The Irish Agriculture and Food Development Authority
• Current position
• What does Brexit mean?
• Implications of Brexit?

RICS Rural Conference, Cirencester, June 20th 2018
Overview

• Irish agriculture and its place in the Irish economy
  • Output, Input and Income
  • Regional Importance of Agriculture
  • Farm Structures
• Main systems of production
  • Farm Incomes
• Future Policy Implications
  • Brexit
Irish agriculture

- Total land area **6.9 million hectares**
  - about **65%** of total land area is used for agriculture
  - and about **11%** of total land area used for forestry
- Composition of agricultural area
  - grass (silage, hay and pasture) **80%**
  - rough grazing **11%**
  - crop production **9%**.

![Diagram showing the composition of agricultural area](image.png)
Irish agriculture

- Approximately 140,000 family farms
- Export orientated sector
- Predominantly grass based
- Dominant sectors are dairy and cattle
  - Other important sectors are pigs, sheep, cereals and poultry
- Beef and milk production currently account for around 58% of agricultural output at producer prices (2016)
Composition of Irish Farm Population (excludes very small farms)

- Dairying: 19%
- Cattle Rearing: 24%
- Cattle Other: 33%
- Sheep: 15%
- Tillage: 9%

Source: Teagasc National Farm Survey
Farm Structures in Ireland

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2013</th>
<th>2016</th>
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<tbody>
<tr>
<td>No. of farms</td>
<td>141,527</td>
<td>139,600</td>
<td>137,100</td>
</tr>
<tr>
<td>Average farm size</td>
<td>31.4</td>
<td>32.5</td>
<td>32.4</td>
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Land Market

- Less than ½ of one percent of land is sold annually
- 1/3 of farms are involved in the land rental market
- 18% of the agricultural land area is rented
Scale of the Land Rental Market

• Majority of farmed land is owned
• 2016: 19% of total UAA was rented-in
  • 830,000 ha
• 47,000 farms rented in land
• Average of 18 ha per farm rented in
• Mostly by larger farms
  • 2016 average farm size was 32.5 ha
  • 79% of land rented in was by farms > 20 ha in size

Source: CSO Farm Structures Surveys
Employment in the Agri-Food Sector (2015)

- 700 food and drinks firms

173,400 jobs
Exports of Agri-Food Products

• Agri-food 8.6% of GNI
• Agri-food almost 9% of merchandise exports
  • low import content of agriculture
  • low repatriation of profits
  • agri-food sector accounts for around 40% of net foreign earnings (2008).
• Irish food and drink exports valued at €12.2 billion (2016).
  • Exports to 160 countries
  • From 2009 to 2016, value of Irish exports grew by 56%
  • Government's target is to grow this figure to €12 billion by 2020
  • Agri-food imports over €8 billion (2016) – much of it from UK
Agriculture, Forestry and Fishing: % Share of GDP

Agriculture % of GDP

- United Kingdom
- Ireland
- Hungary
- Poland


Agriculture % of GDP
Regional Importance of Agriculture in Ireland

- Regional variations in
  - Soils
  - Topography
  - Climate (rainfall, temperature and sunshine)

- Nature of agricultural industry differs across Ireland
  - Larger farms in south and east
  - Smaller farms elsewhere

- Size of the regional non-agricultural economy
  - Prevalence of industry and services influences local importance of agri-food
The Agriculture Divide in IRL

- **Crudely speaking** more profitable agriculture in **south and east**
  - Farms tend to be larger, more modern and full time basis
- Less profitable in **west and north**
  - Farms tend to be smaller, less advanced and part time basis
- There are of course exceptions to this generalisation
Importance of Agriculture by region in Ireland

<table>
<thead>
<tr>
<th>Region</th>
<th>% of regional GVA</th>
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<tbody>
<tr>
<td>State</td>
<td>1.50</td>
</tr>
<tr>
<td>Border</td>
<td>3.50</td>
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<tr>
<td>Mid East</td>
<td>1.75</td>
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<tr>
<td>Midlands</td>
<td>2.75</td>
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<tr>
<td>South West</td>
<td>2.25</td>
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<tr>
<td>South East</td>
<td>4.25</td>
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<tr>
<td>South</td>
<td>2.00</td>
</tr>
<tr>
<td>West</td>
<td>1.75</td>
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</tbody>
</table>
Cattle and Beef Sector in Ireland in 2017

- Irish beef production - predominately grass based
  - 588,000 tonnes of beef produced in 2016
- 7.36 million cattle (June livestock survey 2017)
  - this represents a 2% increase on prior year level
- Exports
  - 535,000 tonnes
  - €2.5 billion (2017)
- 180,000 cattle were exported live
  - Over 50% are calves (mainly to Netherlands)
  - Live exports to the UK are in decline
Sheep and Sheep meat sector in Ireland in 2017

- 5.2 million head of sheep
- Breeding flock 2.59 million head (June 2017)
- Exports
  - 57,000 tonnes of sheep meat
  - €275 million
- France is the main market for Irish sheep meat exports
  - 34% by volume
- UK is also a substantial export market
  - 25% by volume
Pigs and Pig meat sector in Ireland in 2017

• 1.56 million pigs in Ireland (June 2017)
• In 2016, Ireland exported an estimated 247,000 tonnes
• Total pigmeat export were worth approximately €712 million.
  • UK main market for Irish pig meat (56%)
  • EU is next largest export market
  • China growing in importance as an export market
Dairy Sector in Ireland in 2017

• Total milk processed (incl. milk imports) was 8,065 million litres

• Within total milk output
  • Just 526 million litres (6.5%) was consumed as liquid milk
  • Domestic consumption of dairy products is low relative to production
  • Roughly 90% (by volume) of dairy production is exported

• Total dairy product and dairy ingredient exports of €4.2 billion.
Farm Incomes and Farm Population
Farm Incomes

- National Farm Survey – official source
- Member of Farm Accountancy Data Network
- Approx. 900 farms surveyed annually – weighted
- Income reported by system
Average Family Farm Income € per Farm 2016 & 2017

- Dairy: €86,115
- Cattle Rearing: €12,680
- Cattle Other: €16,651
- Sheep: €16,897
- Tillage: €37,158
- All: €31,374

Income per Hectare

- Lowest: €421
- Lowest: €523
- Lowest: €604
- Lowest: €682
- Lowest: €783
- Highest: €676
Market Based Income € per Farm 2016

- Dairy: Family Farm Income -10,000, Direct Payments 20,000, Market based income 50,000
- Cattle Rearing: Family Farm Income -10,000, Direct Payments 10,000, Market based income 0
- Cattle Other: Family Farm Income 0, Direct Payments 0, Market based income 0
- Sheep: Family Farm Income 0, Direct Payments 0, Market based income 0
- Tillage: Family Farm Income 0, Direct Payments 20,000, Market based income 0
- All: Family Farm Income 0, Direct Payments 20,000, Market based income 0
A review of farm incomes

- How is negative income possible?
- Costs of running the business exceeds market profit
- Rational when subsidies were coupled to production
- Why now?
  - for some losses from production are less than costs of compliance
  - for others losing money is a lifestyle choice
- Is farming sustainable?
  - depends on number of commercial farmers and reliance on farm income
Proportion of farmers employed off-farm by region in 2016

Source: Teagasc National Farm Survey
Brexit: what could mean for Irish farm level economic viability and competitiveness?
Importance of UK to Irish agri-food exporters

UK is **important export market** for agri-food

- 43% of IRL agri-food exports in 2015
- 52% of IRL beef exports
- 22% of IRL dairy exports

UK is also important export market for

- Prepared Consumer Foods
- Timber
- Mushrooms
Brexit effects

Ways in which Brexit affects Irish agriculture

1. Immediate impact via exchange rate
2. Future tariff & non-tariff barriers to trade
3. Impact of Brexit on EU budget and CAP
4. Impact of future UK Ag policy on UK agri-food self-sufficiency
Brexit has not yet happened but has had some impact!
Sterling Rate v Euro

A temporary or structural exchange rate adjustment?

Makes Irish (eurozone) exports less competitive in UK and vice versa.
Four Possible Brexit Outcomes?

**Very Soft Brexit: (BINO – Brexit in Name Only)**
- UK agrees to stay in SM & CU
- No tariffs with EU
- No non-tariff barriers with EU (regulatory alignment)
- UK cannot do its own trade deals
- UK contributes to EU Budget

**Hard Brexit A: UK/EU WTO MFN Rules**
- UK applies EU WTO Bound Tariffs
- EU treats UK like a MFN WTO member
- Non-tariff barriers & tariffs between UK-EU
- UK can do its own trade deals
- UK no longer contributes to EU Budget

**Soft/Medium Brexit: UK/EU FTA Agreement**
- UK leaves SM and CU
- UK/EU reach an FTA (but how comprehensive?)
- No tariffs apply to UK-EU trade
- Non-tariff barriers between UK-EU (no regulatory alignment)
- UK might have ability to do its own trade deals
- UK might contribute to EU Budget

**Hard Brexit B: UK Unilateral tariff elimination**
- EU treats UK like a WTO MFN member
- Non-tariff barriers between UK-EU
- UK liberalises unilaterally or via FTA with non-EU countries
- UK can do its own trade deals
- UK no longer contributes to EU Budget

**Very Soft Brexit: (BINO – Brexit in Name Only)**
- UK agrees to stay in SM & CU
- No tariffs with EU
- No non-tariff barriers with EU (regulatory alignment)
- UK cannot do its own trade deals
- UK contributes to EU Budget

Source: Author’s own elaboration
Regulatory Divergence Is a Big Deal

- EU Law
  - EU quality certification schemes (PDO, PGI, TSG, organic, etc.)
  - General Food Law, incl. secondary legislation
  - Official food and feed controls
  - RASFF (food and feed safety alerts) & EFSA
  - Applications (e.g. novel foods, health claims, food improvement agents)
  - Consumer information / labelling

- ‘SOFT’ POLICY (MIXED COMPETENCE)
  - Nutrition and public health policy
  - Audio-visual Media Services Directive (AVMSD)
  - Unfair Commercial Practices (UCP) Directive

- ‘EMERGING’ EU POLICY/REGULATORY FIELDS
  - Sustainability (food waste, packaging, animal welfare)

Over 2,000 (EU) laws affecting agri-food!

Source: IBEC
Hard Brexit Tariff Cliff?
EU MFN Tariff Example: **Fresh Boneless Beef**

02013000 “Fresh or Chilled Bovine Meat, Boneless”
- Value of UK imports from Ireland in 2016: **€600.33 m**
- Volume of UK imports from Ireland in 2016: **93,316 tonnes**
- Average value per 100kg: **€643.33/100kg**

EU bound MFN tariff is a compound tariff
- 12.8% ad valorem **plus** **€303.4/100kg**

So AVE of the compound tariff @ 2016 prices is
- \( \frac{[\text{€643.3}(1.128) + 303.4]}{\text{€643.3} - 1} \times 100 = 59.96\% \)
- Tariff paid price would rise to over **€1,000/100kg**
Ireland/UK border concerns
Land border between Ireland and Northern Ireland

- Ireland became independent of UK in 1922
- Customs checks until 1992
  - Single Market
- Heavy security on border from 1960 to 2000
  - Historically a contested border
- Good Friday Agreement 1997
  - Border is currently non existent in practical terms
  - 500kms long with 275 crossing points
- Lots of cross border movement of intermediate goods
  - Trade in finished goods is less important
Ireland/UK border concerns
Land border between Ireland and Northern Ireland

- But the key issues is free movement of people rather than goods
- Historical basis for free movement of people
  - Ireland would not be treated as a foreign country by UK (Rep of Ireland Act, 1949)
- However, with Brexit, free movement of people potentially compromised by need to implement border check on goods (So called Hard Border)
- Hard Border issue commonly (and erroneously) perceived as only an issue about tariffs
  - Seen (erroneously) as resolvable if UK and EU were in Customs Union
- However, non tariff (regulatory) issues also suggest a Hard Border requirement
  - Resolvable via UK membership of the EU Single Market
  - But this would then remove UK’s ability to do its own trade deals (Red Line Issue)
  - UK Gov seeking other solutions that would not compromise free movement
Brexit Impact Scenario

• **Assessment of Impact on Farm Income**
  – Teagasc, NFS, data used in FAPRI-Ireland static farm level model
  – Looking at our four principal sectors
    • Beef, dairy, sheep and tillage
    • Analysis conducted at the *system level*

• **Look at the implications of**
  – Sector specific % output price reduction and
  – 10% reduction in CAP support in all sectors
Price Impacts for Brexit Scenario

- Based on LEI Paper
  - van Berkum et al., (2016)
- 3 scenarios examined
- Based on ‘hard Brexit’ assumption
  - Trade liberalisation is assumed
  - 50% on WTO import tariffs
Structure in Irish Farming: Single Farm Payment as a % of income (2016)
Brexit Shock: Static Impact on System FFI

- €13k (Dairy)
- €4k (Cattle Rearing)
- €5k (Cattle Other)
- €3k (Sheep)
- €7k (Tillage)

**Notes:**
- Average 2013-2015
- Policy Shock - alone
- Price Shock - alone
- Price & Policy Shock - combined
Brexit Shock: Static Impact on System FFI

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<tr>
<td>Dairy</td>
<td>-40%</td>
<td>-35%</td>
<td>-30%</td>
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<tr>
<td>Cattle Rearing</td>
<td>-25%</td>
<td>-20%</td>
<td>-15%</td>
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<tr>
<td>Cattle Other</td>
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<td>-5%</td>
<td>0%</td>
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<td>Tillage</td>
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Thank You