105
1998	2,563	122	120	102
1999	2,303	110	122	90
2000	2,535	121	128	94
2001	2,697	129	135	96
2002	2,470	118	141	84
2003	2,590	124	146	85

Agricultural Output

Between 1990 and 2003 the value of agricultural output at producer prices has increased by an average of 0.2% per annum.³⁴

³⁴ The value of "Goods Output at Producer Prices" does not include the value of direct payments.

Figure 4 Goods Output at Producer Prices Index, 1990-2003

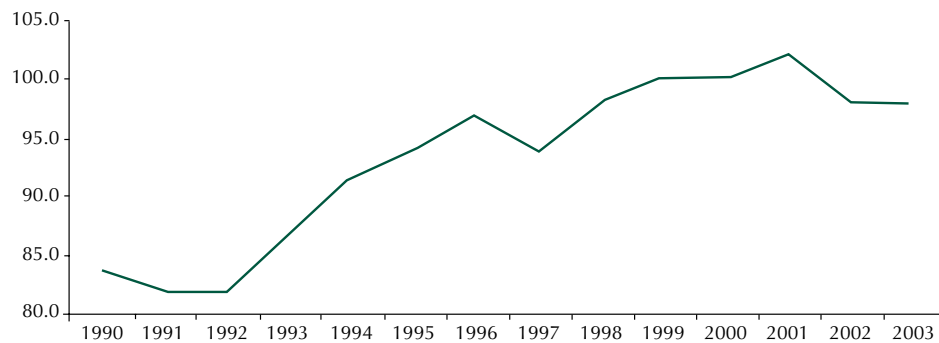


Source: CSO

Agricultural Inputs

Between 1990 and 2003 the value of agricultural inputs increased by an average of 1.1% per annum. The composition of this input expenditure has remained largely unchanged over the period 1990-2003. The principal changes in the input expenditure of Irish agriculture being increases in expenditure on services (reflecting the increased use of agricultural contractors and the increased prevalence of part time farming) and reduced use of forage plants.

Figure 5 Intermediate Consumption Price Index 1990-2003



Source: CSO

The share of agricultural output accounted for by the main agricultural commodities has also remained stable over time, although milk has overtaken cattle as the most important commodity. In 2003, beef and milk production accounted for over 55% of agricultural output at producer prices.

Table 2 Selected commodities as % of agricultural output at producer prices 1990-2003

	1990	1995	2000	2003
Total Livestock	47.0%	45.7%	44.4%	42.5%
of which				
Cattle	33.6%	32.3%	28.2%	25.5%
Pigs	5.1%	5.7%	6.1%	5.8%
Sheep	4.0%	3.7%	4.2%	4.0%
Total Livestock Products	29.0%	30.8%	30.3%	30.4%
of which				
Milk	28.1%	29.9%	29.6%	29.6%
Total Crops	24.0%	23.5%	25.3%	27.1%
of which				
Cereals	4.6%	3.1%	3.8%	3.5%

Average Farm Income

Average farm income in agriculture can be calculated in a number of different ways, including the following:

- (i) dividing operating surplus (CSO Output, Input and Income in Agriculture) by the number of farm holdings (CSO Agricultural Labour Input Survey) to give an estimate of average income per farm;
- (ii) dividing operating surplus by the number of annual family work units (CSO, Agricultural Labour Input Survey) to estimate average income per family work unit;
- (iii) dividing operating surplus plus wages by the number of persons employed in agriculture (CSO, Quarterly National Household Survey – ILO definition) to estimate average income per person employed;³⁵
- (iv) Teagasc’s National Farm Survey, which uses a different definition of income to that used by the CSO, estimates average family farm income.

The various methods of estimating trends in farm income have advantages and disadvantages:

- Method (i) is based on dividing operating surplus by the total number of CSO farms, which includes a number of very small or micro farms which are excluded from the NFS, and probably contribute very little to aggregate farm income.
- Method (ii) uses Family Work Units and may reflect availability of labour on farms rather than the labour actually required.
- Method (iii) uses ‘persons employed in agriculture’, which excludes part-time farmers whose main source of income is their off-farm employment. This method is the only estimate of average farm income in 2003 currently available. The disadvantage of this measure is that while the contribution of part-time farmers is included in operating surplus part-time farmers are excluded from “persons employed in agriculture”. Taken together this will lead this measure to overstate the level of average farm income as the number of farmers farming part-time increases.
- Method (iv), the National Farm Survey, is based on a detailed survey of over 1,200 farms. The sampled on which the Survey is based is a stratified random sample designed by the

³⁵ Persons employed in agriculture’ is based on the CSO’s Quarterly National Household Survey (second quarter). It covers people who identified agriculture as their primary source of income in the week preceding the survey.

CSO and Teagasc to be nationally representative. This survey does not include some farming systems such as pig farming, market gardening. But detailed data on the majority of Irish farming systems (when measured by both numbers of farm businesses and contribution to aggregate agricultural sector income) are presented by the National Farm Survey.

Taken together, the different methods are useful indicators of trends in average farm income.

Figure 6 Average farm income indicators, 1991-2003



Source: DAF

National Farm Survey Results, 2002

Teagasc’s National Farm Survey (NFS) collects detailed annual information on all aspects of farm income. The 2003 survey is based on a sample of 1,210 farms, representing a total of 114,500 farms.³⁶ The NFS asks farm holders and their spouses whether they have an off-farm job and if they are in receipt of pensions or other social welfare payments. The Survey publishes the percentage of holders and spouses with off farm employment, pensions and other social welfare payments.

Family farm income by system

Teagasc’s National Farm Survey (NFS) 2003 shows a wide disparity in family farm income (FFI) depending on the system of farming. Average family farm income on all systems was €15,054. FFI on specialist dairy farms (€30,138) was 4 times higher than that on cattle rearing farms (€7,337). Cattle and sheep farms were also very dependent on subsidies with well over 100% of family farm income derived from direct payments. These farm families were more likely to have off-farm employment.

Farm Income on Full and Part-time Farms³⁷

Table 4 shows that average family farm income in 2003 for the 38% of farms defined as full-time was €29,000, with direct payments accounting for 68% of FFI. Over half (58%) of these farms

³⁶ Very small or micro farms, with less than 2 ESUs (1 European Size Unit = €1,200 of standard gross margin) are excluded from the NFS. Standard gross margin is gross output minus direct costs.

³⁷The NFS defines a full-time farm as one which requires at least 0.75 standard labour units to operate, as calculated on a standard man day basis. A part-time farm is defined as one which requires less than 0.75 standard labour units to operate. Actual off-farm employment does not enter into this definition.

were in dairy or dairy plus other systems. On the 62% of farms defined as part-time average family farm income was €6,584, with direct payments accounting for 149% of family farm income. Most part-time farms were involved in cattle or sheep systems. Holders of part-time farms were much more likely to have an off-farm job (46%) compared to full-time farms (15%). In contrast, spouses of part-time farmers were less likely to have an off-farm job than spouses of full-time farmers.

Table 3 National Farm Survey Results by System, 2003

System	Dairying	Dairying + other	Cattle Rearing	Cattle Other	Mainly Sheep	Mainly Tillage	All Systems
% of farms represented	16.2%	10.7%	27.5%	23.3%	16.8%	5.7%	100%
Family Farm Income (FFI) €	€30,138	€24,656	€7,337	€8,106	€12,900	€26,282	€15,054
Direct Payments as a % of FFI	28%	69%	148%	178%	121%	92%	90%
% of holder and/or spouse with off-farm job	45%	44%	58%	51%	47%	44%	50%

Source: National Farm Survey, 2003

Table 4 National Farm Survey Results for Full-Time and Part-Time Farms by System of Farming, 2003

System	Dairying	Dairying + other	Cattle Rearing	Cattle Other	Mainly Sheep	Mainly Tillage	All Systems
Full-time Farms							
Per Cent of Population	14.1%	8.0%	3.4%	4.1%	5.1%	3.1%	37.8%
Family Farm Income	32,713	31,022	16,897	23,381	21,690	39,626	29,000
DPs as a % of FFI	27%	64%	133%	151%	117%	87%	68%
% of holders with off-farm jobs	49.4	42.5	50.6	34.3	46.9	36.1	43.9
Part-time Farms							
Per Cent of Population	2.0%	2.7%	24.1%	19.2%	11.6%	2.6%	62.2%
Family Farm Income (FFI) €	12,177	5,741	6,008	4,841	9,007	10,457	6,584
DPs as a % of FFI	42%	152%	154%	206%	125%	116%	149%
% of holder and/or spouse with off-farm job	36.4%	48.0%	59.0%	55.1%	46.7%	53.3%	54.0%

Source: National Farm Survey, 2003

Distribution of Family Farm Income by Category

In 2003, 19% of farms were estimated to have a family farm income of over €25,000 while 39% had a family farm income of less than €6,500, these proportions are similar to the previous two years. Analysis of 2002 data showed that 85% of farmers with an income of less than

€6,500 were in drystock systems. On 82% of these farms the farmer and/or spouse had some source of other income either from off-farm employment, pension or social assistance. Therefore, about 18% had no stated off-farm income from the above mentioned sources.

Table 5 Distribution of Family Farm Income by Farm Income Category, 2001-2003

	< €6,500	€6,500– €13,000	€13,000– €20,000	€20,000– €25,000	€25,000– €40,000	>€40,000	All
% Farms represented							
2001	40%	22%	12%	5%	11%	10%	100%
2002	40%	22%	13%	6%	12%	8%	100%
2003	39%	22%	14%	6%	10%	9%	100%

Source: Teagasc, National Farm Survey, 2003

Off-farm Employment and Income

In 2003, 36% of holders stated they had an off-farm job and over half of farmers surveyed with off-farm jobs provided information on their off-farm earnings.³⁸ These farmers had an average income from off-farm employment of €19,300, and an average farm income of €6,900, giving a total income of €26,300 compared to €25,700 in 2001. This income figure does not take account of other sources of off-farm income such as earnings of spouses or other family members or income from social welfare payments or investment income.

Table 6 Estimate of Off-farm Employment for Farmer Only, 2003

	Sample No.	% of Population	Average Off- farm income	Farm Income	Income (off and on farm)
Farmer has off-farm job and income stated					
All farms	237	27	€20,200	€7,700	€27,900
Full-time Farms	63	4	€17,700	€17,200	€34,900
Part-time farms	174	23	€20,700	€5,900	€26,600

Source: Teagasc, National Farm Survey 2003

Low Income Farm Families

Farm Assist

The Farm Assist Scheme was introduced by the Department of Social and Family Affairs in April 1999, specifically to support low-income farm families, replacing the former smallholders' assistance scheme. At the end of 2003, there were 8,709 claimants compared to 8,509 at the end of 2002. Some 3,812 were former recipients of smallholders' unemployment assistance and receiving an average payment of approximately €165 per week. New farm assist applicants were receiving an average payment of approximately €137 per week. In 2003 the Department of Social and Family Affairs spent €62.8 million (provisional figures) on the scheme.

The scheme requires a means test and is open to farmers between the ages of 18 to 66. The means test contains a number of generous income disregards, as follows:

³⁸ 158 out of 302 farm holders with off-farm jobs (52%). Teagasc state that these figures should be treated with caution because of problems with non-response and verification.

- €253.95 for the first two children and €380.92 for each subsequent child;
- a 30% general income disregard;
- and a partial or full disregard of income from the Rural Environment Protection Scheme.

Rural Social Scheme

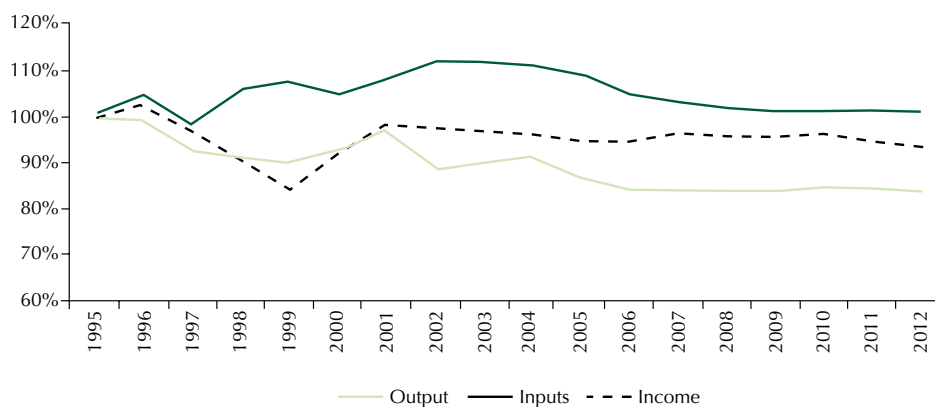
The aim of the new Rural Social Scheme is to provide improved rural services and at the same time ensure an income and employment support for certain small farmers who can no longer make a viable living on the land. The scheme is aimed at small farmers on long-term social welfare benefits and it is envisaged that there will be 2,500 participants.

The Department of Community, Rural and Gaeltacht Affairs Guidelines operate the scheme.

The Outlook for per Farm Agricultural Income

The FAPRI-Ireland partnership produces projections of Irish agricultural sector income. Their most recently published analysis examined the consequences of the Luxembourg Agreement for Irish agriculture. This analysis of the likely development of output, input expenditure and income arising in the agriculture sector under the Luxembourg Agreement is summarised in Figure 7.

Figure 7 Irish Agricultural Output, Inputs and Income 1995 – 2012 (1995=100)



Source: CSO, FAPRI-Ireland (2003).

The FAPRI-Ireland projections indicate that the value of agricultural output produced in Ireland will, in the medium term, decline in value. This decline occurs because of reductions in both the volume of agricultural output produced and in the prices of some agricultural commodities. Overall, the value of income arising in the agricultural sector is, by 2012, projected to be broadly equal to that earned in 2003 (the most recent year for which we have data). The projection of agricultural sector income remaining stable in the face of declining agricultural sector output arises because of two developments. These developments are firstly declining input expenditure associated with reduced agricultural production and secondly that direct payment receipts, in the future via Single Farm Payments (SFP), are with full decoupling almost completely retained as part of agricultural income.

Work by Hennessy (See Appendix 4) on future evolution of farm numbers following the Luxembourg Agreement for the Committee indicates that by 2015 the total number of farmers in

Ireland will have declined by approximately 23% when compared with the level in 2002. This projection for the size of the Irish farm population implies, when combined with the FAPRI-Ireland projections for income arising in the agricultural sector, that in nominal terms the value of aggregate sector income per farm will increase over the next decade.

The future path of consumer prices will affect the purchasing power of income earned in agriculture, just as it will affect incomes earned in the economy in general. Consumer price inflation in excess of 2% per annum over the period to 2015 would be sufficient to offset the positive impact on operating surplus per farm of declining farm numbers.

Having discussed the outlook for the national income accounts measure of agricultural or farm income over the next decade, is it possible to examine the consequences of the developments in agricultural policy and market prices for farm incomes as defined in the National Farm Survey? Work by Breen and Hennessy (2003) examines the implications of the full decoupling aspect of the Luxembourg Agreement on gross margins of farming systems as defined by the National Farm survey and on farm incomes.

Breen and Hennessy (2003) find that for both the cattle rearing and cattle other systems gross margins decline dramatically by approximately 60% when compared with the level in 2003 following the decoupling of direct payments in 2005. This decline occurs because with decoupling the contribution of direct payments to enterprise gross margins ceases and only market prices received and costs incurred in production determine whether enterprise gross margins are positive. Despite the dramatic decline in enterprise gross margins, farm incomes arising on these farms do not decline in the same manner due to the continued receipt of direct payments via the decoupled SFP.

By 2012 on 35% of cattle farms the full decoupling of direct payments is projected to lead to changes in farm income that fall within +/- 5% of their level under Agenda 2000. However, almost 50% of cattle farms see their farm incomes increase by 2012 when compared to farm incomes under a continuation of Agenda 2000 agricultural policy.

The consequences of the reforms for Irish dairy farms are similar to those in the cattle sector. As part of the Luxembourg Agreement the intervention will be reduced by 10%, this is in addition to the reductions in dairy commodity intervention prices agreed under Agenda 2000. The combination of these changes and the continuing quota on milk production lead gross margins on dairy farms to decline by approximately 11% compared to the level in 2003. Using historical levels of farm profitability and rates of exit from the sector, Breen and Hennessy project that as less efficient dairy farmers exit dairy production average milk sales increase by over 45% and average dairy farmer incomes more than maintain their level in real terms despite the decline in the farm-gate price of milk that arises because of the cuts in intervention prices of dairy commodities.

The analysis conducted on the consequences of the Luxembourg Agreement was undertaken assuming that the outcome of the current Doha Round of the WTO would be a repeat of the Uruguay Round Agreement on Agriculture. It is possible, perhaps probable, that the outcome from the current WTO round could lead to a more radical reform of the EU agricultural trade policy. Such an outcome could lead to further downward pressure on the prices of Irish agricultural output that could lead to outcomes in terms of agricultural income both for the sector as a whole and at the level of individual farm businesses that would be more extreme than those considered in this paper.

Appendix

6

LIST OF ABBREVIATIONS

ADM	Area Development Management
AF2010	Agri Food 2010
AHCS	Animal Health Computer System
AI	Artificial Insemination
ATRP	Advanced Technologies Research Programme
AV2015	Agri Vision 2015
B2C	Business to Consumer
BIM	Bord Iascaigh Mhara (Irish Sea Fisheries Board)
BMW	Border, Midland & Western Regions
BSE	Bovine Spongiform Encephalopathy
CAO	Central Applications Office
CAP	Common Agricultural Policy
CAT	Capital Acquisitions Tax
CLÁR	Ceantair Laga Ard-Riachtanais
CMMS	Cattle Movement and Monitoring System
CMOD	Centre For Management Organisation & Development
CPA	Combat Poverty Agency
CSAP	Customer Service Action Plan
CSO	Central Statistics Office
DAF	Department of Agriculture and Food
DCMNR	Department of Communications, Marine and Natural Resources
DCRGA	Department of Community, Rural and Gaeltacht Affairs
DEHLG	Department of the Environment, Heritage and Local Government
DF	Department of Finance
DHC	Department of Health and Children
ECR	Efficient Consumer Response
EFA	European Food Authority
EI	Enterprise Ireland
EPA	Environmental Protection Agency
ERAD	Eradication (Division within DAF)
ERS	Early Retirement Scheme
ESLI	Early School Leaver Initiative
ESRI	Economic and Social Research Institute
EU	European Union

FAB	Farm Apprenticeship Board
FAO	Food and Agriculture Organisation
FAPRI	Food and Agriculture Policy Research Institute
FAS	Foras Áiseanna Saothair (Training and Employment Authority)
FDS	Farm Development Services
FEOGA	European Agricultural Guidance and Guarantee Fund
FETAC	Further Education and Training Awards Council
FIDG	Food Industry Development Group
FIRM	Food Institutional Research Measure
FMD	Food and Mouth Disease
FSAI	Food Safety Authority of Ireland
FSPB	Food Safety Promotion Board
G22	Group of 22 Developing Nations within the WTO
GDP	Gross Domestic Product
GFP	Good Farming Practice
GMO	Genetically Modified Organisms
HACCP	Hazard Analysis Critical Control Point
HETAC	Higher Education and Training Awards Council
HRD	Human Resource Development
IACS	Integrated Administration and Control System
IBEC	Irish Business and Employers Confederation
ICBF	Irish Cattle Breeding Federation
ICMSA	Irish Creamery Milk Suppliers Association
ICOS	Irish Co-operative Organisation Society
ICTSI	Irish Council for Science, Technology and Innovation
ICT	Information and Communications Technology
IDA	Industrial Development Authority
IDB	Irish Dairy Board
IFA	Irish Farmers Association
IFPRI	International Food Policy Research Institute
MS	Member States
MSD	Management Services Division
MTR	Mid-Term Review of the CAP
NAPS	National Anti Poverty Strategy
NDP	National Development Plan
NDSC	National Disease Surveillance Council
NFC	National Food Centre
NFS	National Farm Survey
NGO's	Non-Governmental Organisations
NPITS	National Pig Identification and Tracing System
NSIS	National Sheep Identification System

NSS	National Spatial Strategy
OECD	Organisation for Economic Co-operation and Development
OIE	Organisation Internationale des Epizooties
PCF	Prepared Consumer Foods
PO	Producer Organisation
POM	Prescription Only Medicines
PPF	Programme for Prosperity and Fairness
PRRS	Porcine Reproductive Respiratory Syndrome
PRSI	Pay Related Social Insurance
R & D	Research and Development
REPS	Rural Environment Protection Scheme
RTDI	Research, Technological Development and Innovation
S & E	South & East Regions
SFP	Single Farm Payment
SMEs	Small and Medium Sized Enterprises
SMI	Strategic Management Initiative
SP	Sustaining Progress
SRM	Specified Risk Materials
SSRI	Stay in School Retention Initiative
SWOT	Strengths-Weaknesses-Opportunities-Threats
TB	Bovine Tuberculosis
TCA	The Competition Authority
WCM	World Class Manufacturing
WDC	Western Development Commission
WIF	Western Investment Fund
WTO	World Trade Organisation
YTF	Young Trained Farmers

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