ICMSA

Submission

to the

2025 Agri-Food Strategy

Public Consultation Questionnaire

January 2015

Introduction

On 25th November 2014, the Minister for Agriculture, Food and the Marine announced plans for a new Agri-Food Strategy up to 2025. Announcing this new Strategy initiative, as a follow-up to Food Harvest 2020 the Minister said that the Strategy will set out the key actions required to maximise the contribution from the sector to economic growth and job creation and environmental sustainability over the next decade. While the title of the Strategy is Agri-Food, and not just the food processing and marketing sector, it will be noted that the Minister did not include farm incomes in his head note description of the new Strategy.

The Minister went on to say that we must focus on the extraordinary opportunity presented by growing global demand as this would require us to be ambitious in innovation, sustainability, food safety, quality and competitiveness across our key product sectors. It is noteworthy that the Minister again does not include any direct reference to farm incomes although it may be inferred. When the Minister and his Department refers to competitiveness he and they invariably mean greater efficiency been achieved by the farming sector.

The direct reference to the Ministerial comments are due to a concern that there is a danger that like its predecessor, Food Harvest 2020, the 2025 Agri-Food Strategy may put insufficient emphasis on farm incomes. ICMSA believe the challenge is to ensure that there is a meaningful balanced approach adopted in the overall Strategy being pursued by Ireland for the agri-food sector over the next decade. Failure to do this will mean that the thrust of public policy may not put sufficient emphasis on farm incomes.

The 2025 Agri-Food strategy must take account of the fact that Irish and European farming will experience considerable challenges over the next decade as a direct result of market volatility, changes to CAP policy, possible WTO and other trade agreements. In addition, the price-cost squeeze in farming continues to be a key factor on Irish farms coupled with ever increasing regulations, all of which have and will have very serious implications for farmers.

This Submission will focus in general terms on the questions set out in the 2025 Agri-food Strategy Public Consultation Questionnaire.

1. Has Food Harvest 2020 delivered on its vision for the Agri-Food Sector in Ireland?

We will first make a number of comments on the contents of the Food Harvest 2020 Milestones 2014 document. While we accept that primary output from the farm sector has virtually reached the target of 33 percent, it should be realised that this was primarily due to strong commodity prices on global markets. So therefore, the achievement on a core aspect of Food Harvest 2020 was due to favourable commodity prices internationally over which we have virtually no control. Surely, this highlights the vulnerability that should be central to any Strategy adopted to replace Food Harvest 2020.

With regard to farming prices and market price volatility, it is noted in the Milestone document that the Single Farm Payment will provide a measure of income stability for farmers against a background of volatile market dynamics. However, the document rightly notes that direct payments alone will not ensure that farmers will have the confidence and the capacity to build sustainable long-term profitability and refers to recent mechanisms for hedging price in the dairy sector.

On food exports, there is a claim of remarkable success where exports are valued at €10.3 billion in 2013. Incidentally these figures are based on Bord Bia figures which are higher by over €400 million than the official CSO figure. Again this was due in part to historically high commodity prices while the volume of exports was much lower. With regard to the total turnover of €26 billion, there is an element of double counting in the sense that agricultural output is the input to the food sector - and both of them are counted and aggregated into this sum.

The Milestone document rightly states that the performance of the primary agricultural sector has of course been driven mainly by higher agricultural commodity prices and that these have been accompanied by an increase in input costs of the order of 17.7 percent. It rightly concludes that not all of the quantum of output gains translated into income gains for farmers. This is a core aspect which will require greater analysis than has been done to-date in preparation of the new Strategy. It is our view that a substantial piece of research with recommendations should be undertaken on farm incomes and related matters as this is an essential element of the work of the Strategy Group before the final Strategy is adopted.

Farm incomes

It is useful to recall the Food Harvest 2020 target for the agricultural sector which set a growth target for 2020 as increasing the value of primary output in the agriculture, fisheries and forestry sector by €1.5 billion. This represents a 33% increase compared to the 2007-2009 average. While this sector is wider than primary agriculture, it should be noted for primary agricultural that the base period included 2009 which recorded the lowest output in any of the last 11 years 2000 to 2014 inclusive. Therefore, it is not surprising that the target was met given the relatively low base and the unprecedented increase in world food commodity prices in the meantime.

Table No. 1:

Output, Input and Income in Agriculture by year (Euro million)

Description	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Goods Output at Producer Prices	5,023	5,041	5,228	5,728	5,880	4,755	5,359	6,297	6,696	7,248	7,024
Output Index 2004=100	100	100	104	114	117	95	107	125	133	144	140
Intermediate Consumption	3,516	3,745	4,015	4,226	4,700	4,191	4,261	4,823	5,294	5,717	5,353
Net subsidies	1,465	2,080	1,794	1,805	1,863	1,804	1,639	1,801	1,630	1,505	1,343
Operating Surplus	2,177	2,590	2,186	2,442	2,118	1,429	1,847	2,447	2,214	2,239	2,217
Net subsidies as % of Operating Surplus	67.3	80.3	82.1	73.9	87.9	126.2	88.8	73.6	73.6	67.2	60.5
Operating Surplus 2004=100 nominal	100	119	100	112	97	66	85	112	102	103	102
Operating Surplus 2004=100 in real terms*	100	116	94	100	84	59	77	100	89	89	88
*Deflator (CPI)											

Source: CSO

However, a number of key aspects which arise from the statistical review set out in Table No. 1, must be addressed in the forthcoming Strategy. While output has increased by 40% since 2004, nominal operating surplus for the sector has increased by a mere 2%. It should be noted that operating surplus is before interest and payment for land rental which has increased in recent times.

This in our view is one of the key issues that must be addressed in the Strategy. Increase in output alone is no assurance whatsoever of increased income for farmers. Indeed, increased output driven by expansion plans exposes the farmers who expanded to substantial financial risk vis-a-vis persons who have not expanded and where the Single Farm Payment operates as a more effective minimum income base.

There is no international evidence to suggest in the medium-term that farm output commodity prices will increase at a faster rate than the cost of farm inputs. Indeed, there is some evidence to suggest that the rate of input cost increases may be higher than the rate of increase in food prices. The recent substantial reduction in energy costs and for some, fertiliser due to reduced world prices may indeed be a short-term phenomenon.

Net subsidies fell in nominal terms in the period reviewed in the Table No. 1 above and are destined for further decline up to the end of 2020. When deflated (based on CPI, which is showing only slight increases in recent times), the real value of subsidies has fallen by approximately 13%. As can be seen from the Table over this period, subsidies as a percentage of operating surplus has declined applying a less effective minimum income base. This is likely to further decline in the coming years. The income from farming in certain regions is less than the Single Farm Payment or net subsidies as discussed later in this Submission.

Finally with regard to operating surplus in real terms, we estimate that the operating surplus in 2014 will be 12% lower than 2004.

In the review of the progress on reaching the target set down in Food Harvest 2020, particular emphasis is placed on the increase in agricultural output. While the influence of commodity price increases is recognised in the review it is not qualified. This is a major weakness in the analysis and it is no basis whatsoever for building a sound base to formulate a strategy for development to 2025. To quantify the increase in the volume of agricultural products and the volume of gross value added at basic prices, (these parameters excludes variation in prices) we reviewed the period 2005 to 2013 based on published CSO data. This data is given in Table No. 2 below.

Table No. 2

Volume Indices – Gross Output and Value Added in Irish Agriculture (Base Year 2010=100)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Description									
Gross Output	103	104	102	102	97	100	104	104	106
Gross Value Added	132	95	101	104	98	100	113	98	93

Source: CSO

While the choice of the base year can have some influence on this type of comparison, the data in the above table nonetheless shows only a minor change in the volume of agricultural output over the period. However, with regard to the volume of gross value-added this has declined in recent times. Gross value added is computed before taking account of the cost of capital used, interest, land rental and net subsidies in order to arrive at farm income. As such, the trend in value added is a good insight into what is really happening in relation to the level of economic activity at farm level.

The above analysis shows the outturn for the sector taking the State as a whole, however, the situation at regional level as shown by the regional accounts for agriculture represents cause for concern. Table No. 3 represents the most recent available data from the regional accounts for agriculture compiled by the CSO.

Table No. 3

Regional Accounts for Agriculture
2013

Region	Net Subsidies	Operating Surplus	Net Subsidies as a % of Operating Surplus
	€m	€m	%
Border	247.6	234.2	105.7
Midland	151.9	85.9	176.7
West	270.5	295.6	91.5
Border, Midland and Western	**670.1**	**615.7**	**108.8**
Mid-East and Dublin	129.3	279.1	46.3
Mid-West	186.5	302.8	61.6
South-East	252.6	399.7	63.2
South-West	266.4	656.9	40.6
Southern and Eastern	**835.0**	**1,638.5**	**51.0**
State	**1,505.0**	**2,254.3**	**66.8**

While there is year to year variation, the data for 2013 shows that for the Border Midlands and West region net subsidies form a high proportion of the farming income. Indeed in 2013 in the Midlands sub region, net subsidies as a percentage of operating surplus was 176%. Given the cattle price crisis and the decline in milk price in 2014, the situation will be worse for 2014.

Operating surplus as stated above is before taking account of interest and land rental paid by farmers. This data highlights the inappropriateness of placing such emphasis on increased agricultural output which will have very little positive impact on farming income in the vulnerable areas.

Table No. 4 provides data on interest and land rental paid by farmers. The overall level of interest paid has fallen in line with the fall in interest rates generally, however as interest rates are likely to increase in the future, this may actually be a point of vulnerability particularly if there is a substantial increase in capital expenditure at farm level to finance expansion. As noted in the background paper (Farming Incomes, Farm Structures and Agri-Taxation), the cost of land rental has increased significantly in recent years. Land rental now accounts for close on 10% of operating surplus. It remains to be seen whether the new agri-tax measures will have any impact on the level of rental prices as the demand for land is likely to increase and the supply may not be increased. The main effect in our view of the agricultural measures in relation to land leasing is to move a higher proportion of the land rented to longer-term leases above five years. This of course is of value in its own right, however, it may not have any real impact on the cost of land rented by farmers.

Table No. 4

	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Operating Surplus €m	2287	2578	2277	1571	1843	2424	2241	2239	2217
Interest paid €m	285	369	444	329	304	311	312	302	270
Interest as % of operating surplus	**12.5**	**14.3**	**19.5**	**20.9**	**16.5**	**12.8**	**13.9**	**13.5**	**12.2**
Land Rental €m	153	149	153	151	151	201	202	209	212
Land rental as % of operating surplus	**6.7**	**5.8**	**6.7**	**9.6**	**8.2**	**8.3**	**9.0**	**9.3**	**9.6**
Net Income €m	1849	2060	1680	1091	1388	1912	1727	1728	1736

Source: CSO

ICMSA believe further in-depth analysis is required on farm incomes in order to input into and adequately inform all deliberations of the Strategy Group. In this regard, we believe analysis of developments over the last number of years must be undertaken in order to set out which issues require policy attention in the future and what are the key attributes which should be measured rather than placing all the emphasis on increases in agricultural output.

Increasing share of market returns which farmers receive is an issue that must be addressed in the new Strategy for the next decade. It is our considered view that this requires EU legislation in terms of the cost of farm inputs and the proportion of the final market price of food which is passed back to farmers.

2. Sustainability / Climate Change

The background paper entitled ”Climate Change and Sustainability” highlights the key challenges likely to be faced by the sector and outlines the fact that these would be even greater with increased inputs and competition for limited land resources, should there be significant increases in output particularly in the dairy sector.

In the context of the most recent 2030 Framework for Climate and Energy Policies agreed on 23 October 2014, it is essential Ireland achieves changes in the accounting regime for GHG emissions. It is incredible that Ireland with almost four times the proportion of agricultural emissions in the Non-ETS should have to carry among the highest overall Non-ETS reductions legally enforceable for the period up to 2020 and that no account was taken of the substantial carbon sinks under LULUCF. The severe limitations and targets placed on Ireland as part of the EU commitments on climate change to 2020 must not be repeated under the new agreement. It is essential robust and comprehensive accounting rules for LULUCF will be put in place in order to develop future policies towards full inclusion of the LULUCF into the EU GHG reduction commitments. Clearly, it makes sense that the sector gets full credit for carbon sequestration from forestry. This is a major issue for Ireland, the agricultural sector and farmers which must be addressed by the Strategy Group.

The excellent research work undertaken for the Marginal Abatement Cost Curve for Irish Agriculture report should inform the Strategy Groups future deliberations. However, we would like to emphasize that the qualification contained in that report regarding the potential volume of GHG abatement as well as the associated costs/benefits are likely to change over time as ongoing research programmes deliver more mitigation measures or as socio economic or commercial conditions change. Therefore, it is essential that there would be a continuous valuation of the cost/benefits of any mitigation proposals.

ICMSA agree with the comments in the background paper that the guiding principle of sustainability is that environmental protection and economic competitiveness can and should be considered as equal and complimentary. The policy elements of sustainability, social, economic and environmental will not be easy to integrate. However, the Strategy Group should recognise this very complex interface and at times contradictory situation which will require sophisticated policies and not just an inspection and implementation system which has been the focus of public policy to date.

3. Global market context including opportunities for FDI

Global food markets are on an upward trajectory and ICMSA believe Irish agriculture is well positioned to take advantage of such opportunities but only at returns and income levels sufficient to pay for the farmer's labour and skills as well as re-investment in the business. Irish agriculture has many strengths and opportunities, as outlined in the Enterprise Ireland Submission, which must be exploited if we are to take advantage of the ever increasing and more discerning global food market.

With regard to positioning ourselves in the international food markets, we are producers of specialised food commodities and we are likely to continue this path. Cost and quality will continue to be the two main fronts on which we would succeed or otherwise.

WTO and other bilateral trade negotiations are of great importance to Irish farming, however, farm supports must not be sacrificed in order to secure a WTO agreement. In addition, the EU must insist that imports into the EU must meet the same standards as EU food produce in terms of food safety, traceability and sustainability. It is totally unacceptable that Irish farmers have to compete with third country imports which are not required to meet the same standards as EU produce.

The standard of food production at farm level and at processing level in Ireland is generally very high. However, there has been catastrophic failures in the processing side and the Department should review its procedures to prevent any further occurrences such as the dioxin or the horsemeat scandal.

Given the amount of national legislation that is currently being put in place at member state level of the European Union, there is a danger that our best market - the European food market- could become segmented where preference is given to local produce. We only have to look at the UK beef sector for very clear evidence of this development which is to the detriment of the Irish beef sector. Therefore, Ireland should seek to engage with like-minded member states to get EU legislation in place which would bring about a better functioning and transparency of all aspects of the European agricultural and food markets.

Ireland must continue to build on and promote our image as a 'Clean, Green, Sustainable Food Producing Island' driving added value, export earnings and jobs. The Strategy Group must ensure the Government continues to invest in marketing in order to further develop the potential of and returns to our most important indigenous sector, the agri-food sector.

4. Competitiveness & Innovation

The agriculture industry in Ireland faces continuously changing markets with external and internal forces compelling those involved in the industry to adapt to the ever altering scenarios. However, policy developments throughout the last decade have placed increased financial, economic, and environmental pressure on agricultural production and primary producers.

ICMSA has serious concerns in relation to income volatility and the need for self-funding of farm development which will be of particular importance in the context of quota abolition in 2015 coupled with the challenge of achieving the current targets set out in Food Harvest 2020. ICMSA believe the 2025 Agri-Food Strategy Group, in setting targets for the next decade, must ensure current anomalies in agri-taxation measures are addressed if our primary producers are to compete on the international food market.

Thus, ICMSA believe consideration should be given to the introduction of what is referred to in Australia as a Farm Management Deposits Scheme (FMDS) which has both a positive farm financing component and a built in mechanism to smooth out income over the years. In recommending a similar scheme to the FMDS, we are also recommending that the existing income averaging scheme in Ireland should be maintained.

The Australian Farm Management Deposits Scheme is a risk management tool to help farmers deal with unpredictable income, caused by natural disasters, weather and market changes. The deposits scheme complements other risk management strategies available to farmers such as income averaging. There are approximately 3,000 Australian farmers availing of the Farm Management Deposit Scheme with an average of €43,000 per account. A farmer is allowed to claim a tax deduction for farm management deposits in the income year in which they are made. If he/she withdraws from a farm management deposit account, the appropriate amount of the deduction is included in the tax assessable income in the income year the deposit is repaid to the farmer.

The current rules place a maximum threshold for off-farm income of a person availing of this tax measure at €41,000. There is also an overall ceiling on the amount that can be deposited in the farm management deposit scheme. A recent review of the scheme by the Australian Government Group recommended a continuation of the scheme and indeed recommended an extension of the scheme by way of reducing and eventually eliminating the ceiling for off-farm income.

In our view, the FMDS has many merits and most definitely should be considered for incorporating into the Irish income tax code for farmers. However, we would suggest a number of modifications to take account of Irish conditions. Among the recommendations we would make are as follows:-

- In order to provide some of the advantages of incorporation from the point of view of providing self-funding for investment of capital loan repayment, we would recommend that the 12.5 percent tax should apply on a once off basis for the amounts deposited in the farm management account.

- Farmers would then be able to avail of these funds in the farm management deposit account for farm investment purposes as the farm business required. No further tax would be paid on such funds taken from the deposit account where they are invested in the farm.

- Where funds are taken from the farm deposit account in the form of income then the normal rate of tax would apply to these withdrawals less a credit for the 12.5 percent tax which was originally paid on the funds when deposited in the farm deposit account of the first instance. These arrangements would give all the advantages of incorporation without the necessary cost of compliance associated with farm companies.

- To prevent abuse of the system, limits could be placed both on the total amount that could be deposited in a given year and the aggregate amount at any time.

- This tax relief measure could be confined to farmers whose sole or principal income is from farming. Realistic off-farm income thresholds should be set.

- On-farm investment using funds from the farm management deposit account would qualify for all reliefs currently available for on-farm investment such as capital allowances.

In addition to the development of additional taxation measures to improve competitiveness at farm level, ICMSA believe Irish farms must be in a position to introduce the necessary equipment and technology to ensure the continued production of world leading food and ingredients. In this context, adequate funding for on-farm capital investment is necessary to ensure the modernization of agricultural holdings and facilitate ongoing improvement in environmental and production conditions at farm level. This will necessitate a commitment from Government to ensure adequate funding of the Rural Development Programme 2014 – 2020.

In order to promote competitiveness and innovation, and realise the full potential of the sector, a key focus of the Strategy Group must be to work with the banking sector to ensure the availability of credit at a reasonable cost to all players within the agri-food sector, in particular, the primary producer. In addition, the banking sector needs to introduce mechanisms to assist farmers during periods of market downturn.

5. Risks

Managing risk is clearly a very important aspect to consider in any Strategy. However, it would be naive to think that all critical risks can even be identified and definitely not quantified. Ireland is now clearly fully exposed to world food markets and European market support will only be available in virtual complete market failure or market disruption. This however is an important safeguard and one Ireland should endeavour to ensure that this aspect of European policy is constantly under review and improved where necessary.

At farm level, a lot has been written about price volatility and some measures have been introduced to mitigate some of the worst effects. In the absence of any futures market, such as the US futures, farmers must incorporate the risk from price volatility in all business plans. Taxation measures similar to the Australian Farm Management Deposit Scheme (FMDS) for dealing with price and income volatility should be seriously considered as the current five-year averaging may not be the ideal way to deal with this risk. In our view, the FMDS has many merits and most definitely should be considered for incorporating into the Irish income tax code for farmers. However, we would suggest a number of modifications to take account of Irish conditions as outlined in question no. 4 above.

While currently interest rates are low by historic terms, interest rates may increase toward the latter part of the 10 year horizon envisaged for the new Strategy. Farm investment plans should take this likely scenario into account particularly if long-term credit facilities are required to fund farm expansion.

It would be important for more detailed consideration of likely limitations and restrictions that may be based on farm activities under the various heads of sustainability and climate change. For example, the loss of the Nitrates Directive Derogation would have serious implications for a substantial number of dairy farmers with the current level of output before they even embark on further intensification of their enterprises. The assessment on this front is different than an environmental impact assessment.

On the issue of food safety and plant health, Ireland has put in place effective control systems including traceability. However, catastrophic breaches and breakdown can and have occurred in the food processing sector including the Horsemeat and Dioxin crisis. It is extremely important the new Strategy focuses on reviewing procedures to prevent any recurrence of these failures.