

Competitiveness of Irish agriculture

TEAGASC economists review a decade of competitiveness on Irish farms.

How do farms in Ireland compare with farms in other countries, in terms of output price, costs of production and profit margin? With the abolition of the milk quota system and the ambitious plans for the Irish dairy and other agriculture sectors set out in the 'Food Wise 2025' report (the Irish Government's strategic plan for the development of the agri-food sector over the next decade), the competitive position of Irish agriculture and the determinants of this competitiveness performance will be critical in framing public policy that seeks to maximise the contribution of the agri-food sector to the Irish economy. Hence, the objective of recent research published by Teagasc was to measure the competitiveness of Irish agriculture for the major agricultural commodities of relevance to Ireland.

Competitive performance within the EU

Costs as a percentage of output are considered as an indicator of competitive performance, namely profitability, because both costs and returns are considered. Using this indicator as a measure of competitive performance, **Figure 1** shows that the competitive position for Ireland within the EU for the four enterprises examined – milk, beef, cereals and sheep – was positive when cash costs were measured as a percentage of total output (including an allocation of decoupled payments). Irish dairy and cereal producers also had lower cash costs as a percentage of market-based output, relative to the average of all countries examined. However, Irish 'specialist beef', and 'specialist sheep' farms had 13% and 7% higher cost/output ratios, respectively, compared to the average of all the EU countries studied, when market-based output was considered. As the opportunity cost of owned resources is not included in this calculation, this indicator of competitiveness can only be considered to be valid in the short term. In the longer term, relative owned-resource costs are needed to understand the likely future adjustment pressures.

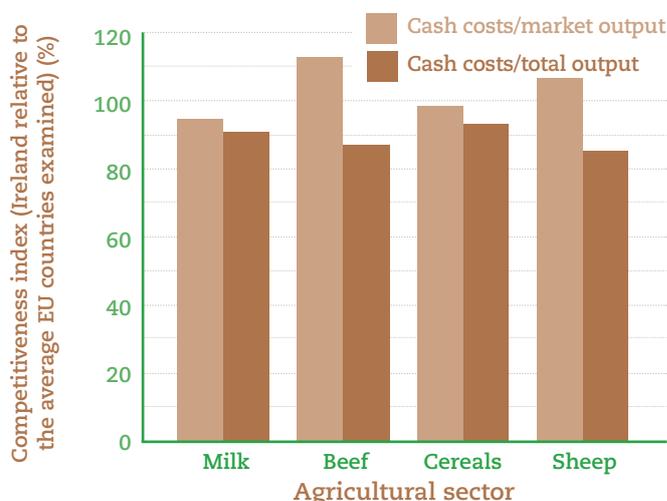


FIGURE 1: Cash costs as a percentage of market-based output and total output for Irish farms by sector (2009-2013) compared with the rest of the EU.

When imputed costs for owned resources are considered, the competitive ranking for Irish agriculture slipped relative to the average for the other EU countries. **Figure 2** shows that on a total economic cost basis, Irish cereal and dairy producers were the only categories of farms where costs as a percentage of total output approached the average of all countries examined within the EU. On an economic cost basis, Irish beef farms and sheep farms appeared to be uncompetitive relative to the average of the EU countries studied, when costs were expressed as a percentage of market-based output. As relative economic costs are considered as a guide to the longer-term competitive position of competing countries, these findings should be considered as warning signals for the future competitive performance of Irish beef and sheep production.

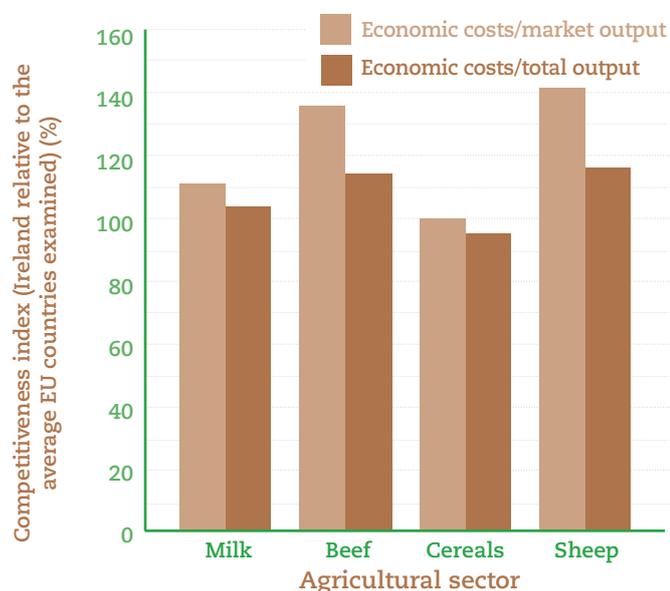


FIGURE 2: Economic costs as a percentage of enterprise output for Irish farms by sector (2009-2013) compared with the rest of the EU.

Competitive performance outside of the EU

The results from this study show that the competitive position of Irish dairy farms compared with countries outside the EU was very positive when cash costs were considered in isolation from imputed charges for owned resources. Furthermore, based on data from the International Farm Comparison Network (IFCN) for dairy, the larger-sized Irish dairy farm (which would be representative of typical larger Irish dairy farms) had the lowest cash cost to output ratio when compared to the key international milk-producing regions examined, namely, the USA, New Zealand and Australia.

When economic costs are considered, the competitive ranking for the Irish dairy sector, for the average-sized farm in particular, slipped relative to the other countries examined. However, the ability of the larger Irish dairy farms to compete in the longer term in a global context was affirmed. Furthermore, as Irish dairy farming transforms to larger scale production in the post-quota environment, the Irish milk sector's competitive position will be strengthened and thus will be better able to cope with a future cost/price squeeze.

Finally, in relation to the competitive performance for Irish beef farms outside the EU, the results of this study were not very positive, even when only cash costs of production were considered. Based on data from the international agri benchmark network for beef, representative Irish beef finishing and cow-calf farms were in the top quarter of representative farms on a cash cost per kg of carcass/liveweight basis. For both finishing and cow-calf farms, Irish farmers had lower cash costs than some North American and Canadian cow-calf farms; however, the total returns from these North American farms in general were superior to those on the typical Irish farm.

When economic costs were considered, the competitive ranking of the Irish beef sector, for the average size farm in particular, slipped further relative to the other countries examined. This highlights the

international competitiveness challenge faced by typically-sized Irish cow-calf and beef finishing farms.

Implications for the sector

The results of this study provide a baseline position against which the change in competitiveness of Irish agriculture can be measured. This is an important development in the process of monitoring the position of Irish agriculture relative to other EU and non-EU countries. As evolving topics such as trade liberalisation in the context of Brexit negotiations and reform of the Common Agricultural Policy (CAP) will all have major influences on the competitive position of Irish agriculture, the new methods and suite of indicators developed as part of this project will provide a timely and routine metric of the multi-faceted definition of competitiveness, which can be monitored in the future.

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Further reading

Thorne, F., Gillespie, P.R., Donnellan, T., Hanrahan, K., Kinsella, A. and L pple, D. (2017). 'The Competitiveness of Irish Agriculture: A Decade in Review.' ISBN 978-1-84170-634-4. Available at: <https://www.teagasc.ie/media/website/publications/2017/The-Competitiveness-of-Irish-Agriculture.pdf>.

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