

Dairy in the Irish economy!

Ciaran Fitzgerald

Food Economist Consultant

The Irish dairy sector is a huge contributor to growth in economic activity across the rural Irish economy supporting over 60,000 jobs from dairy farming (19,000) to milk processing/distribution, export marketing and research.

- Ireland exports circa. 90% of dairy output to 120 countries worldwide.
- The value of exports has doubled from €2–4 billion since EU quotas were removed in 2015.
- This growth in export values reflects increased global demand for dairy products and, in particular, increased demand for grass-based sustainable dairy production.
- Ireland's status as the lowest carbon emitting dairy sector in the Northern Hemisphere is recognised across a growing global customer base.
- The additional status of Irish grassland as a huge Carbon sink storing up to 30 million tonnes of CO₂ annually is currently being assessed under IPCC rules.

The overall economic contribution of dairying to the Irish economy has increased significantly in recent years (Table 1). Hugely importantly as detailed in the piece below, Irish economy expenditure by the dairy sector has also doubled since quota abolition to €3.8 billion in 2018. Crucially in terms of Irish economy impact, every €1 of exports of dairy products represents 90 cent spend within the Irish economy. In contrast, for the Multinational sector the corresponding figure per €1 euro exports is 10 cent spend in the Irish economy. Moreover, Dairy's huge Irish economy spend on raw materials wages and services now accounts for almost 10% of spending by all industry (DJEI, Annual Survey of Expenditure 2017 published February 2019).

Table 1. The economic contribution of the Irish dairy industry (2009–2018)

	2009 to 2013 average	2018
Milk deliveries	4.8 billion litres	7.6 billion litres
Value of dairy output	€2.2 billion	€4.5 billion
Imports	0.4 billion litres	0.75 billion litres
Value-of output/litre	42 cent/litre	56 cent/litre
Irish economy spend	€1.8 billion	€3.8 billion

Expenditure in the Irish economy is a much more real assessment of the impact of industry in the Irish economy than the standard economic accounting figures such as Gross Domestic Product (GDP) or Gross Value Add (GVA). In terms of economic activity, GDP is a completely distorted figure in Ireland's case because of the requirement under GDP convention rules that multinational profits and transfer pricing transactions are included in Ireland's GDP figure, while purchases of milk and other inputs in the Irish economy by the dairy sector for example, are excluded. In gross terms, 130 billion of private multinational company profits annually are included in Ireland's GDP figure, while 3.8 billion worth of Irish economy inputs purchased by the dairy sector (16 billion by the broad agri-food sector annually) are excluded. So very clearly GDP does not measure Irish economy performance.

The Central Statistics Office (CSO), the Department of Jobs, Enterprise and Innovation and Eurostat provide annual analyses that create a much clearer picture. The Eurostat report shows that while Ireland is ranked second in the EU in GDP terms, when transfer pricing is removed, we fall to ninth in the EU (Eurostat AIC V GDP 2017). Irish income levels are 181% of EU average under GDP figures but only 93% of EU average when transfer pricing distortions are removed. The CSO and the Department of Jobs, Enterprise and Innovation

produce annual reports detailing the Irish economy spend on raw materials, people/salaries and services in Ireland (CSO Census of industrial production, Dept. Jobs Annual survey of Irish Economy Expenditure February 2019). The following statistics provide a clearer picture of the relative economic contributions of various sectors in 2017:

Multinational exports were valued at €200 billion while Irish economy expenditure by multinationals was €20 billion: a 10 cent spends in the Irish economy per euro exported.

- Irish economy expenditure by all Irish indigenous companies was €24 billion while total exports from these companies were €40 billion: 60 cent spends per euro export.
- Irish economy expenditure by the agri-food sector was €15 billion while exports were valued at €13 billion: 1.20 cent/euro export.
- Dairy industry exports were €4.2 billion while Irish economy expenditure was €3.8 billion: 91 cent expenditure in the Irish economy per euro export.

So the Irish dairy sector is a key contributor to growth in economic activity across the rural and regional Irish economy. At the same time, dairy output growth has been extremely climate change efficient. A recent Teagasc report shows that the expansion in the sector has been achieved while reducing the emissions intensity of dairy production to levels well below that of other countries.

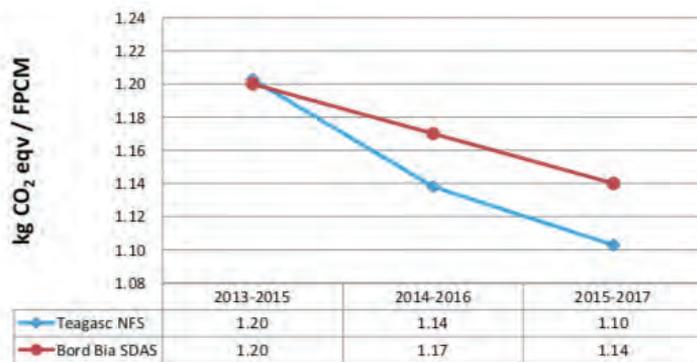


Figure 1. GHG emissions per kg FPCM (LCA approach) — three year rolling average weighted by milk supply.

Dairy economy growth comes from a combination of a major surge in global demand for dairy products, particularly in emerging economies, and the ending of supply controls in the EU with the abolition of milk quotas in 2015. Since 2015 Irish dairy output has increased in value by over €2 billion annually and by 60% by volume.

- There are just 19,000 dairy farmers in Ireland (DAFM) producing over 7.5 billion litres of milk annually (CSO, 2018)
- Imports of milk from Northern Ireland represent an additional 800 million litres.
- Employment in milk processing is 7,500 jobs (CSO, 2018). There is an additional 30,000 jobs across the dairy sector in farm supplies and Agri inputs/wholesaling transport, distribution Research and Development (CSO, 2018)
- Total milk processed in the Republic of Ireland is almost 8.3 billion litres. This represents 60% increase on pre-quota levels of an average five billion litres annually.
- The turnover value of the milk processing industry is €4.8 billion. Exports in 2018 were valued at €4.2 billion.
- The unit value of milk production has increased from an average of 42–45c/litre in the

last years of milk quota to just over 56 cent in 2018.

- Irish economy expenditure by the dairy sector was €3.8 billion in 2018. The Irish dairy sector buys 90% of its inputs and raw materials in the Irish economy.
- The dairy industry accounted for almost 10% of spending by all industry in the Irish economy in 2018. The sector additionally provides around 50% of the raw material for the beef processing sector to a value of €1.2 billion annually.

Since EU milk quotas were abolished in 2015, Irish milk production has increased to 7.6 billion litres in what was a really challenging year for farmers in 2018. Moreover, not only has the volume of milk production increased by almost 50% (as illustrated in Table 1), the €2 billion in increased expenditure in the Irish economy has ranged from increased farm inputs and services through investment in new processing facilities and in support of an additional 10,000 jobs across the economy from dairy farming right through to manufacturing distribution and research.

Resilience: Fixed price schemes v Price volatility and Return on investment

The transition from a milk quota plus EU market supports based regime to a more, open and volatile world market driven scenario has presented huge challenges in terms of dealing with price and income volatility. It is a testament to the resilience of farmers and the innovation of Irish milk processors led initially by Glanbia with the introduction of robust fixed milk price and business finance schemes, that both the volume growth trajectory and the increase in unit value were sustained throughout the ups and downs of the global milk price cycles (Figure 2).

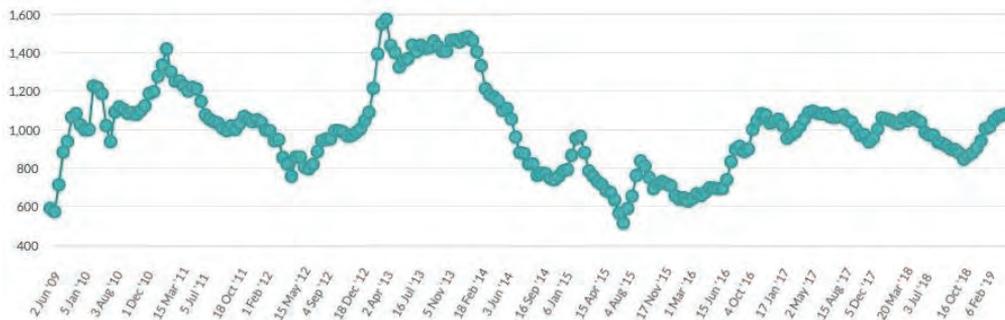


Figure 2. Global Dairy Trade (GDT) price index (2009–2019). The GDT price index is calculated from the total quantity sold in a trading event across all products, contract periods and sellers.

While some element of the increase in the unit value of dairy output has come from an increase in the price of butter since the middle of 2016, the bigger factor driving the growth in value added would seem to be the move to higher income returns from the Infant formula and Sports Nutrition sectors. In addition to the increased value within the sector, figures from Enterprise Ireland from 2015 showed that, in the two years pre-quota abolition (2013 and 2014), Irish dairy processors invested in 36 projects across the dairy product spectrum, spending €770 million, with a state grant support of €79 million.

Summary and Conclusion

The clear takeaways from the analysis above is that the impacts of dairy expansion have been hugely significant in terms of return on investment (including state support) and even more importantly the huge economy wide impact of dairy expansion across the Irish economy.

PUTTING GRAZING MANAGEMENT INTO PRACTICE



Pasture Profit Index — choosing the correct varieties for my farm.....	50
Performance of grass varieties and white clover on commercial farms.....	52
Reseeding grassland swards.....	54
Teagasc grass and clover breeding programme.....	56
Fertiliser planning to improve grass production.....	58
PastureBase Ireland — getting Ireland utilising more grass.....	60
Grass10 campaign.....	62
Predicting grass growth: The MoSt GG model.....	64
GrassQ — precision grass measurement for the future.....	66
Effects of autumn grazing management on over-winter growth, sward quality and sward structure.....	68
Effects of autumn grazing management on spring grass availability.....	70
The impact of autumn grazing management on animal and pasture productivity.....	72
Benefits of white clover in grass-based milk production systems.....	74
Moorepark clover study update.....	76
Clonakilty Update: The effect of perennial ryegrass ploidy and white clover inclusion on animal, sward and farm economic performance.....	78
Sustainable use of concentrates on dairy farms — best practice for supplementation.....	80
Effects of concentrate type on dry matter intake and milk solids production of mid-lactation dairy cows grazing perennial ryegrass with elevated neutral detergent fibre, indigestible NDF and reduced crude protein.....	82
Effects of feeding barley grain on dry matter intake and apparent total tract digestibility of mid-lactation dairy cattle fed pasture-based diets.....	84
Making enough quality grass silage for dairy systems.....	86
Assessing and managing fodder stocks on dairy farms.....	88
Securing a reserve of quality forage on dairy farms.....	90
The effect of supplementation type on animal performance in mid lactation during periods of reduced pasture growth.....	92
Grassland and carbon sequestration.....	94