Livestock agriculture and rural development in Ireland: challenges for policy

Jim Phelan

Department of Agribusiness, Extension and Rural Development, University College, Dublin

Summary

With over 40,000 farmers blocking the capital city, Dublin, in October 1998 and protesting over the collapse of incomes from cattle farming and the failures of both EU and national policies to provide reasonable incomes for cattle farmers, a socio-economic analysis of the livestock sector in Ireland, and the policies which shape it, are relevant and important in the Irish context. Agriculture is the single largest industry in the Irish economy with 11 per cent of the workforce directly employed in it. Irish agriculture also differs significantly from most of its EU partners in terms of its dependency on livestock. The average area of land devoted to crops in the EU on average is 40 per cent while in Ireland it is 10 per cent. Over half of Irish farmers are mainly cattle farmers and thus changes in prices in this sector have significant impact on rural areas.

Farmers are not a homogenous group and great variations exist across different regions of the country and across different enterprises. Dairy farming for example is five times more profitable than cattle farming and farming incomes in the east of the country are double those of the west. Within cattle farming there is also considerable variation, but the most striking feature of the sector has been the predominance of extremely low incomes over a prolonged period. These low incomes prevail in spite of Ireland being a significant net benefactor from the EU.

Industrial development policy in Ireland from the 1960's to the 1980's focused mainly on developing industry and services in cities and centres with considerably large populations. This has created a significant pull in terms of population from rural areas; removing particularly the younger and more educated. It has also left a gap in that many rural areas have little industry and are heavily dependent on agriculture. The decline in the attractiveness of farming as a career for young people is currently evidenced by a shortage of labour in the sector and an increasing succession problem as farmers' sons and daughters have little inclination to return to a sector that is portrayed as having a very poor future.

Ireland has been to the forefront in Europe in pursuing rural development initiatives. It had the first European Pilot Programme on Rural Development; it is one of the countries that have most successfully implemented the LEADER programme. Most of Ireland is also covered by area partnerships, which have recently began to focus specifically on farming. Community activity and planning has become well organised and partnerships are being developed between community groups and statutory agencies. However, filling a 20-year void in terms of rural enterprise creation takes time and time is rapidly running out for a large segment of Ireland's livestock farmers. To date little progress has been made within the farming sector and the increased enterprise/industrial activity has had little impact on an increasingly marginalised number of farmers. From a policy point of view, as is the case at a European level, there are tensions between what is regarded as agricultural policy on the one hand and rural development policy on the other. What is clear though is that the restructuring of the agricultural sector will continue and the challenges for rural development are to create employment opportunities in rural areas that can compete with urban areas. If this is not achieved, the consequences for rural areas are bleak, while urban areas will strive to cope with the social and economic problems of rapid urbanisation.

Introduction

The purpose of this paper is to examine changes that are occurring in rural areas in Ireland, to examine the causes of such changes and their implications for the long-term survival of the Irish rural countryside. In addition it will examine the impact of European policies in shaping both the agricultural and broader rural sector. Changes and trends in farm household incomes will form a key component of this analysis. The paper also examines the influence of rural development initiatives, particularly their impact on the "at risk" sector in farming, as well as detailing the current development philosophy as it pertains to future developments.

Agriculture in the Irish Economy

Within the European Community Ireland is one of the most rural and agrarian-based societies. Excluding the Dublin area, over 60 per cent of the population live in rural areas. Almost 11 per cent of the workforce are employed in agriculture and primary agriculture contributes 7 per cent of GDP (1995). The agri-food sector overall accounts for 14 per cent of employment, 14 per cent of output and 18 per cent of total exports (DAFF 1997). Irish farming is comprised almost completely of family-owned and family-run farms with over 90 per cent of farms being family-owned. There is very little leasing of land and only a small portion of land enters the land market each year. Irish farms are on average small with 60 per cent of farms being less than 20 hectares in size. There is quite a small land market in Ireland, a strong attachment to land and significant late transfer from one generation to the next. It is, however, worth noting that while the relative position of agriculture within the Irish economy has declined significantly over the past thirty years, its centrality to the general well-being of rural Ireland remains strong.

The EU Policy Framework

Irish agriculture today is shaped to a large degree by policies of the European Union. The problems caused by the CAP are now well articulated and it is suffice here to summarise its main effects in the Irish context. While the CAP was successful in expanding output and increasing farm incomes for some farmers, the manner in which it was achieved and the market distortion, which resulted, could not continue. In addition the sustainability of high input agriculture from both a competitive and environmental perspective is now being seriously questioned.

Plans for the creation of a common agricultural market were set out in the founding treaty of the European Economic Community (EEC) in 1957. Originally the aims of the Common Agricultural Policy (CAP) were to:

a) increase agricultural productivity and thus ensure food

security for the countries of Western Europe,
b) ensure a fair standard of living for those involved in agriculture, and
c) stabilise farm produce markets, and guarantee a stable food supply at reasonable prices for consumers.

However, while these policies achieved food security and did increase the earnings of some of the farmers of the EEC, it was found that they also resulted in serious overproduction and increasing strain on the budget of the CAP. As a result, the 1992 CAP reform package moved away from market and price support payments towards a system of direct payments. These direct payments or so-called ‘cheque-in-the-post system’ are defined as non-market payments made to farmers whether production-related or not (Sheehy, 1994). There are three main categories of direct payments:
a) headage payments paid to farmers in disadvantaged areas in order to maintain farming and population in these areas and to compensate for higher production costs,
b) premia payments paid on eligible livestock and crops in order to support incomes which are linked with the scale of production on the farm, and
c) accompanying Measures include the Farm Retirement Scheme, the Rural Environment Protection Scheme (REPS) and the forestry development scheme.

Despite these reforms there is still ongoing criticism of the CAP. The Buckwell Report (1997) identifies the biggest critics of the CAP as those representing national finance ministries, and those representing the interests of consumers, the environment and rural development. In addition, there is also considerable dissatisfaction amongst farmers whose main concerns were identified as:
a) nervousness about the uncertainties surrounding the compensation payments to arable and livestock farmers,
b) the constraints imposed by supply management, and
c) continuing frustration with the complexity of the CAP.

This nervousness, intensified by a collapse in cattle prices in the later half of 1998, resulted in over 40,000 farmers protesting in Dublin. In most Member states it is commonplace to find, outside farming interests, a ritual condemnation of the wastefulness of the CAP, its maldistribution of benefits which accrue disproportionately to the wealthiest producers, and its alleged encouragement of over-intensive farming (Buckwell et al., 1997). This was backed up further by a report published by the European Court of Auditors in November of this year which stated that 40 per cent of the EU’s £12.5 billion annual subsidies to arable crops goes to only 4 per cent of producers and 70 per cent of subsidies to 10 per cent of farmers. However, such images do little to present the struggle for viability that exists within a large segment of Irish farming and the serious low income problem that exists within the sector.

The Santer Package or Agenda 2000 outlines proposals for the EU for the period 2000 to 2006. These proposals cover four broad areas of change, namely: CAP Reform; Structural Fund Reform; Enlargement of the EU to the East; and the future financing of the EU Budget. It is envisaged that the reform of the CAP should facilitate EU agriculture to become more competitive on world markets, more consumer-friendly, and by giving a new priority to rural development, more environmentally sensitive (European Commission, 1997). It is also intended that this reform should facilitate the enlargement of the EU and comply with the next round of WTO negotiations.

The proposals are only at the preliminary discussion phase at the moment and could as yet be significantly modified (Dunne, 1997). The main proposals put forward at the moment are:
a) that cereals, beef and milk would be the main products affected by the reform with a drop in intervention prices of between 10 per cent and 30 per cent, (While this will be off-set to some extent by an increase in direct aid payments to farmers, it is estimated that there will be an overall reduction in their output value of about £106 million using the market green rate (Varley, 1997)),
b) a Commission proposal that will allow EU Member States to introduce environmental pre-conditions for receiving aid payments probably resulting in the requirement for further investment on the farm or else opting out of farming if the money is not there to meet the requirements,
c) possible modulation which would involve having a ceiling on direct income payments,
d) the funds for rural development measures to be funded out of the FEOGA Guarantee section for market supports as opposed to the FEOGA Guidance section for structural improvements, and
e) post 2000 the east of Ireland will no longer have objective 1 status which covers areas which have less than 75 per cent of the Community average GDP.

The above developments imply that farm income would be heavily dependent on EU budget sources and would thus become extremely exposed to EU and WTO changes (including renationalisation of CAP). The proposals would significantly reduce the market reward for the production of quality food. The current volume constraints will reduce EU world market share and act as a disincentive to the younger generation of farmers who want to develop their farm.

The European Commission (1998), on the other hand, estimated that the current reform proposals would lead to an increase in the income of individual farmers by 34 per cent in real terms by the year 2006 over the average income figure for 1992-1996. However, it must be emphasised that this increase on income was directly dependent on a projected annual decline in the number of people working in farming of almost 4%. This would have serious implications for Irish rural society.

Rural Development Initiatives in Ireland

Since the introduction of the first pilot programme for rural development in 1986, Ireland has expanded its efforts and a number of different initiatives are now in place.

LEADER

LEADER is the EU Initiative for Rural Development. The name stands for “Liaison Entre Actions de Development de l’Economie Rurale” or “Links between Actions for the Development of the Rural Economy”. The European Commission established LEADER in March 1991 as a response to the changing nature of agriculture in Europe and the resulting decline in employment in agricultural activity, depopulation and growing isolation in rural areas. LEADER 1 operated in

Ireland between 1992-94 and involved seventeen groups. In May 1995, thirty four Local and two Sectoral Action Groups were selected to implement the LEADER II programme in Ireland. The Operating Rules, which govern the types of eligible projects, differ quite substantially from those of LEADER 1. The current programme deals with areas of animation and capacity building, project assistance, training and recruitment assistance, rural tourism, small business and craft enterprises, exploitation and marketing of local agricultural, food and forestry products, and preservation/improvement of the environment and living conditions.

Partnerships/Area Development Management

Area Development Management (ADM) is the intermediary company established by the Irish Government in agreement with the European Commission to support local social and economic development in Ireland. Partnerships were initially established in 1992 to manage a Global Grant for Local Development under the Community Support Framework 1989-1993. During this period twelve Partnerships and twenty nine Community Groups were funded.

Under the 1994-1999 Community Support Framework (CSF) ADM was given responsibility for the management of Sub-Programme 2 of the Programme for Local Urban and Rural Development. Under this sub-programme, entitled Integrated Development of Designated Disadvantaged and Other Areas, ADM is responsible for managing about 133m Euros of EU and State funding. The funding is distributed between thirty-eight local Partnership Companies and thirty-three Community Groups on the basis of strategic local development plans. Fifteen Voluntary Organisations have also been allocated funding to enable them to make a significant contribution to achieving the Programme's objectives. Partnership plans include actions in the areas of enterprise creation & development, environment & infrastructural works, services for unemployed people, education and training, and community development.

County Enterprise Board

In 1993 the Government established thirty-five County Enterprise Boards throughout the country in response to an identified need for a local source of assistance for the start-up and expansion of small businesses. Each Board consists of fourteen members drawn from elected members of the local authority, the social partners, state agencies and community business representatives. Much of the rationale for County Enterprise Boards arises from the findings of the Task Force for Small Business which identified limited financial resources and limited management resources as the two key challenges facing small businesses.

County Enterprise Boards are currently funded under the EU Operational Programme for Local Urban and Rural Development, 1994-1999. The local enterprise element of the Programme is implemented through local Boards and is the responsibility of the Department of Enterprise and Employment.

The objectives of the Sub-Programme are met through support for the following four measures:

a) promoting an enterprise culture,
b) business information/advice, counselling and monitoring support,
c) financial assistance, and
d) management development.

Community Associations

Community Development Associations have been established in most parts of the country and these are involved in both the social and economic development of their areas. Significant links/partnerships are developing between these associations and the statutory agencies and a micro-enterprise culture is beginning to emerge in rural areas. However, for the past 20 years governments have pursued centralised policies regarding industrial development. Creating a rural industrial base will take time and becomes more difficult when the younger and more educated people have already left the area. Thus in many parts of Ireland farming remains as the central activity and its demise has very significant consequences for the viability of these areas.

A criticism of these efforts to date is the limited impact they have had on the farm sector or, where they have had impact, it is with those who already are well resourced. In order to counteract this ADM have recently established a service to deal directly with the low-income farming sector.

Farm Households

Irish farming has changed over the past twenty years, largely in response to forces outside of the farm unit. The responses by Irish farm households have resulted in a reduction in the overall number of dairy, dry-stock and tillage farms while the average scale of operation and level of production efficiency on many of these farms has increased. In 1980 there were 223,000 farms, this figure has decreased to 159,000 in 1993 (Teagasc, 1996). The current annual exodus from farming runs at 3,000 per year. In assessing the future viability of Irish farming, it is essential to examine current income levels in the sector and, in particular, those who have extremely low incomes.

Farm Household Income

There is much debate in Ireland as to the correct unit for analysing the welfare of farm households. On the one hand it can be argued that people in a household pool incomes and spend on behalf of the household, while on the other, particularly in terms of the employee sector, it is individual income. Farm households are on average larger than other households (3.63 versus 3.28; CSO, 1997) in the state and therefore when household incomes are used it could be argued that they are disadvantaged relative to other households. The main sources of information available on income in farm households are:

a) the Household Budget Survey, produced every 7 years, the last one being for 1994/95 (This is the only complete source of information encompassing the total income of the farm household. It is, however, conducted mainly as an expenditure study and some care must be taken in making income comparisons.),
b) the National Farm Survey, conducted every year by Teagasc (The main focus here is on Family Farm Income. It does, however, note the presence or absence of non-farm jobs for both the operator and spouse.), and
c) other occasional reports or studies that are carried out from time to time. These very often cover small samples and are mostly of local use.

The Household Budget Survey classifies income under three sources; income arising from farming activities (Farm Income); income earned by a member of the household

Table 1. Real income sources of farm households, 1994 (Euro - 1 Euro = 0.99 IRL £).

Source	Real Income (Euro)	%
Farm Income	242.7	53
Other Earned Income	158.0	35
Transfer Payments	14.8	12
Total	453.7	100

Source: HBS (1994).

through an off-farm job, income from investments or pensions and income earned from property investments (Other Earned Income); and income from State pensions, social welfare and children's allowances (Transfer Payments). The contribution of the different sources of income to farm households in 1994 can be seen in Table 1. Farm income accounted for 53 per cent of the total income of farm households in 1994, Other Earned Income for 35 per cent and Transfer Payments for 12 percent.

In spite of the much publicised pressures on income in farm households, real household income was 18 per cent higher in 1994 than it was in 1987 and 40 per cent higher than in 1980. The biggest factor in increased incomes from 1987 to 1994 was the contribution of Other Earned Income, which increased by 45 per cent between 1987 and 1984. However, much of this income is earned by the wealthier farm households. Transfer Payments (social payments) on the other hand decreased over the period. Income from farming has increased significantly from 1980 to 1994. However, as will be shown later farming income continued to increase up to 1996. However, in 1994 income from farming was only marginally higher than it was in 1973. The percentage contribution of farm income to gross household income is also in decline. In 1973 it was 75 per cent of household income, while in 1994 it was 53 per cent.

Income from farming

Farmers depending on their resources can respond differently to the opportunities available. There are considerable variations across farm type, farm size and within each farming system. Not only are FFI's on cattle and sheep systems substantially lower than for dairy systems but they are also subject to greater year-to-year variability. Thus, an average family farm income for all systems masks the full effects of farm income volatility. Over 32 per cent of all farmers have on average farm incomes of less than 5,000 Euro, while 30 per cent have average incomes of approximately 35,500 Euro.

There is also considerable variation within systems of dairying and cattle farming. Even though dairying is on average the most profitable enterprise, over 33 per cent of farmers have farm incomes of less than 10,000 Euro, while approximately 17 per cent (in 1994) had farm incomes in excess of 50,000 Euro per annum. Cattle farming is by far the most common enterprise on Irish farms with around 55 per cent of farmers being mainly cattle farmers. There are extremely low incomes in this sector. For over half the sector, the problem is a long-term one.

Quantifying low incomes

The above analysis shows that there is a wide variation in income levels on farms in Ireland. Indeed the problem of low incomes in agriculture in Ireland has been highlighted by a number of recent studies (Moss *et al.*, 1991; Phelan and Markey, 1996; Commins, 1996). Phelan *et al.*, (1998) examined in detail the low-income problem in the farming sector. In their analysis they used three comparable measures. The first is the risk of poverty (1997 Combat Poverty Agency), the second is the minimal entitlements to social welfare, and the third is, given that farming is a productive sector, a minimum wage that should be paid in the sector.

Risk of poverty

The risk of poverty in farm households has remained consistently high. In 1994 20 per cent of farm households were at risk compared with 15 per cent for other self-employed and 3 per cent for employees. This figure represents approximately 29,000 farm households. (Risk= the proportion of households of that type in poverty)

Minimal entitlements to social welfare

In 1994 the level of qualification for social welfare was 77.5 Euro (1 Euro = 0.79 Irish Punt) for an adult; 46.5 Euro for an additional adult; and 16.75 Euro per child. Using Household Budget Survey information on income deciles for farm households and the information on household composition, there were 14,000 farm households that had household income levels at or below unemployment assistance. It should be noted that farm households are significantly larger than other households in the state (3.63 farm; 3.31 rural non-farm; 3.21 urban).

Number of farmers earning less than the agricultural wage

Using data from the Teagasc National Farm Survey for 1997, there were 70,000 farmers earning less than the statutory minimum wage for agricultural employees as set by the Labour Court. Of these 60 per cent are married and 74 per cent of households are deemed demographically viable and average household size of 3.42. In 60 per cent of those households the farmer has no off-farm job i.e. 42,000 households. In 53 per cent of households neither the farmer or spouse has an off-farm job (37,000 households).

Cattle Farming

The ability of farming, as discussed above, to generate income varies considerably across different systems and regions of the country. For example, in 1997 farmers involved in mainly dairying had farm incomes 3.5 times greater than cattle farmers. Family Farm Incomes in Kildare, Meath and Wicklow were 2.3 times greater than the average in Louth, Leitrim, Sligo, Cavan, Donegal and Monaghan. Again using

Table 2. Distribution of direct payments classified by farm size (ha UAA).

Size (UAA)	Percentage of farmers	Percentage of direct payments
< 30 Ha	41	17
30 - 50 Ha	44	47
> 50 Ha	15	36

Teagasc National Farm Survey figures (1997), there are just over 47,000 farmers who are involved in cattle rearing and other cattle systems and are earning at or below the statutory minimum wage for agricultural workers. Over 75 per cent are considered demographically viable. For 27,000 (58 per cent) of this group the farmer has no off-farm job. In fact there are 17,500 of the 27,000 farmers that are earning less than half of the statutory minimum agricultural wage. (Note: 51 per cent (24,000) of these 47,000 households have no off-farm job for either the farmer or spouse).

Direct Payments

The comparisons thus far have made no effort to examine the considerable public money that goes towards supporting agriculture and which in the Irish analysis is considered as part of farm income. Direct payments (subsidies from EU) are of critical importance in supporting farm incomes in Ireland. Direct payments now account for over 75 per cent of farm income on cattle farms and over 90 per cent on sheep farms. There is also considerable debate as to the recipients of direct payments. Table 2 using data from the National Farm Survey, 1995, outlines the recipients of direct payments classified by farm size.

One of the main reasons for the reform of the CAP was that the support was going to too few people. The above Table shows that the scene has not changed significantly with the introduction of direct payments. The top 15 per cent of farmers in terms of farm size are obtaining 36 per cent of the monies paid in direct payments. This prevails against a background of extremely low incomes for a large percentage of farmers and a dramatic exodus of people from rural areas.

Conclusion

Policy and supports to agriculture, both economic and technical, have enabled the more progressive parts of the farming sector to significantly develop their enterprises over the last two decades. However, there is a large sector within farming who have not been able to develop and their future will now depend on the their ability to obtain alternative income outside farming and the extent to which income supports can be targeted at this sector. The transparency in support measures will increase pressures for these measures to be directed at the less well off.

Society must decide on a vision of what is competitive agriculture and of what type of future it wants for rural areas. Clearly very few people would want to see the American or New Zealand model of large-scale industrialised farming, where there has been a gradual concentration of resources in the hands of fewer and fewer people, take hold here in Ireland. On the other hand the new rural development initiatives have to date had little impact. The dry-stock sector is particularly at risk. Almost all income now comes from direct payments, and even with these supports the income levels for the majority of farmers are quite low. Frawley (1998) points out that it is the viable or commercial sector that would be the most affected by an emphasis on free trade and competitiveness, assuming that the resource low-income farmers are adequately catered for by the social and environmental objectives of agricultural policy. Phelan (1997) remarks that in Ireland's case there is still plenty of room to increase efficiency but in doing so one must be careful that future competitiveness is not undermined and that the unique rural fabric of Ireland is maintained for future generations.

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