

7. Farming and the Environment

– Finding Common Ground

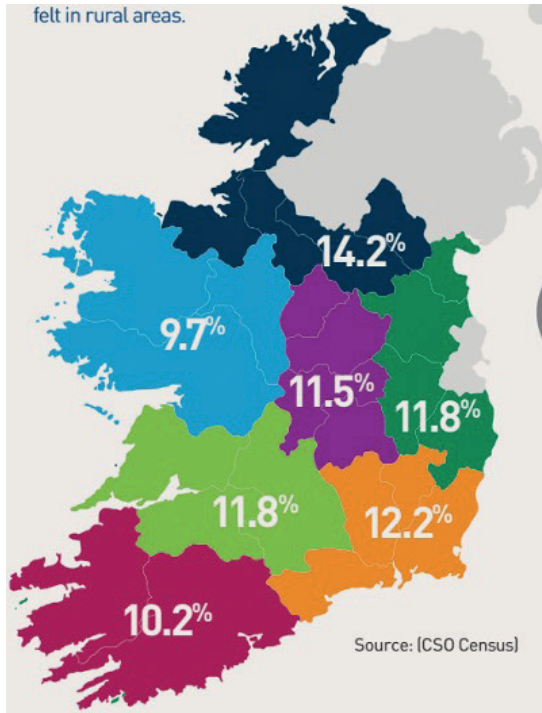
Damian McDonald

1. Background

In 2019 the output of the agri-food sector accounted for 6.7% of modified Gross National Income. Agri-food exports reached €14.5 billion in 2019.

The agri-food sector is Ireland's largest indigenous sector, providing direct employment to over 160,000 people or 7.1% of total employment. Agriculture provides employment and generates earnings across the country, not just at farm level, but in the thousands of regionally based jobs dependent on and linked to the sector. The sector accounts for over on average 11% of regional employment which reflects that many of these jobs are located outside of the main urban centres. There is a significant variation per region with 14.2% of those in the North West being employed in Agriculture.

Figure 1 Agri-food sector employment as a percentage of regional employment



Source: National Census 2016, Central Statistics Office.

The average farm size nationally is 34 hectares. There are 66 cattle per herd on average. The average dairy herd size is approximately 90 cows.

Given its importance to the economy and rural Ireland in particular, farming had its own pillar in the original social partnership model and IFA was a full 'social partner'. We are now part of new National Economic Dialogue.

While the old Social Partnership model has no shortage of critics, the concept of the pillars coming together on a regular basis to discuss policy issues with the aim of reaching multi-annual agreements still has much to recommend it. The Current National Economic Dialogue model is much less engaged and provides minimal opportunities for real engagement with Government or between the pillars.

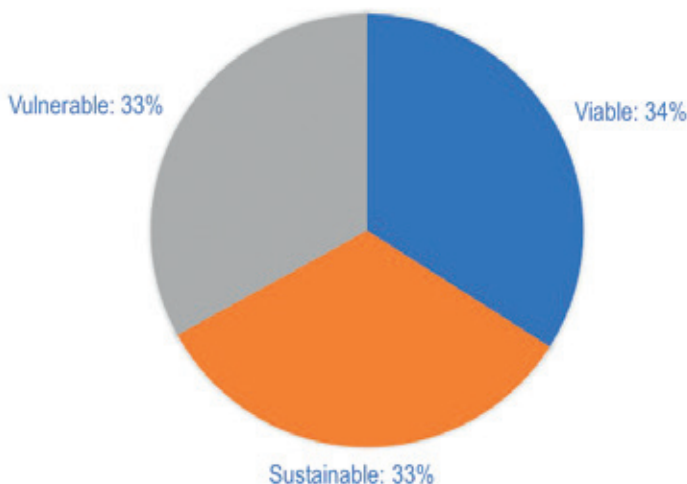
IFA continues to have good access to Government to lobby on any issues that concern us. However, a more robust, structured and frequent engagement between the pillars and the Government would be very worthwhile. We fully accept that Governments have to govern and they ultimately make the decisions, but greater civic engagement through representative groups could add value.

It could potentially have added value during the current pandemic. As we now face into a period of significant challenge for the public finances there will be need for increased dialogue to improve social cohesion.

In this context, I would like to use the opportunity to set out some of the challenges facing farmers and agriculture. While these challenges are immediate for our sector, how they are addressed will have consequences for the wider society.

2. Income Viability

Figure 2 Viability of Irish Farming in 2019

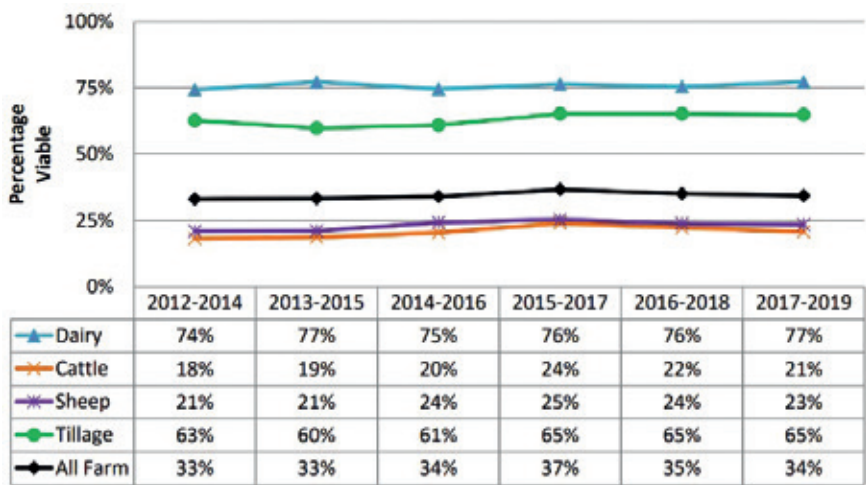


Source: National Farm Survey 2020, Teagasc.

A farm business is deemed to be viable if the farm income can remunerate family labour at the minimum agricultural wage and provide a 5% return on the capital invested in non-land assets. A farm household is considered sustainable, even

if the farm business is unviable, if the farmer or spouse are in receipt of an off-farm income. A farm household is considered to be economically vulnerable if the farm business is not viable and neither the farmer nor spouse work off-farm.

Figure 3 Economic Viability by sector: 3 year rolling average 2014-2019



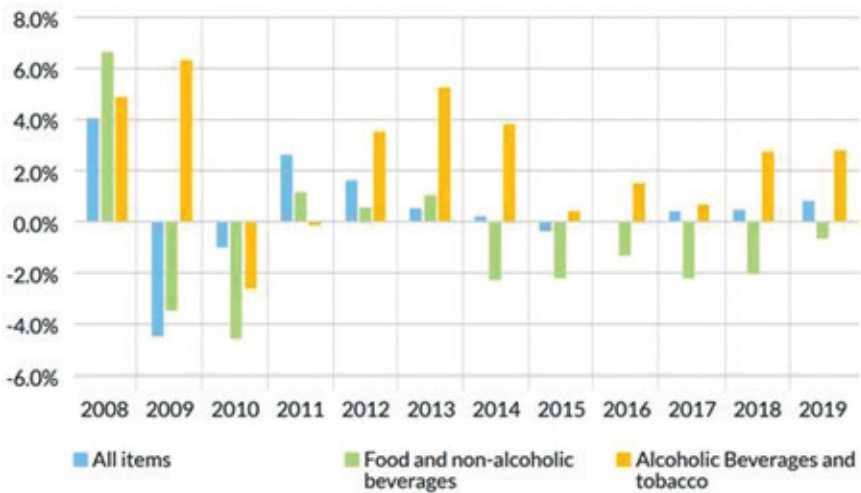
Source: National Farm Survey – 2019 Sustainability Report, Teagasc.

The other reality facing Irish farming is the significant disparity between the various sectors. The Figure above shows the rolling average for the percentage of farms in each sector which are deemed to be viable. The data is stark in terms of the future for cattle and sheep farms in particular. It must be borne in mind that these figures for viability are inclusive of Direct Payments.

3. Expenditure of Food/Food Prices in Ireland

The chart below shows the trend in Food Prices in Ireland. Food prices in Ireland have fallen in each of the last 6 years. This has been driven by increased competition in the retail sector.

Figure 4 Annual average percentage change in Consumer Price Index, 2009 – 2019



Source: Consumer Price Index, Central Statistics Office.

Over a longer term the table below shows that the percentage of household income spent on food has reduced significantly from 27.7% in 1980 to just 14.7% in 2015/2016.

**Table 1 Changes in distribution of total household expenditure,
1980 to 2015-2016**

%							
Commodity Group	1980	1987	1994 - 1995	1999 - 2000	2004 - 2005	2009 - 2010	2015 - 2016
Food	27.7	25.2	22.7	20.4	18.1	16.2	14.7
Alcoholic drink and tobacco	7.2	8.0	7.7	7.6	6.0	4.9	3.3
Clothing and footwear	8.9	6.7	6.4	6.1	5.4	4.9	4.0
Fuel and light	6.1	6.3	5.0	3.8	3.9	4.4	4.6
Housing	7.2	8.8	9.8	9.6	12.0	18.2	19.6
Household non-durable goods	1.9	2.1	2.3	2.5	2.2	2.0	2.0
Household durable goods	5.5	3.9	3.6	4.6	4.5	3.7	3.3
Transport	14.9	13.6	14.3	16.4	15.6	14.3	14.9
Miscellaneous goods, services and other expenditure	20.5	25.4	28.2	29.0	32.2	31.3	33.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Household Budget Survey 2015-2016, Central Statistics Office, 2020.

While this has undoubtedly benefitted households in the short to medium term by allowing them to have more disposable income it is not sustainable. We cannot continue to reduce food prices while inflation and increased regulation increases the costs of productions.

Downward pressure from lower retail prices is pressing down on the supply chain. The evidence of the impact of this is illustrated in the viability data above [See Figure 2]. Only 34% of farmers in Ireland are now viable and the vast majority of these are dairy farms. In the push to maintain margins all other parts of the supply chain are trying to reduce costs. We are forcing farmers to get bigger in order to remain viable. Working conditions in the meat processing sector are also an issue.

Europe is a high cost economy in which to produce food. If proper margins are not attainable at farm level, farmers will not continue to farm and produce food. Food security is currently taken for granted in Europe. The COVID-19 crisis should be a wake-up call for policy makers. While some have argued that Europe will always be able to import food this would have an impact on food security elsewhere on our planet.

Only about 40% of the world's land can be used for agriculture and only 1/3 of this is suitable for arable crops. As we face a growing world population, we must ensure that all land available for agriculture is utilised. To do this we will need to maintain a strong population of farmers. Ireland still has very much a Family Farm model and if we are to protect this, we need to keep farmers on the land. We must have an attractive proposition for the next generation who will be less inclined to remain in farming because of tradition.

4. Common Agricultural Policy

The reality is that Irish farming and European farming in general is being underwritten by Direct Payments through the Common Agricultural Policy. The table below shows the percentage of Family Farm Income in each sector coming from Direct Payments.

Table 2 Average value of direct payments (DP), Average Farm Family Income (FFI) & contribution of DP to Average FFI 2019

	DP	FFI	DP contribution to FFI
	€	€	%
Dairy	20,387	65,765	31
Tillage	25,349	34,255	74
Cattle Other	17,930	13,899	129
Sheep	19,312	14,630	132
Cattle Rearing	14,706	9,191	160
All	18,452	23,964	77

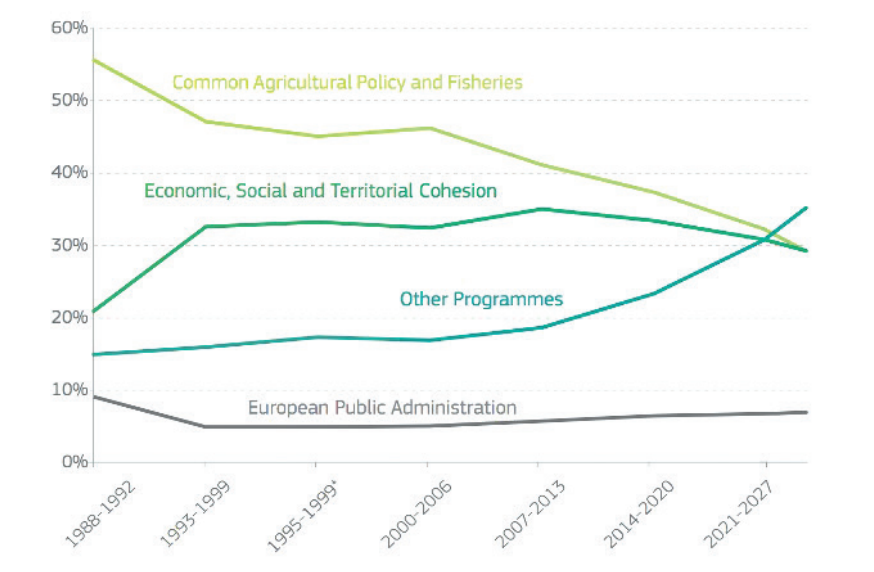
Source: National Farm Survey 2020, Teagasc (adapted).

The figures above are highly significant in that they demonstrate that cattle and sheep farming are loss making. Farmers are actually eating into their payments by farming. They would have had a higher income if they reduced their output to zero.

While these losses have been funded by the CAP and off-farm income, more and more farmers are questioning their continued involvement in the cattle and sheep sectors. The future viability of these sectors comes into particular focus as many farmers lack successors who are willing to take over cattle and sheep farms. The next generation of farmers will take more detached decisions.

The original purpose of the Common Agricultural Policy was to support farmers to produce food. However, the policy has become a diminishing part of the EU budget. The Figure below highlights the reduction in the CAP as a percentage of the overall EU budget. The requirements placed on farmers in order to be eligible for payments have been increasing. This is contributing to the price-cost squeeze on farmers.

Figure 5 EU Budget funding trend: 1988-2027

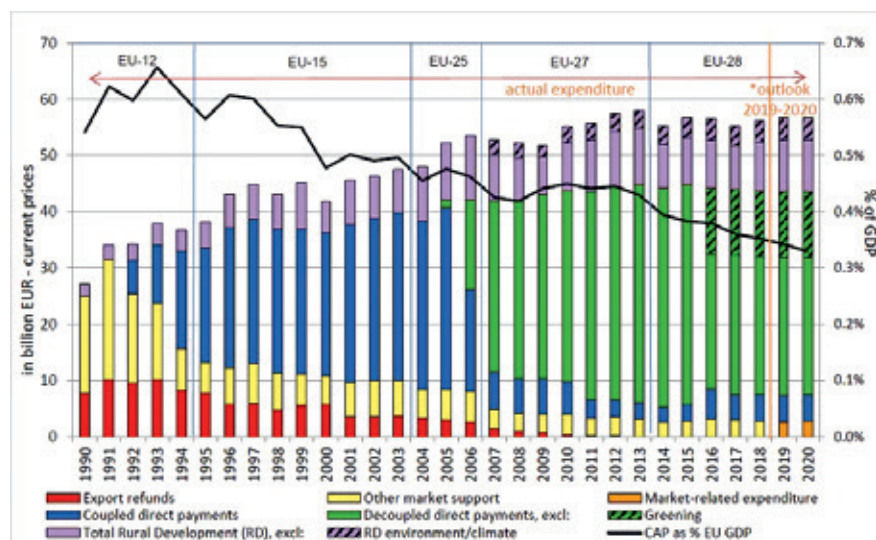


Source: European Commission

The policy has evolved from market supports to Direct Payments per unit of output (Coupled), to direct payments per hectare and latterly towards payments for schemes with strong environmental conditionality.

The reality is that the link between production and supports is now almost completely broken. In the last reform member states were allowed to have no more than 12% of their total payments ‘coupled’ to production.

Figure 6 CAP Evolution and as a % of EU GDP

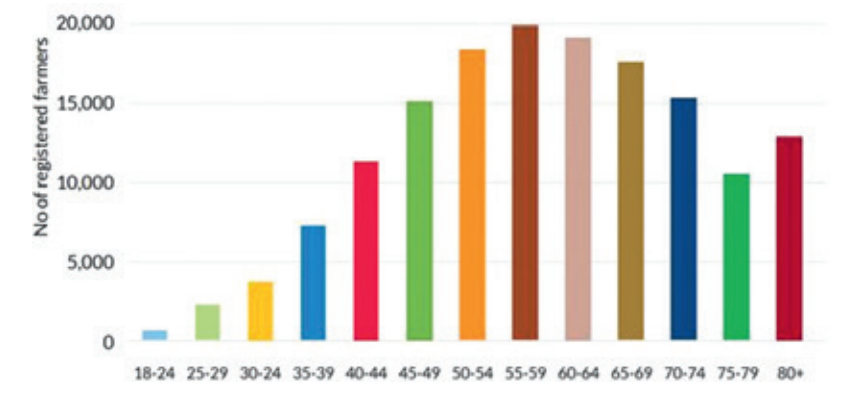


Source: EU Commission

5. Generational Renewal

The Figure below clearly illustrates the ageing population of registered farmers in Ireland. There is a lack of young farmers entering the sector which is a significant concern for its long-term viability. The figure below shows the current age distribution.

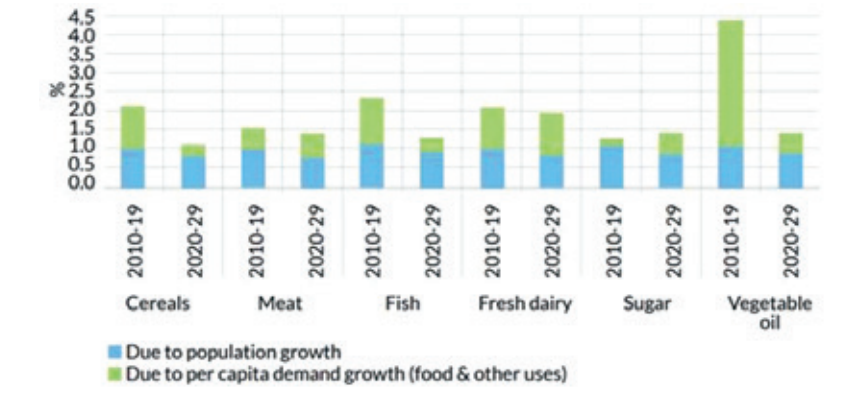
Figure 7 Age profile of Department of Agriculture, Food and the Marine clients, 2019



Source: Annual Outlook and Review for Agriculture, Food and the Marine 2020, Department of Agriculture, Food and the Marine.

6. The Global Situation

Figure 8 Annual growth in demand for key commodity groups

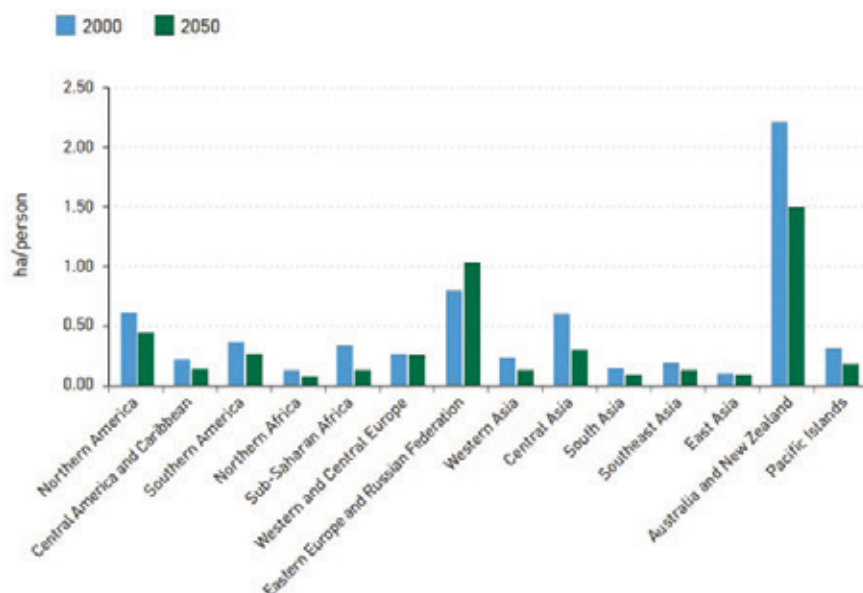


Note: The population growth component is calculated assuming per capita demand remains constant at the level of the year preceding the decade. Growth rates refer to total demand (for food, feed and other uses).

Source: OECD-FAO Agricultural Outlook 2020-2029, OECD/FAO.

The Figure above shows the anticipated growth in global demand for key commodity groups over the next decade. Given the limited amount of land on the planet which is suitable for agriculture, we need to be conscious of the implications of reducing output from European Agriculture. Figure 9 shows that the cultivated land per capita in 2000 and the anticipated cultivated land in 2050. This emphasises the need to make the most productive use of land available for food production.

Figure 9 Cultivated Land, Per Capita, 2000, 2050



Source: Fischer, et al. (2010) in *The State of the World's Land and Water Resources for Food and Agriculture*, Food and Agriculture Organisation of the UN and Earthscan, 2011.

The reduction in the funding for the CAP, as a percentage of the EU budget and the increased conditions being placed on farmers to be eligible for funding runs the risk of driving farmers from the land. While increased environmental ambition is an important part of public policy, it must be balanced with increased funding or a guarantee that farmers can gain a stronger return from the market place. Based on recent history and the way markets are structured it will be very difficult to achieve this.

The EU sign post policies the ‘Farm to Fork’ and the ‘Biodiversity’ Strategies set very ambitious targets for a reduction in the use of fertilisers and pesticides along with a target to have 25% of the EU’s land farmed organically by 2030. However, the EU must complete a full impact assessment on these strategies before they are implemented. The United States Department of Agriculture has already carried out an assessment of the impact that the ‘Farm to Fork’ Strategy would have in the EU and if it was applied in the US. The findings are stark in terms of its impact on output, food prices and farm incomes. The report predicts that the strategy will reduce farm incomes by 16% on average. This is as a consequence of the expected loss of production by 12% across the EU which isn’t offset by the 17% increase in market price.

While some organic produce does gain a premium in the current market place, farmers, including existing organic farmers, are concerned that a significant increase in the supply of organic output will erode the premium. Today’s premium becomes tomorrow’s commodity but with much higher production costs.

7. Greenhouse Gas Emissions

Policy makers must balance environmental sustainability with economic sustainability.

One particular aspect of this relates to the emissions produced by Agriculture. In our view, the focus must move away from reducing food output towards reducing emissions per unit of output. The table below is a depiction of Teagasc’s Marginal Abatement Cost Curve for Agriculture.

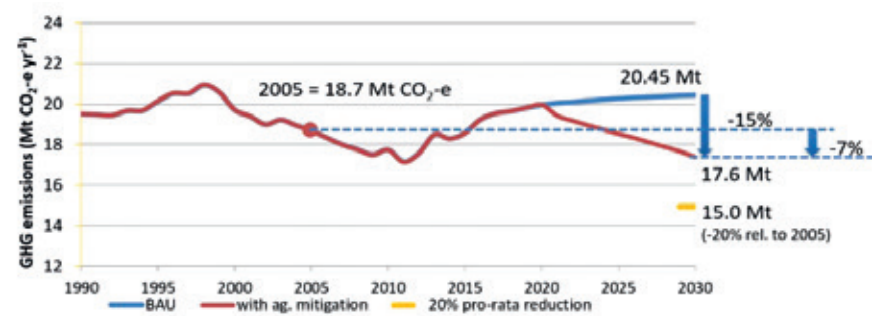
It demonstrates that by the adoption of various technologies and through changes in certain practices, Irish Agriculture has the potential to reduce our emissions by 15%. This is without taking into account potential advances in technologies, particularly feed additives, to reduce Methane.

Ruminant animals are a tremendous asset to the planet as they can convert grass, which is inedible for humans, into nutrients for human consumption. Approximately 2/3 of the Agricultural land on the planet is only suitable for growing grass. The priority must be to make bovines in particular more efficient so that they can produce more nutrients for less emissions. This is attainable.

In any event the expansion in ruminant animal numbers in Ireland has been overplayed. Cattle numbers in Ireland are lower than they are in the mid 1990’s

[See Figures 10, 11 and 12]. The emphasis must be on reducing emissions per unit of output rather than reducing output.

Figure 10 Agricultural GHG emissions from 1990 and projected to 2030, without (blue) and with (red) mitigation. The orange line represents a pro-rata 20% reduction in sectoral emissions by 2030.



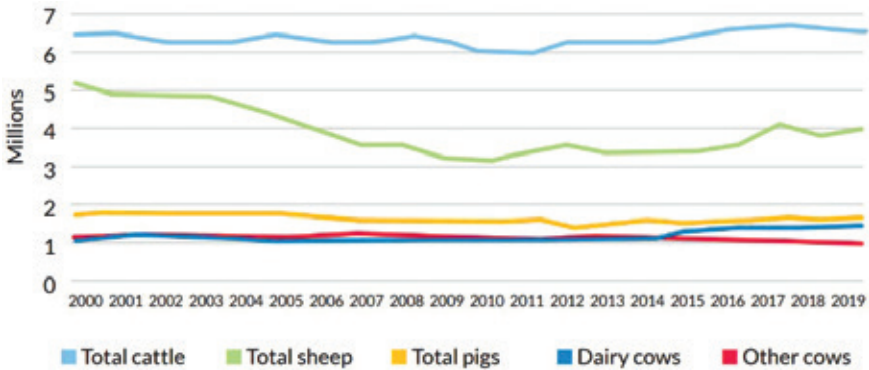
Source: *An Analysis of Abatement Potential of Greenhouse Gas Emissions in Irish Agriculture 2021-2030*, Teagasc, 2019.

Table 3 Number of ruminants in Ireland (Thousands)

Year	Cattle	Sheep
1977	7,124	3,534
1987	6,545	5,595
1997	7,533	8,132
2007	6,891	5,522
2017	7,364	5,197
2018	7,349	5,109
2019	7,209	5,146

Source: *Statistical Yearbook of Ireland*, Central Statistics Office (adapted).

Figure 11 Cattle, Sheep and Pig Livestock numbers, 2000 – 2019



Source: Annual Outlook and Review for Agriculture, Food and the Marine 2020, Department of Agriculture, Food and the Marine

Conclusion

It is a cause of great regret that environmentalists and farmers now find themselves as adversaries in the climate debate. The reality is that we have far more in common than we have in difference.

Policy initiatives can be identified which have the potential to hit a ‘sweet spot’ that improves the environment while also improving farm incomes.

A mature discussion needs to take place about the price of food and who pays for the additional production costs imposed by increased environmental and other conditions. European farmers must comply with conditions which are well ahead of what food producers in other countries have to comply with. Yet non-EU imports are often allowed into the EU market to undercut the prices of European produce. This is an area where there is potential for collaboration between the environmental and agricultural lobby. Recent evidence of this can be found in the mutual opposition to the ratification of the Mercosur trade deal negotiated by the European Commission.

Perhaps there is a role for a new modern form of social partnership to provide a safe space for the farming and environmental pillars to engage to develop the points we have in common and to better understand the points we have in difference.