



IFA Submission on Agriculture Strategy 2020

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1 Introduction

1.1 Agriculture and the Economy

Ireland's agri-food industry is the largest Irish-owned productive sector, accounting for over 60% of exports from Irish-owned manufacturing.

Because the sector is Irish owned and has very low import requirements, it generates relatively low capital outflows from the country and is deeply embedded in the Irish economy,

This is particularly true of the rural economy. 38% of all households are based in rural Ireland, with 1 in 4 of these a farm household.

Recent estimates indicate that there are about 250,000 people employed in agriculture, the agri-food industry and in related service industries, representing 20% of the workforce outside Dublin¹.

The Gross Value Added of agriculture and the agri-food sector is €12 billion annually, while the Gross Output of the sector is over €25 billion, or 7.5% of national output.

EU transfers to Ireland for the agriculture sector are €1.7 billion, providing a vital source of net yearly income for the rural economy.

The Irish agriculture sector can contribute significantly to Ireland's economic recovery, through an increase in output, export earnings and employment to meet the growing global demand for higher value food products and to meet the needs of the developing bio-energy market.

1.2 Structure of the agriculture sector

There are currently 128,000 family farms in Ireland. The physical structure of farming has improved over the last 20 years. While the average farm size in 1991 was 26 hectares, this increased by just less than 25%, to 32.3 ha, in 2007.

In addition, mobility in the use of land has increased, with 33% of all farms renting a total of 762,000 hectares in 2007, up from 21%, who rented just over 550,000 hectares in 1991². The option of earning tax-exempt income from long-term land leasing should further encourage better land utilisation.

While the age-profile of the agriculture sector is not favourable at present, with 50% of farmers aged over 55, there is huge potential for this to change as the numbers of high-quality individuals going through the agricultural education and training system at present is higher than it has been in decades.

The total numbers enrolled in Teagasc agricultural courses has increased dramatically in the last number of years. In 2009, there are over 3,000 students enrolled in Teagasc further education agricultural courses, while at higher level, demand for agricultural courses has increased by over 50% since 2007.

¹ *The Irish Agriculture and Food Industry – Bigger, Brighter, Tougher*, AgriAware 2009 (amended to take account of industry employment reductions in 2009)

² CSO *Farm Structure Survey*, 2007

In 2009, the numbers engaged in agriculture fell dramatically, reflecting the drop of 40% in farm incomes experienced since 2007. At the same time, employment in food and drink processing also fell by 10,000, while off-farm employment for part-time farmers fell by 35%. The challenge for policymakers and participants in the sector now is to develop a sustainable strategy and growth path for agriculture and the agri-food sector.

1.3 Potential for agriculture

The downturn has clearly shown that it is the indigenous exporting sectors, of which the agriculture sector is a major component, which will drive the economic recovery. Government must prioritise its policies for economic recovery based on a competitive export sector.

It is hugely important that the agriculture sector is supported, thereby providing existing participants and highly-qualified new entrants into the sector with the opportunity to contribute fully to the economic recovery by finding meaningful employment in their chosen field of specialisation.

Ireland can build on its image as the 'Sustainable Food Producing Island' driving added value, export earnings and jobs. The Government must invest in marketing to further develop the potential of and returns to the agri-food sector.

In addition, the link between and potential for growth of agriculture and the rural tourism sector must be strengthened. Visitors are attracted to the uniqueness of the Irish countryside, where a vibrant farming community is caring for the rural environment.

The remainder of this submission is divided into two sections. The first identifies the key policy challenges for the Irish agriculture sector now and in the coming decade. The second section outlines the potential for growth and the achievable returns for the economy, in increased output, export earnings and employment for each of the commodity sectors. IFA has identified the potential to grow exports by €2 billion and to create up to 16,000 jobs in agriculture, the agri-food and bio-energy sectors.

2 Key Issues for the Agriculture Sector³

2.1 CAP Post 2013

The CAP is of vital importance to Irish agriculture, supporting environmentally sustainable, high quality family-farm food production. Between the Single Farm Payment and the Rural Development Programmes, the CAP provides €1.7 billion in funding annually for Irish farming and the rural community.

Since its inception, the CAP has undergone significant reforms, responding to the demands of European consumers for high quality, environmentally sustainable food production.

Price and income volatility in agriculture has increased greatly since the 2003 CAP reform, with the decoupling of payments from production, and greater exposure to an increasingly liberalised and unregulated world market. This is threatening the viability of the family farm structure.

In the upcoming negotiations on the future of the CAP, Government must strongly defend the record of the CAP. In addition to the retention of the Single Farm Payment and the budget for Rural Development measures, the CAP budget must include provision for separately funded and effective market support and management measures, and the retention of funding for producer groups.

The maintenance of a fully-funded, index-linked CAP budget post-2013, which takes account of the increased membership of the EU and ensures that family farmers are not forced to produce below the cost of production, is vital to securing the production of sustainable, high-quality food produced in Ireland for European consumers.

2.2 WTO

A WTO deal, under the current EU proposals, would irreparably undermine Irish agriculture and its food industry. This sector accounts for over 60% of exports from Irish-owned countries.

The globalisation of industrial commodities is totally different from that of agricultural produce. In any future negotiations, WTO will have to develop a new set of trade rules which recognises the importance of food security, environmental protection and biodiversity, and the critical part family farms play in the production of a sustainable supply of high quality food at affordable prices.

The Irish Government must insist on a renegotiation of Europe's position on international agricultural trade, including equivalence of standards between countries to secure fair trading terms for primary producers, before the resumption of any meaningful trade talks.

2.3 The need for a viable return from the market

In 2009, average farm incomes were just €13,000, with the average incomes of full-time farmers just €16,000. This collapse in farm incomes has seriously jeopardised the ability of farmers to maintain output levels and provide for their families.

³ See *Equity for Farmers in the Food Supply Chain*, IFA 2010, and *IMI Report on the Economic Forum of Irish Farming and Food Industry Leaders*, 2009, for further expansion of key issues

For the majority of farm enterprises, the price being returned to the producer does not cover the break-even costs of production.

The food supply chain in Ireland, the UK and in most of Europe is characterised by the concentration of buying power in the hands of a small number of retail groups with significant market share. Situated at the opposite end of the chain from the powerful retailers, primary producers are in a weak bargaining position and are price takers

Processors and food suppliers are the key link in the food chain between retailers and the primary producer as they purchase the product directly from the farmer. There is a need for processors and food suppliers to take more responsibility for ensuring a viable income for farmers through better co-ordination, marketing and selling which in turn will secure a greater share of the retail price for the primary producer.

Regulation of the retail sector is required, through introduction and enforcement of a statutory code of practice and an independent Ombudsman office. At EU level, Government must continue to work to ensure the introduction of regulation, and improve price transparency in the food supply chain.

Consumers in the Republic of Ireland place much more emphasis on label information than either Northern Irish or English consumers. In the last decade, the origin of products has become more important to Irish consumers, who are also increasingly buying local as the perception is that local produce is healthier, safer and of a higher quality. However increasingly consumers are being misled as to the origin of the food products they purchase.

The Government must close the loopholes in the labelling legislation, which are misleading consumers and short changing consumers. Regulation is required in this area and must be backed up with proper enforcement both at retail level and across the food service sector.

2.4 Cost competitiveness of the agriculture sector

Since 1995, the cost of on-farm production has increased by over 50% despite major efficiencies at farm level. At the same time, the price paid to farmers has dropped by 7%, leaving real farm incomes at only 51% of 1995 levels.

The agri-food sector is a key exporting sector within the Irish economy. It is essential that we restore our competitiveness in order to grow our export earnings as the global economy recovers. Government must reduce the costs over which it has control, including energy, waste, bureaucracy and labour.

The current energy cost burden is acting as a tax on exports and is dissipating resources that should be used to invest in innovation. An example of an uncompetitive cost on the exporting sectors, including agri-food is the recently introduced carbon tax.

Agriculture-specific costs that must be reduced include:

- **Non-productive environmental compliance costs**

The upcoming review of the Nitrates Regulations provides an opportunity for the Government to address the excessive non-productive costs that the regulation has imposed on farmers. IFA has identified four critical issues that must be addressed:

- The farming by date requirements must be lifted
- Permanent removal of the winter ploughing ban for spring cereals
- Continuation of the transitional phosphorous arrangements for pig and poultry producers and
- Compensation for lands sterilised where excessive buffer zones are imposed

- **Utility Costs**

Government must introduce a livestock rate for Agricultural Water Charges which recognises the usage requirements of the sector and which is in line with the discounted price charged to other significant non-domestic water users;

- **Bureaucratic costs**

Government must reduce administrative costs for farmers and eliminate unnecessary regulation and duplication of services including:

- A reduction in on-farm inspections, and all inspections to be undertaken by Department of Agriculture Officials only; and
- Soil Framework Directive – the requirements under this proposed Directive are currently being met by farmers through cross-compliance measures, thereby rendering the introduction of this Directive unnecessary and a potential duplication;

- **Research and Development**

Use of Research and Development outcomes to further reduce the cost base by making better utilisation of grass-based production, our key competitive advantage. A viable technology transfer service must be maintained to ensure the return on investment in research is realised through widespread adoption of research findings at primary producer and processing level.

- **Professional service costs**

Professional service costs to farmers and agri-businesses must be reduced, while costs must be removed from the processing sectors through greater collaboration and increased efficiency.

2.5 Agriculture and the Environment

The REPS scheme, has provided a very successful, and cost effective model for the implementation of agri-environmental measures in Ireland over the last 15 years. It has brought huge environmental gains to the Irish countryside and has provided significant improvements in water quality and biodiversity.

The scheme has supported farmers in the provision of public environmental goods. It has also strongly encouraged environmental land management, which otherwise would not be carried out due to the non-remunerative nature of such activity. REPS is a significant support scheme, particularly in the West of Ireland, and for cattle and sheep farmers, who make up 75% of all REPS farmers.

Under REPS 10,000 kilometres of new and rejuvenated hedgerows is being undertaken throughout every town-land in Ireland.

The REPS scheme has also contributed to the maintenance of 3,000 kilometres of stone walls mainly in the west of Ireland, and the provision of a carbon sink absorbing up to 2.3 million tonnes of carbon dioxide.

Farmers with designated SAC/NHA/SPA land and commonages have had significant farming restrictions imposed on them. The REPS scheme has compensated up to 14,000 farmers with such land as incomes have been reduced through destocking and other restrictions on farming practices and management regimes, deemed necessary to protect these sensitive areas.

In addition to the public goods provision of REPS, the scheme is of great benefit to the rural economy. It provides employment for farm suppliers of fencing materials, general hardware and hedging, garden centres, planning consultants and other labour inputs.

The proposed agri-environment scheme to replace REPS in 2010 will not deliver for farmers, the environment or the rural economy. The scheme as designed will impact negatively on many small and medium sized farms who were involved in REPS over many years and must be amended to include an all-farm payment to recognise the input of the farmer into the agri-environment measure.

The scheme must be amended to be workable and attractive for farmers. Otherwise the inevitable reduced uptake of the proposed scheme will impact, both economically and socially on rural Ireland. There will be a reduction in farmer numbers and related employment, with the real prospect of land abandonment, rural desertification and the eroding of rural communities.

2.6 Agriculture and Climate Change

Climate change is a significant challenge facing the global community. The response to climate change must not restrict the opportunities for the Irish agriculture sector to create employment, develop export markets and expand into emerging markets.

Ireland's climate change response must address the key issues of energy security and food security, while also maximising job creation. The policy response must ensure that sustainable beef production in Ireland is not replaced by imports into Europe from less environmentally sustainable regions such as South America. Relative to other beef exporting countries Ireland has a low carbon model of production.

Ireland and other countries within Europe such as Denmark, the Netherlands and Belgium are vital to providing a sustainable supply of meat and milk products to EU countries which are highly dependent on imports, such as the UK, Sweden, Italy, Poland and Lithuania.

At a time of projected population growth and demand for food there is an obligation on Ireland and the EU, in responding to the climate change challenge, to plan for and provide for this increased demand.

The key role for agriculture in climate change is in the area of climate/carbon mitigation, while maintaining a sustainable food production base. The mitigation strategy is based on three key pillars

- Maximising the carbon sequestration potential from the forestry sector;
- Recognition of the significant carbon sink in permanent pastures; and
- Reducing the nation's carbon footprint and increasing energy security by harnessing the potential of renewable energy production.

Over the last decade, improved nutrient management has led to a 35% reduction in fertiliser use, equivalent to a reduction of over 0.5 million tonnes of CO₂. The focus for the agriculture sector in future must be on increased efficiency of fertiliser use, whilst sustaining productivity.

Recent Government proposals to reduce emissions by 80% by 2050 have not been fully thought out and have the potential to significantly undermine sustainable agricultural production and impact negatively on wider economic growth.

The 26% greenhouse gas (GHG) emission level attributed to agriculture ignores the carbon sinks that are provided by permanent pastures and forestry. In addition, this same 26% ignores the thousands of acres that farmers have planted with carbon sequestering willows and other energy crops, while also ignoring the benefits for the Energy and Transport sectors from reductions in GHG emissions, for emissions actually reduced from the agriculture sector.

This reduces the incentive for the agriculture and forestry sectors to develop and grow renewable energy output. It is essential that GHG emission reductions made by the agriculture and forestry sectors are recognised and are counted as part of the overall net contribution of the agriculture sector and not attributed to other sectors.

3 Potential for commodity sectors

3.1 Livestock

The beef and livestock sector is Ireland's largest farming sector, with over 100,000 herds. Beef and livestock production is a major contributor to export earnings and accounts for approximately one-third of gross agriculture output.

In 2009, total beef production reached 518,000 tonnes of which 460,000 tonnes were exported while domestic consumption accounted for 87,000 tonnes. Beef exports in 2009 were worth €1.4bn and including the value of domestic consumption and live exports, total beef output was worth €1.8bn.

The key to the Irish beef sector is our breeding herd of over two million cows and our grass based production systems. The major strength of the sector is our one million suckler cow herd, which provides the top quality muscled beef in demand by retail customers in the UK and across EU markets.

The protection and maintenance of the suckler cow herd is of critical importance to the future of the Irish beef and livestock sector and must be a top priority under the Government's 2020 strategy.

Ireland exports over 90% of production and is the largest net exporter of beef in the Northern Hemisphere and the fourth largest beef exporter in the world.

Irish beef and live cattle exports receives no EU market supports as almost total output is fresh beef supplies to retail food service and manufacturing customers in Ireland, the UK and across EU markets. This shift to higher priced commercial UK and EU markets and away from lower priced subsidised international markets has taken place over the last 10 years.

With an increase in world demand, due to population growth and economic recovery, a European beef deficit of 600,000 tonnes and a growing deficit in the UK market, there is major potential to grow Irish beef exports in terms of volume. In addition, with Irish beef prices consistently 30c to 50c/kg below UK and EU prices, there is also significant potential to grow beef exports returns in terms of securing higher prices and value in the market place. In addition, there is no significant seasonality issue with cattle slaughterings and beef output.

There is significant potential to increase beef output over the next decade through:

- an 18% increase in dairy cow numbers (see Section 3.2 Dairy);
- a projected 10% growth in suckler cow numbers resulting from a strong beef strategy;
- and
- output growth from an increase in bull beef production and the benefits of genetic improvement.

Combined these factors could increase beef output by 109,000 tonnes to 627,000 tonnes per annum, worth an additional €330m in export earnings.

With increased marketing and premiumisation of beef, particularly at retail level, a 10% price increase (30c/kg) is achievable and would be worth an additional €180m per annum between the domestic and export market.

The introduction of the Quality Payment System (Q.P.S.) by the factories to reward quality production and send clear market signals to producers on the desired market specifications can also improve the returns of the beef sector over time.

Quality Assurance is essential for retail market access and a requirement for key customers such as Tesco, McDonalds, Albert Heijn and Co-op Italia. To increase the level of quality assurance participation at farm level, ongoing Government investment is very important.

The live export trade is extremely important for the beef and livestock sector in terms of providing market outlets and strong price competition. In 2009, live exports reached 290,000 valued at €157m with exports across all areas of calves, weanlings, store and finished cattle.

At farm level, profitability is weak providing major challenges for the future. Significant potential exist for improvements across a range of areas including technical efficiency and productivity gains, improved animal health and breeding, all of which would increase output and profitability.

Teagasc research has shown a major variation in profitability between livestock farms. The potential for improvements are considerable with the new integrated Teagasc suckler herd in Grange on a net profit target of €660/ha.

The strong commitment of farmers to participate in the Suckler Cow Welfare scheme is very encouraging. Over 50,000 farmers with 750,000 suckler cows are involved in a programme of improving animal health and welfare and the recording of essential breeding information for the ICBF Beef Breeding Programme.

ICBF has calculated that a fully operational beef-breeding programme would deliver €20m per annum in genetic gain to the suckler cow herd. As genetic gain is cumulative, in 10 years, by 2020 this gain would be worth €200m p.a.

The Suckler Cow Welfare scheme has already delivered significant benefits to the beef sector in terms of improved health and welfare for purchasers of Irish weanlings on both the domestic and export markets. IFA is proposing that the Suckler Cow Welfare scheme be re-instated at the rate of €80 per cow to achieve maximum potential genetic gain for the suckler cow herd.

As well as 100,000 livestock farmers, the Irish beef and livestock sector employs an estimated additional 20,000 people across the entire country in meat processing, transport, livestock marts, merchants and co-ops, services and other areas. The livestock sector is highly developed; therefore the increased output potential of 20% will not lead to a proportionate increase in employment, due to efficiencies that can be achieved in the sector. It is estimated that there is a potential increase in related employment in processing, service provision, farm supplies and marketing of up to 1,000 resulting from the increased, higher value output.

On the policy side, the key priority areas for Government on the beef and livestock sector are WTO, CAP 2013, REPS, Suckler Cow Welfare scheme and Disadvantaged Areas. The Government must adopt a very strong defence of the beef and livestock sector against tariff cuts in the WTO and insist on sensitive product status for beef. In addition, the Government must insist that the EU Commission does not permit beef imports which do not meet EU standards.

The Key Issues for the Beef & Livestock Sector are summarised below:

1. With a growing world market demand for beef and major UK and EU market deficits, the Irish beef sector is in a good position to grow both volume and price returns over the next 10 years.
2. The suckler cow herd of over one million cows provides the essential high quality, high muscle beef to service and retain high priced retail markets in the UK and across Europe. Protection and maintenance of the suckler cow herd must be a top priority in the Government's 2020 Strategy for Agriculture.
4. The Suckler Cow Welfare scheme is of critical importance to the ICBF Beef Breeding Programme, which has the potential to deliver beef genetic gain of €200m per annum by 2020. The Government should re-instate the Suckler Cow Welfare scheme at the rate of €80 per cow. In addition, the Government must maintain funding to ICBF.
5. Under a strong marketing, promotion and premiumisation programme for Irish beef in both the UK and EU export markets, price increases of 10% are achievable, delivering an additional €188m per annum to the sector. The Government must increase investment in marketing and promotion to assist to the sector on this objective.
6. Quality Assurance is essential for retail market access. The Government's commitment to an ongoing funding of quality assurance is a priority for the sector.
7. Strong Teagasc research, technical advice and education programmes are essential at livestock farm level to deliver the potential productivity gains from the sector.
8. A full defence of the Irish beef and livestock sector, strong rejection of proposed WTO tariff cuts and maximum protection through sensitive product status must be the priority for the Government in the WTO negotiations. In addition, the EU Commission must insist that all beef imports meet full EU standards.
9. The Single Farm Payment is the most important EU policy instrument for the beef and livestock sector. In the CAP 2013 debate, the Government must insist on the historical method of calculation for the SFP and ensure that the SFP continues to be targeted at active producers.
10. REPS and Disadvantaged Area payments are highly important to the beef and livestock sector. The Government must deliver a worthwhile replacement to REPS 4 and ensure that Disadvantage Area payments are protected going forward.

3.2 Dairy

The Irish dairy sector comprises 19,000 dairy farmers in Ireland with a further 5,300 employed in dairy processing⁴. In addition to this, ancillary employment from the dairy sector is provided within dairy co-ops, and in spin-off employment in the related trades. Total milk production in 2009 was 4.8 billion litres, with an average production per herd of 253,000 litres. This was down on previous year's production, due to the collapse in product prices and effects of bad weather.

The phasing out and abolition of the milk quota by 2015 provides the opportunity for the first time in 3 decades for a significant expansion in production for the Irish dairy sector. Among the EU-15 countries Ireland has the best climatic and natural conditions for low cost grass-based milk production⁵.

Ireland has the potential to expand milk production in the short/medium and long term. National milk supply could currently increase by 50% on existing resources, i.e. without significant capital investment. However, this increase in production would only occur if it were profitable for all farmers to expand. Allowing for structural change, whereby, with a lower price due to increased production, the most efficient 2/3 of farmers stay in production the national supply could be increased by 18%⁶.

It is possible to estimate the effect of this increased supply on export earnings. Dairy export earnings in 2009 were €2 billion. Assuming an increase in milk supply of 35%⁷, with the same product mix, there is a potential to increase export earnings by €700 million

The value of export earnings could be further increased. Moves are afoot to improve the efficiency and reduce the fragmentation of the Irish dairy processing sector, to better position it to produce higher value-added product, providing the dynamic for maximising the return to dairy producers in the future. As we write, developments in Wexford Creamery, Glanbia Plc/Co-op and Kerry/Arrabawn, if successfully completed, will return farmer control and ownership of the processing industry to approximately 80% of the national milk pool. We believe this will help considerably to overcome obstacles to a proposed consolidation of the dairy processing sector.

In addition to these high profile moves, the proposed takeover of Newmarket Co-op by Kerry, and numerous low-key co-processing arrangements among co-ops all have the potential to build in additional savings and synergies.

Quite apart from addressing its excessive fragmentation and inefficiencies, the dairy industry in Ireland must move away from its dependence on butter and skim milk powder. The potential for market growth is in the area of food ingredients and cheese.

The Danish dairy industry is comparable to Irish industry, with a similar population and level of output. However, the value of Danish dairy exports, per tonne, is almost 35% greater than Ireland⁸.

⁴ CSO 2008 Census of Industrial Production, November 2009

⁵ EU without Milk Quotas with Special Reference to Ireland, Teagasc National Dairy Conference, 2008

⁶ CAP Health Check Analysis: Farm Level Implications of EU Milk Quota Expansion, Teagasc, 2007

⁷ Midpoint between low growth and high growth scenarios

⁸ Source: <http://www.cniel.com/quiFait/OrgInter/CNIEL/cniel.html>

There is potential, therefore, to increase the value of Irish dairy exports by a minimum of 20%. Combining the potential increase in output with an increase in value, export earnings could therefore increase by €1.25 billion.

Like the livestock sector, the dairy sector is highly developed and undergoing a period of rationalisation; therefore an increase in output of 35% would not result in a similar increase in employment in dairy processing. However, it is estimated that increased production and export earnings could lead to increased additional employment of 1,000 in on-farm labour, research and development, specialised environmental, breeding, accountancy and other consultancy services, the provision of farm supplies and marketing.

3.3 Pigmeat

The Pigmeat sector remains a vitally important and highly efficient sector, providing thousands of jobs in the downstream processing sector and producing exports for over 40 countries. The total value of exports for the sector in 2009 was €290 m. This was down from €343 m in 2008, largely due to the reduction in output resulting from the Pork Dioxin crisis.

Total pigmeat production is 230,000 tonnes annually. On average there are 7.3 persons employed per 1,000 sows integrated. Given a sow population of 150,000 sows, there are approximately 1,100 people employed on pig farms in Ireland with an additional 6,400 employed in the slaughter, pork processing, feed and services industries.

The pig industry is currently not at critical mass with a number of the factories not operating to maximum efficiency. In 2009, pigmeat production fell by 6% (170,000 pigs) due to the fall out from the dioxin contamination crisis of December 2008. There is potential to increase the sow population through expanding the herd size, creating more jobs at farm level and in the associated industries, feed producers, manufacturers and processors.

The report of the Pig Industry Steering groups (under the Chairmanship of Dr. Rory Toll) of January 2010 proposed a significant expansion pigmeat production by 2015, through both an increase in sow productivity and an increase in the national herd size, to 200,000 sows.

An increase in the breeding population back to 200,000 sows represents a potential increase in output of over 33% or an increase in export earnings of more than €100 m. The minimisation of the regulatory burden on the sector will provide the environment to allow farmers invest and expand their production. Direct employment on pig farms could increase by over 350, while employment in slaughter, pork processing and services industries could increase by over 2,000.

Already in 2010, there is a return to full production of the herds which were de-stocked due to the pigmeat recall. In addition, there is increased productivity and investment ongoing in the sector, which could result in finished pig supplies in 2010 increasing by around 10% on 2009 output⁹.

On the domestic market, the Irish customer consumes mainly expensive cuts, (loins and backs), which are not produced in sufficient quantities domestically to satisfy Irish demand.

⁹ Bord Bia Meat and Livestock Review and Outlook 2009/10

Increased production on the domestic market therefore has the potential to replace the imported high-value cuts. The retail market for pigmeat (pork, bacon, sausages) was worth €430m in 2009 (TNS).

In addition, Bord Bia must better promote and develop the domestic market for value cuts, including bellies, necks, hocks etc, rather than focusing on increasing the value of loins and legs. Consumer demand in the current economic downturn has shifted towards value-for-money. The environment therefore is right to promote the lower value cuts, the majority of which are currently exported.

In order to maximise the potential of Irish pigmeat products on the domestic market, it is vital that consumers can accurately identify products of Irish origin. Two initiatives supported by IFA to achieve this include the introduction of Voluntary Country of Origin Labelling, and DNA authentication.

A number of the major UK multiples and processors have signed up to a voluntary (DEFRA overseen) scheme whereby the companies voluntarily indicate the country of origin of pig meat products on the front of packs. Bord Bia and the Departments of Agriculture and Health must oversee the introduction of a similar scheme in Ireland.

IFA is introducing a DNA authentication programme for Irish pigmeat. This step is considered necessary due to a history of misleading labelling being ignored by regulators, which has resulted in circumstances where there is a lack of clarity for consumers in relation to the origin of their pigmeat products. This scheme will effectively enable IFA and consumers to identify products that are imported and thereafter labelled as Irish meat.

3.4 Tillage

The tillage sector in Ireland primarily provides intermediate product for use by other agriculture enterprises. The last three years has seen huge volatility in the grain market, with output in 2009 valued at 50% below that achieved in 2007. Grain prices historically were dictated by the fundamentals of supply and demand and prices fluctuated within a narrow price range from one harvest to the next. However, CAP reform and the ongoing reduction in market price supports has led to dramatically increased price volatility not only for grains but also for all commodities.

The market for grain must change dramatically from the current trading system and traditional supply routes to market, in order for the sector to remain viable within Ireland.

There is no future for Irish growers under the current grain trading system where the bulk of the grain is traded on the spot market post-harvest at a time when the European harvest is complete. With the exception of 2007 this strategy leaves farmers totally at the mercy of the buyers. UK farmers have an opportunity to forward sell all or a portion of any year's crop out over a two-year window prior to harvest. The use of price risk management tools such as forward selling has enabled UK growers to lock in their margins. Irish growers must be afforded the same opportunity.

Irish livestock farmers spend in excess of €1 billion per annum on compound Feedingstuffs. There is increasing demand, year-on-year, for home produced high-energy livestock feed. With the increase in livestock and dairy output outlined above, this demand is set to increase further.

Farm-to-farm sales of grain must continue to be promoted as the most efficient route to market both for growers and feeders, adding value for growers while reducing costs for feeders. The iFarm web based trading platform has been built to facilitate farm-to-farm sales. This market has grown by over 250,000 t in the last year alone and now accounts for close on 800,000t. The farm-to-farm market has the potential to grow given that the Irish compound feed market is in excess of 3.5 million tonnes.

Family farming cannot sustain itself through boom and bust cycles. Food pricing and its impact on production are too critical to leave to the vagaries of the market. At EU level, supply management tools and market supports are a key requirement in maintaining a viable agriculture sector within the EU.

In addition to the more traditional markets, there is potential for growth for the agriculture sector in the area of biotechnology. An ever-increasing world population is putting severe pressure on finite resources. Biotechnology offers the technological means of addressing many of these resource constraints. There is also a role for biotechnology in tackling climate change through carbon capture and mitigating environmental pollution through bioremediation and bio-filtration.

The application of biotechnology in the areas of agriculture and industry will lead to the development of a bioeconomy that will account for significant economic output. While the current focus is on biofuel and biomass production, research is ongoing in areas as diverse as biopharmaceuticals, bioplastics and bioremediation. A multitude of materials can be made from crops such as; fuels, textiles, insulation materials, drugs, plastic, moisturisers, paints etc replacing many products that are currently derived using petrochemicals.

3.5 Sheep

The Irish sheep sector involves 30,000 farmers, with 2.4 m ewes, producing 3.1 m lambs annually. Unlike all other commodity sectors, exports of sheepmeat remained stable in 2009, at €166 m, due to a high presence on the euro export market and a continuing diversification into other markets. The total value of the sheepmeat sector, including domestic consumption, was worth €240 m.

The Irish Sheep Industry Development Strategy 2006 ('Malone Report') outlines the potential to increase production and output for the sector from improved husbandry and breeding practices. There is potential to increase output to 1.5 lambs sold/ewe to the ram, compared with the current figure of 1.3. This represents an increase of 15% in output, or approximately 9,000 tonnes. Assuming this is exported, there is potential to increase export earnings by €36m.

Due to reduced production on the European market, there is potential to increase output to meet the shortfall in supply. In addition, with changing demographics and population profile in Europe, demand for lamb in new non-traditional markets is increasing.

In addition, a significant market for live exports has begun to emerge. In 2009, exports of live sheep are estimated to have reached a value of €8 million, with shipments up by over 50% to just under 100,000 head¹⁰.

¹⁰ Bord Bia Meat and Livestock Review and Outlook 2009/10

On the back of higher prices and increased market demand, there is potential to increase ewe numbers by 15%. This would add an additional €45 m to sheep output.

Government investment in the sheep sector is critically important to restoring growth and encouraging future investment at farm level. The Government's commitment to the allocation of €18 m in unused funds to the sheep sector is welcome. In addition, to improve efficiencies at individual farm level, the proposed Government investment of €8 m in handling facilities and fencing is very important.

Strong Government funding for Sheep Ireland is required to realise the full breeding potential of the national flock. It is very important that the impact of the EU decision to impose compulsory Electronic Tagging on the sector is minimised in the Department of Agriculture implementation plans.

3.6 Poultry

In 2008, Irish production of poultry meat (including Turkey and Duck) was 118,000 tonnes, of which approximately 90,000 tonnes is chicken meat. There are over 350 producers involved in poultrymeat production in Ireland. Approximately 2,000 people are employed in poultry processing, primarily in regional areas.

Ireland is a net importer of chicken; however there is a significant export market, particularly in the UK, mainly consisting of processed product. The principal factor driving imports of chicken over recent years has been the deficit in domestic breast meat production relative to demand. Chicken accounts for 74% of the value of imports. Due to the poor economic climate over the last year, chicken as a value protein choice has experienced a surge in popularity (increase in volume at retail level of almost 17,000 tonnes). The number of birds slaughtered in the Republic of Ireland increased by 10% between 2008 and 2009 (approximately 6.5m birds) to meet this demand.

While a sizeable amount of Irish chicken products are now processed, the Irish consumer consumes mostly fillets, the domestic supply of which is not sufficient to meet demand. Therefore Ireland must import large quantities of fillets to meet demand.

There is potential to expand both the domestic and overseas poultry markets. At home, demand for high-value fillets outstrips supply; by increasing domestic production, it should be possible to replace international imports on Irish supermarket shelves.

In common with the pigmeat sector, the fact that Irish people eat primarily fillets, or higher value cuts, means that a lot of value is being lost from the Irish produced chicken, with lower value cuts being exported in large quantities out of the country. There is a requirement for Bord Bia to better promote and develop the domestic market for value cuts.

A growth market for poultry meat is the Halal market overseas (UK and Continental Europe). Since its recent takeover, the Cappoquin poultry plant has been supplying 40% of its production to the UK Halal market. An opportunity for other processing plants to enter this market may also exist.

Irish poultry producers are facing increasing pressure from imports on the retail shelves, particularly those from Northern Ireland.

A larger promotional budget and targeting of Irish consumers is required to drive home the 'Irish' message. Bord Bia must ensure that Country of Origin labelling (or place of farming) is introduced and policed to ensure that Irish poultry remains on the shop shelves. Restaurants must also give an indication of where their meat is coming from as the catering trade presents a very serious challenge for the sector as it uses large volumes of imported meat.

In common other commodity sectors, the regulatory burden for poultry production must be reduced. As an example, the current EPA threshold for licensing is 40,000 birds, which is too low to support the costs of licensing. Many farmers at or near this threshold will have to decrease their numbers, or increase their production exponentially to cover the costs of licensing or get out of poultry production.

3.7 Forestry and Bio-energy

Ireland faces a significant challenge to meet our environmental commitments on renewable energy generation and emission reductions. The new EU Renewable Energy Directive (2009/28/EC) established a mandatory national target consistent with a 20% share of energy from renewable sources and a 10% share of energy from renewable sources in transport in energy consumption by 2020.

Renewable energy, in particular bioenergy, is intimately and inextricably bound up with farmers and farming activities. Farmers as custodians of the land are committed to undertaking production in a sustainable manner. Through the effective utilisation and management of the natural resources, the agriculture and forestry sectors have a pivotal role to play if these renewable energy targets are to be achieved. Managed correctly, renewable energy production will not adversely affect food security, or cause volatility in food prices; in fact it will create a vibrant and sustainable rural economy.

There are approximately 19,500 private forest owners of which 84% or 16,500 are classed as farmers¹¹. Farmers began investing in forestry in early 1980's, since then farmers have planted over 250,000 hectares of forests.

In order to maximise the contribution that the sector can make, support structures must be put in place that will facilitate and encourage renewable energy production and incentivise farmers to diversify into bioenergy sector. Improving producers' income is key to the success of the bioenergy sector. A proper policy framework is required, including Market Development Support and targeted funding for Biomass development and mobilisation.

To stimulate market development in the bioenergy sector the following supporting policies are required:

1. Introduce a special REFIT (Renewable Energy Feed In Tariff) tariff for AD and biomass CHP of 22 cents per kWh to allow for an acceptable return on investment.
2. Introduce a co-firing REFIT tariff of 14 cents per kWh
3. Expand the REHEAT programme to include miscanthus technologies to stimulate market development.
4. Expand the Heat Fuel Conversion Programme Expansion beyond the Office of Public Works (OPW) to include all public buildings.

¹¹ *The Farm Forest Resource and its Potential Contribution to Rural Development in Ireland*. In Proceedings of IUFRO Small-Scale Forestry and Rural Development - The Intersection of Ecosystems, Economics and Society, Farrelly, N., 2006.

5. Use Public Service Obligation levy to provide a market to incentivise biomass production for co-firing in Ireland's 3 peat-burning plants.
6. A new version of MOTR II to be included in 2010 to support competitiveness in the indigenous biofuels.
7. Target MOTR schemes at the pure plant vegetable oil (PPO) sector, which is the most carbon efficient method of producing transport biofuels in the EU.

A biomass supply of over 4 million green tonnes per annum is required to meet renewable energy targets. The following supports are required to ensure there is not a shortfall in biomass feedstock resources:

1. An afforestation programme of at least 15,000 hectares per annum.
2. An annual budget of €10 million to support Forest Road Scheme to construct the necessary infrastructural network to access the biomass resource.
3. Continued support of the BioEnergy Scheme (BES) and re-introduction of an annual energy payment of €125 per hectare.
4. Amendment of the BES to allow capital allowances on establishment costs of perennial Bioenergy crops such as willow and miscanthus.

Mobilising the crops will require additional investment in infrastructure, specialised equipment and training to bring the biomass resource to markets. An integrated funding programme including a Biomass Drying, Storage and mechanisation schemes, business and technical training and regionally coordinated farm-based energy enterprises, is required.

There is huge potential to create sustainable green rural based employment opportunities in bioenergy. The employment potential for the forestry sector alone includes:

- Annual afforestation programme of 15,000 hectares would create 2,500 jobs¹² in establishment alone.
- Timber production forecasts of 5 m m³ by 2015 would generate an additional 900 jobs¹³ in the harvesting sector.
- If the available wood resource were converted to quality wood chip 5,000 jobs could be created in the forest energy supply chain immediately, increasing to 6,500 by 2015.

3.8 Aquaculture

The Irish aquaculture sector comprises over 400 small and medium enterprises (SMEs) and operates in 23 coastal and inland counties. Total production in 2007 was 48,350 tonnes, giving a farm-gate value of €105.7 m.

The ongoing discussions on reform of the Common Fisheries policy are an important step to creating a more useful and responsive common policy that recognises the role and importance of European aquaculture in providing safe, secure and sustainable seafood while creating vital jobs and economic activity in peripheral coastal and rural regions.

The industry directly employs 1,981 people in production and provides an estimated 9,000 full and part time jobs in total, including upstream and downstream service providers, seafood processors and suppliers to the industry.

¹² Estimate derived from *Estimating the employment associated with afforestation*, NiDhubhain, A and Nieuwenhuis, M. 2008.

¹³ *ibid*

The industry exports over 70% of the fish and shellfish it produces, with about 85% of this going to the EU market. Exporting into Asia is a key target for Irish seafood. In addition, there is potential to displace imports on the domestic market and increase overall Irish consumption per capita of seafood

The Government's *Strategy for A Sustainable Seafood Industry* ("The Cawley Report") recommends an increase in finfish production to 35,300 tonnes and shellfish to 70,800 tonnes via an investment package of €212 m, which would include 40% state support under the rules of the European Fisheries Fund regulations. This represents a potential increase in the value of output from €105.7 m to €230 m. Employment could increase directly in production by 2,000 FTEs to meet these targets.

In order for the sector to achieve its potential, it is necessary that DAFF must deliver a simple, cost-effective, transparent licensing system for aquaculture with clear deadlines, rules and procedures to:

1. Process new licence applications;
2. Improve output and competitiveness;
3. Renew existing licences to attract investment and restore confidence;
4. Transfer licences quickly and efficiently to encourage best use of resources

In addition, the Operational Programme for Fisheries 2007-2013 must be opened to aquaculture with a minimum of €10m per year to support industry investment in modernisation, environmental management and quality assurance

Bord Bia and BIM must invest in the Irish aquaculture quality assurance marques to encourage maximum participation at producer, processor and retail level, and undertake a promotional campaign on the health benefits of the product, in order to drive domestic consumer demand.

3.9 Horticulture

The horticulture sector in Ireland includes potatoes, vegetables, fruit and hardy nursery products. In 2009, exports from the horticulture sector were €218 m. Mushrooms account for almost 50% of total exports, for which the UK is the main export market.

Growth markets for the horticulture sector include specialty foods, farmers' markets and organic product. For the mushroom sector, increased market share and growth of the UK market are vital for the development of the sector in the coming years.

There is potential for growth in the horticulture sector through replacing international imports on Irish supermarket shelves. However, in order to increase production, the cost base for the sector must be reduced, in order to compete with lower cost imports.

The horticulture sector is a highly labour-intensive primary agriculture sector. Increases in wage costs, in addition to the depreciation of sterling against the euro has reduced the competitiveness of the sector, and contributed to a fall in employment of agricultural workers. Labour and energy costs must be reduced in order that the sector can compete effectively with imports from other markets, in particular the UK.

In addition, the retail price war is having a downward effect on horticulture prices. The retail multiples must be regulated to rebalance power in the food chain between retailers and their suppliers.

A larger promotional budget and targeting of Irish consumers is required to drive home the 'Irish' message. Accurate labelling and enforcement is necessary to allow consumers identify and choose Irish horticulture products.

The horticulture sector has been to the forefront in developing producer groups to improve their position in the food supply chain. Continued support is essential to encourage the setting up of producer groups under CAP funding initiatives in order to increase market bargaining power, and achieve economies of scale and added value.