



**AGRICULTURE AND FOOD DEVELOPMENT AUTHORITY**

The Irish Agriculture and Food Development Authority

# **Irish Agriculture and Food and the Future of the Euro:**

**24<sup>th</sup> Colmcille Winter School 2013,  
24<sup>th</sup> February 2013, Co. Donegal**

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# Overview

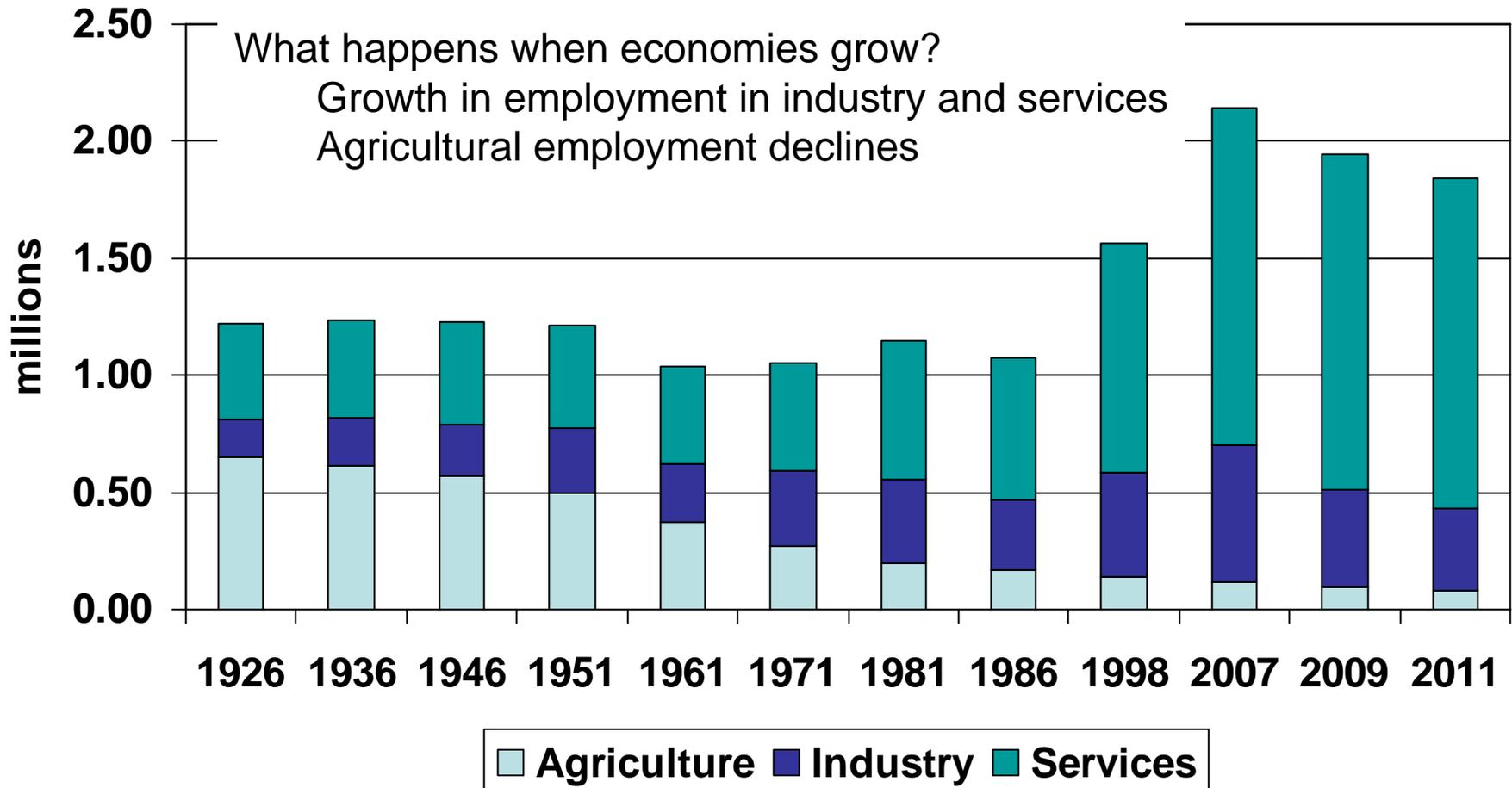
- Irish agriculture in the EU 1973-2013: forty years a growing
- Food Harvest 2020 an industry vision for the future of Irish Agri-Food
- The Euro crisis and Irish agriculture and food
- Future of the euro: implications for Irish agriculture and food

# Irish agriculture in the EU: the experience to date

# Irish Agriculture since 1973

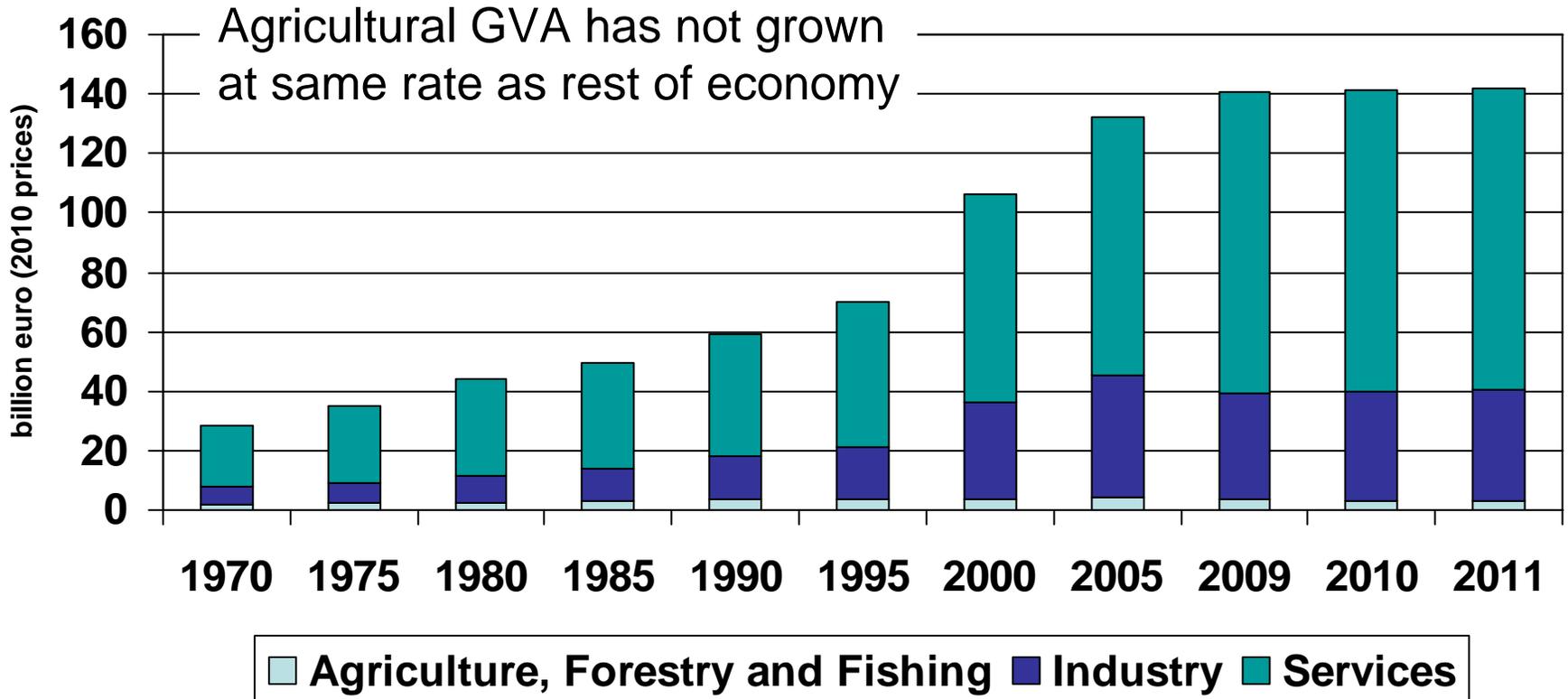
- 1970s
  - EEC accession brings higher prices and substantial increases in production
  - Green £ devaluations
- 1980s
  - Emergence of food mountains and trade distortion
  - Price-cost squeeze and downward pressure on incomes
  - Introduction of the milk quota and non-indexation of support prices
  - Stabilisation in prices and production
- 1990s
  - MacSharry Reforms and reduced price support with shift to Direct Payments
- 2000s
  - Shift towards decoupled Direct Payments
  - Economic boom in other sectors renders agriculture relatively less attractive
  - But rural off farm employment sustains farm household incomes
- Today
  - Higher nominal output price and cost environment
  - Consensus re positive medium-term prospects for exports and nominal prices
  - Less protection from international competitors
  - Reduced off-farm employment opportunities due to recession
  - Greater farm price volatility and income volatility than in earlier decades

# Sectoral Employment in Ireland: 1926-2011



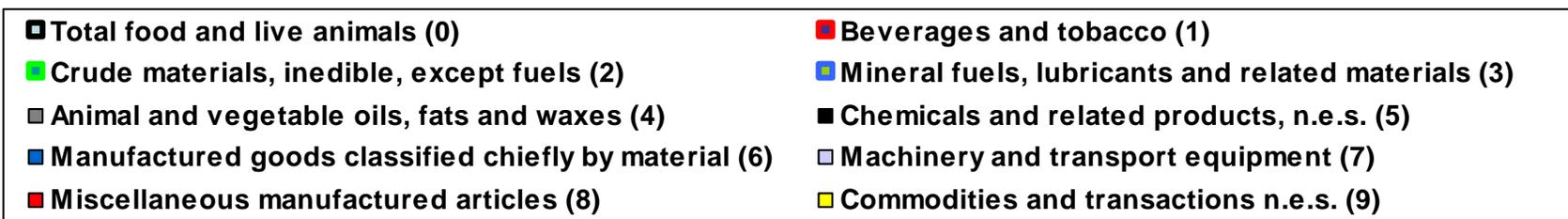
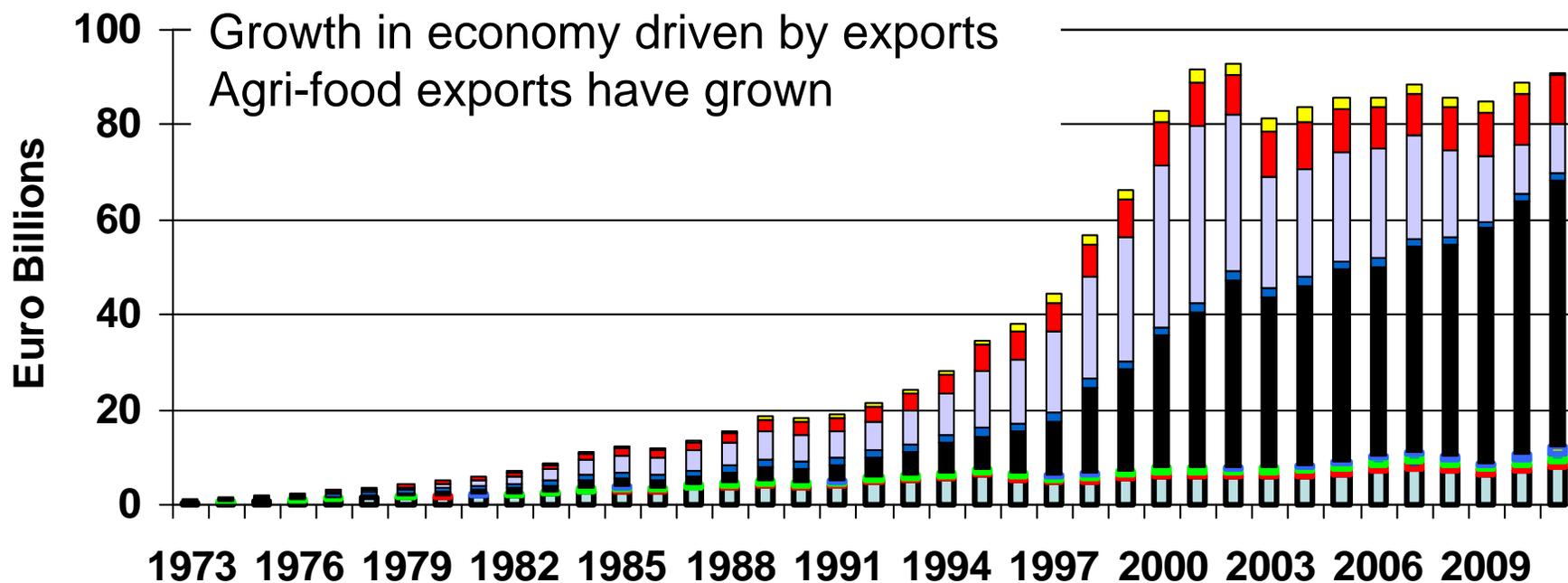
Source: QNHS for 1998 -2011; the remainder from Kennedy, Giblin and McHugh (1988) Economic Development in Ireland in the 20th Century, Routledge

## GVA at Constant Factor Cost (Sectoral Contribution to GDP)



Source: CSO NIE (1995-2011) and CSO National Accounts Historical Series (1970-1995)

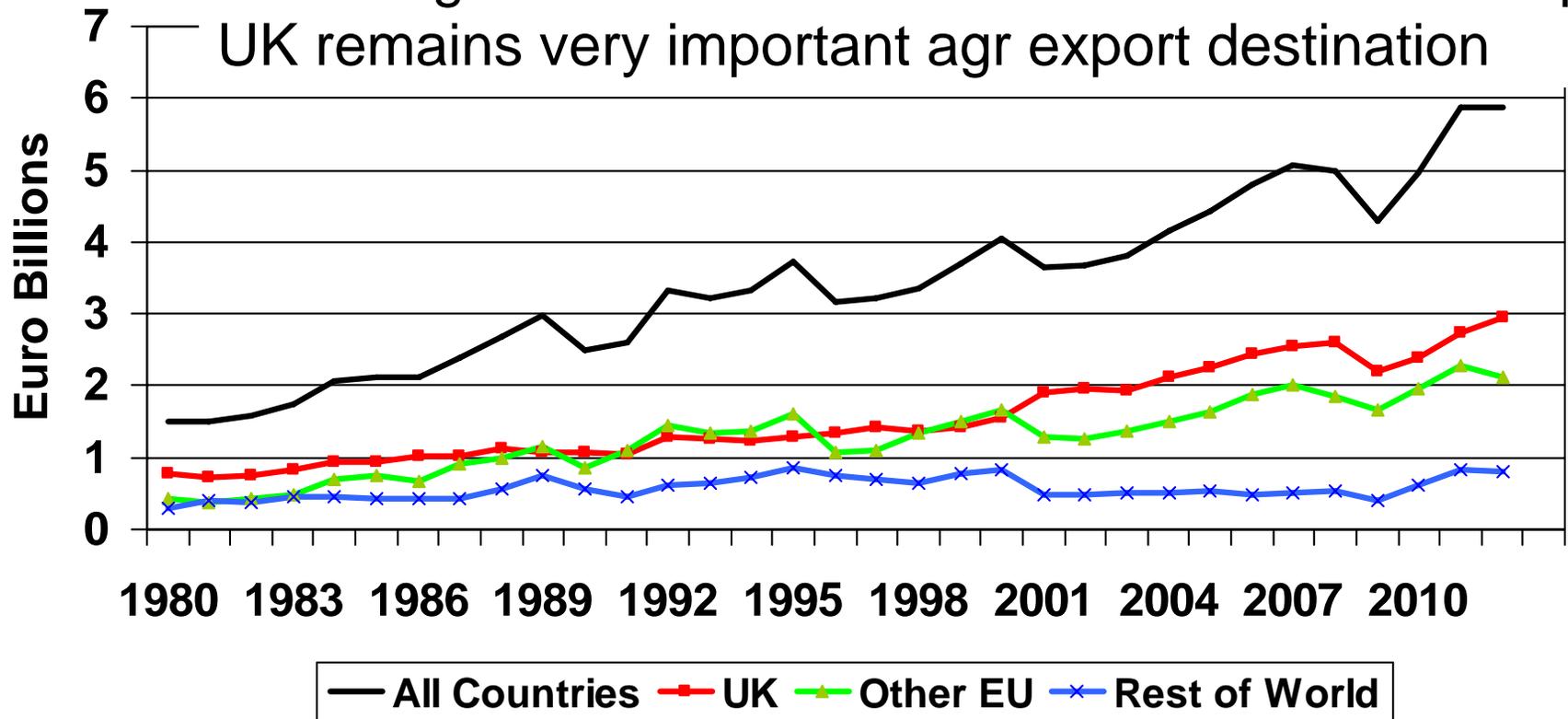
# Irish Exports by Sector



Source: CSO Value of Merchandise Trade by Commodity Group

# Agricultural Exports to UK, Other EU and ROW

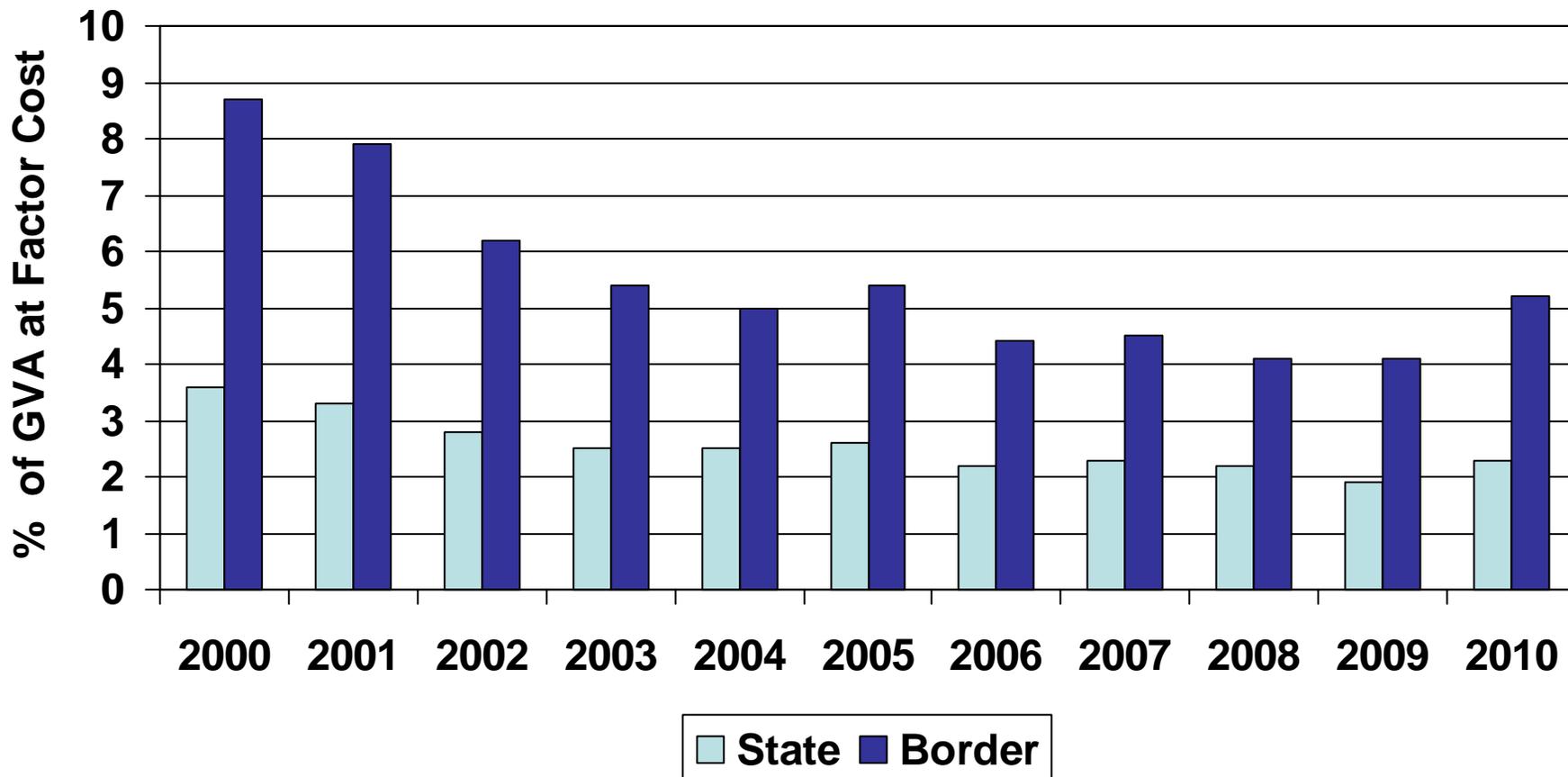
Following EEC accession and eurozone membership UK remains very important agr export destination



Source: CSO Value of Merchandise Trade by Commodity Group

# Regional Importance of Agriculture (2000-2010)

## State and Border Region Compared



Source: CSO County Incomes and Regional Accounts

# The economic importance of agriculture and food: overview

- Over the last 40 years the relative importance of agriculture in terms of employment its direct contribution to GDP has declined
- Agriculture and Food industry contribution to total merchandise exports however remains important
- Contribution to net foreign earnings (GNP effect) emphasizes the true importance of the sector: €50m. GNP per €100m. exports vs. about €20 m. for ICT and pharma sectors
- Regional importance of agriculture also varies by regions with share of GVA in Border region from agriculture above average

# Irish Agri-food future: Food Harvest 2020

# Food Harvest 2020

- **Food Harvest Targets**
  - All targets set relative to a 2007-2009 base period average
- **Most ambitious target set for the Irish dairy sector**
  - Abolition of quota system in April 2015
  - 50% increase in volume of milk output by 2020
  - Implies equally ambitious targets for the Irish milk processing sector
  - The additional milk will have to be made into marketable dairy products and commodities

# Food Harvest 2020

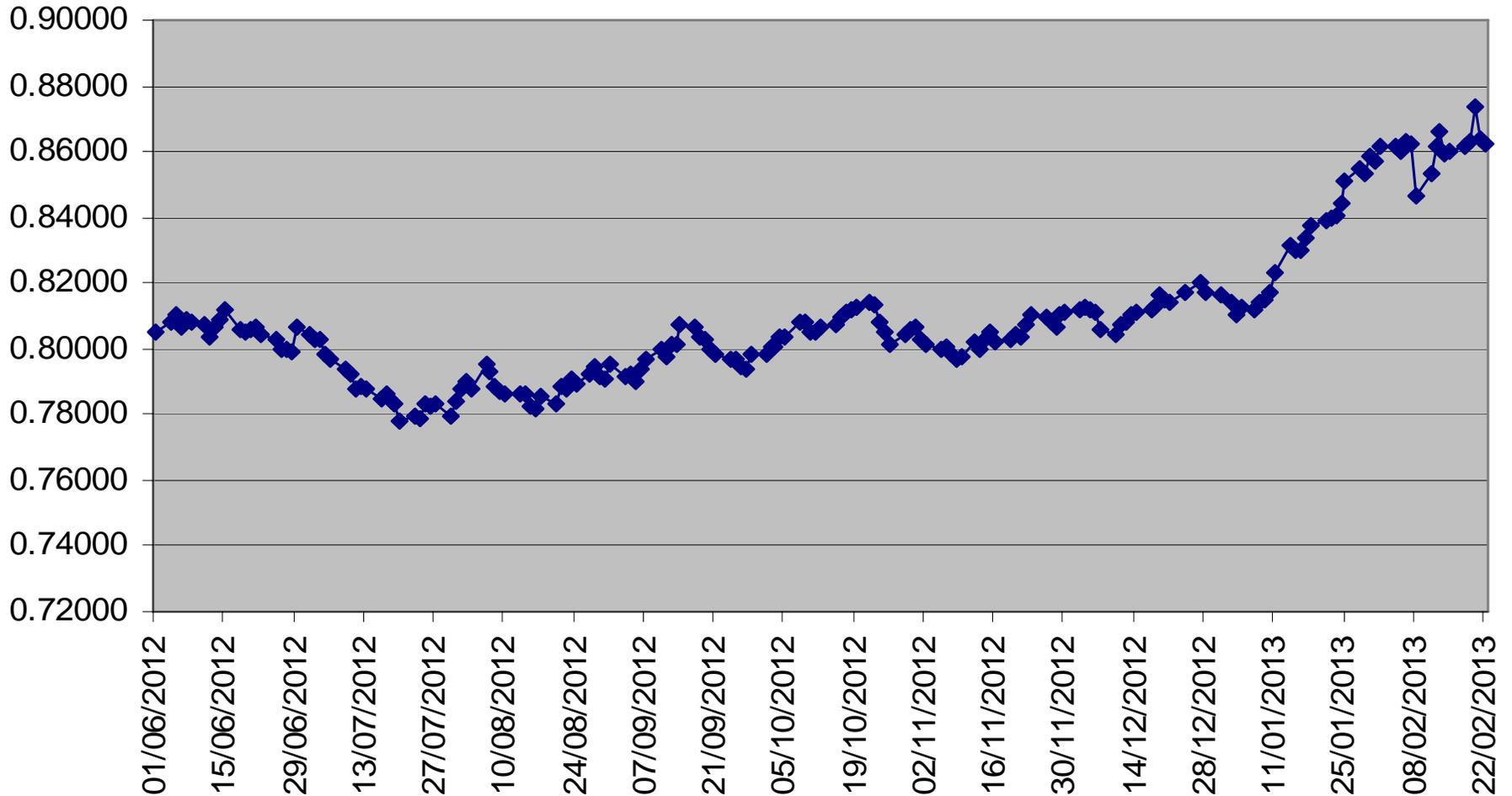
- **Ambitious targets for the Cattle, Pig and Sheep sectors**
  - Targets for the livestock sectors set in terms of output value
  - FH2020 set a 20% output value growth target for the cattle and sheep sectors and a 50% output value target for the pig sector
  - Depending on the price and quantity composition of value growth consequences for downstream processing will differ
- **Significant challenges**
  - Compatibility with climate change and sustainability constraints
  - Funding investment requirements at primary and processing
  - Resource constraints, including land availability, etc.

# The Euro and the future of the Irish agri-food industry

# Importance of the exchange rate to the agri-food sector

- Sector's dependence on exports means that the evolution of the exchange rate with our trading partners has a huge influence on the sector's competitiveness
- Like any other traded sector, the agri-food sector is affected by the macroeconomic environment and the prevailing exchange-rate regime is a critical influence on that environment
- Recent appreciation of the Euro has adversely affected the competitiveness of exports to the UK ...

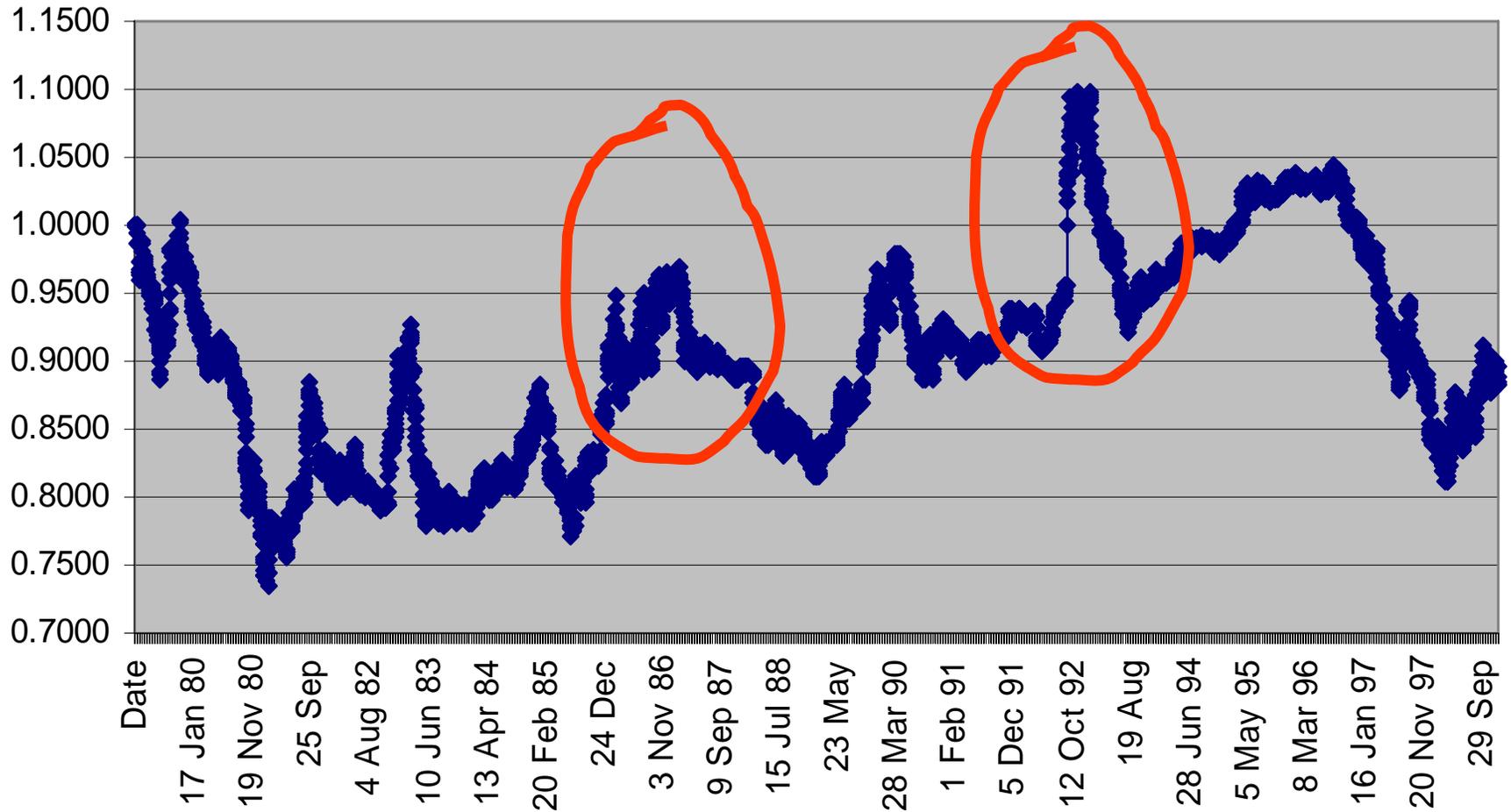
## £/€ Exchange Rate 1 June 2012 to 22 February 2013



# The Euro and the Irish agri-food sector

- Advantages
  - Exchange-rate stability with Euro trading partners
  - Reduced transactions costs within Euro area
  - Low domestic interest and inflation rates (legacy effects)
- Disadvantages
  - Exchange rate instability vis-à-vis non-Euro currencies, e.g. £ and \$
  - No autonomy to devalue or reduce interest rates to boost competitiveness
  - Given absence of fiscal federalism or a single banking system, only available option to adjust to a macroeconomic shock is an internal devaluation, i.e. nominal wage reductions and domestic fiscal retrenchment
  - Internal devaluation likely to have a protracted impact vs. an external (currency) devaluation ... significance of unilateral devaluations of the Punt in August 1986 (8%) and February 1993 (10%) underappreciated as factors in 1990s recovery ...

# Irish Punt/£ Exchange Rate 13 March 1979 to December 1998



# Some implications for the agri-food sector of a Euro exit

- Huge costs associated with uncertainty in lead up to exit
- Implications for competitiveness of the sector depend on i) the value of the exchange rate post exit (in current circumstances a devaluation would be most likely) ii) nature of new exchange-rate regime post exit (a peg to the new Euro most likely)
- Short-term competitiveness gain if Irish Punt devalued post exit
- Arguments regarding medium-term costs and benefits post exit identical to those aired prior to decision to join the Euro: does the exercise of autonomous monetary and exchange-rate policy (exit) offset the benefits of membership (stay)?
- As in run-in to entry Euro, the UK position is critical.
- Potential wider impacts: Irish commitment to the EU project would be questioned: likely adverse impact on FDI, CAP and other EU transfers, losses of benefits of membership of the Euro

# Concluding remarks

- Despite a long-term decline in the agr-food sector's direct economic importance, the sector is still by far the most important contributor to net foreign earnings
- A very important economic sector to the regions – Border direct economic contribution twice as important as the state as a whole
- The sector is providing a critically important safety net for rural communities as an income source during the current recession
- FH2020 lays out an optimistic future and has already led to the sector being considered as providing attractive career opportunities for bright young people
- As to whether we should stay with the Euro ... we've made our bed ... but the regime needs reform

# Thank you ...

