

PROPOSAL for exceptional adjustment aid to beef producers in Ireland

[24 April 2019]

1. Exceptional aid provisions

Following an exceptionally difficult year in 2018, arising from drought and other factors, including uncertainty arising from Brexit, the beef sector in Ireland has suffered from a prolonged and exceptional period of low prices, at which many farmers can simply not make a living. The Teagasc Annual Review and Outlook estimated that Gross margins on suckler farms were down 19pc in 2018 while gross margins on finisher enterprises are estimated to be down 11pc at €16,902. Exceptionally low prices have continued into Spring 2019.

Article 219 (1) of Regulation (EU) No 1308/2013 allows for the Commission to adopt delegated acts in accordance with the provisions of Article 228 to take measures necessary to react efficiently and effectively against threats of market disturbance caused by significant price rises or falls on internal or external markets or other events and circumstances significantly disturbing or threatening to disturb the market, where that situation, or its effects on the market, is likely to continue or deteriorate.

Delegated acts in accordance with this provision have been previously utilised in response to market disturbances caused *inter alia* by the decision of the Russian government to introduce a ban on the import of certain products from the Union to Russia, including milk products in 2014.

2. Irish beef sector

The Irish agri-food sector is Ireland's largest indigenous industry. There are approximately 137,000 farms in Ireland, with beef production by far the most common farming enterprise. There are over 75,000 specialist beef farms, based on suckler beef production systems, with many of the remaining farms having some level of beef enterprise.

Ireland exported almost 535,000 tonnes of beef, worth €2.4 billion, in 2018. Around 50% of total Irish exports of beef products by both value and volume are to the UK market; with Ireland accounting for 67% of total UK beef imports.

Beyond direct employment, the agri-food and fisheries sector is a source of income for the wider rural and local economy, with estimates for output multipliers of approximately 2.5 for the beef sector. This contrasts with an average output multiplier of 1.4 for the rest of the economy and 1.2 for foreign owned firms emphasising even more so the importance of the Irish beef sector to the wider Irish economy.

3. Market disturbance in the Irish beef sector

The Irish beef sector faced a number of unprecedented challenges in 2018 and early 2019, which has negatively impacted across the entire sector.

These included significant weather events in 2018, which significantly increased input costs at farm level. Whilst full year income figures for 2018 are not yet available, Teagasc analysis of Gross Margins for cattle finishing enterprises in 2018 showed a reduction in 11%. Teagasc have previously stated that 40% of drystock (cattle and sheep) farms are considered economically vulnerable.

The Irish beef processing sector has faced ongoing uncertainty around the possibility of a no-Deal Brexit, with associated high tariff costs, which threatened to have a disastrous impact on the beef sector in Ireland.

The euro/sterling exchange rate (averaging 1 EUR= 0.875 GBP for the period since June 2016) has also contributed to an erosion of competitiveness on our main beef export market.

There has been an exceptional sustained period of low prices for finished cattle in Winter 2018/Spring 2019, and this has increased income pressures for beef farmers.

The low level of income and profitability in Irish beef farming in general limits the potential of the sector to absorb shocks. The supply cycle associated with suckler beef also means that there is no short-term mechanism to adjust supply in response to shocks.

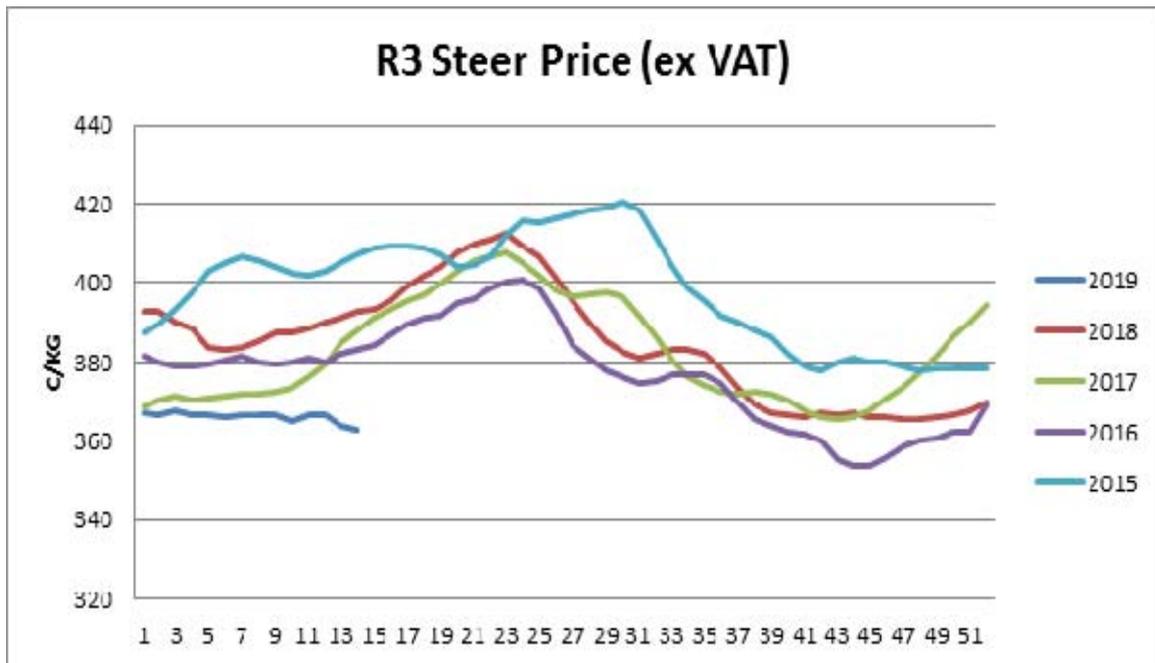
Looking at the wider EU market, the EU Commissions *Short Term Outlook for EU Agriculture Markets 2018 and 2019* published recently shows that total EU production increased by 1.8% in 2018 with consumption increasing also, by 2.1%. Forecasts for 2019 show a decline in both production (1.3%) and consumption (1.5%). Whilst the volume of EU exports is forecast to increase by 3% in 2019, the volume of imports is forecast to increase by 4%. This has the potential to put pressure on producer prices throughout Europe but most especially in those Member States dependent on exports, such as Ireland.

The most recent MMO dashboard shows a decline in average R3 prices of 4.5% (week ending 12/04/19) across all Member States with current Irish R3 steer prices 7.6% lower than the same week 2018 reflecting both the EU Commissions Short Term outlook for Europe and the particular challenges faced by Ireland as a major exporter of beef with a high degree of dependency on the UK market.

Looking in detail at market developments within Ireland over the last number of months, there has been an unprecedented flat lining of producer prices from October 2018 to present. Markets have traditionally seen a gradual increase in the price payable to producers in late Autumn/Winter and a steady rise over the Spring/Summer period.

As can be seen from Table 1, R3 steer prices have traditionally risen from approximately week 40 onwards to a peak in approximately week 22 in the following year in Ireland. Whilst not shown here, a similar pattern can be seen in Irish heifer, cull cow and young bull prices over the same period with young bull prices and cull cow prices sustaining greater price falls than the average R3 steer price currently.

Table 1, Irish R3 Steer prices since 2015



4. Request for exceptional aid

It is clear that the Irish beef sector has suffered an exceptional market disturbance that is continuing. In the period since September 2018 alone, the price drop compared to the previous year-on-year comparator has cost Irish beef finishers approximately **€67 million** in output value across all categories. Looking at the suckler sector, the impact of the market disturbance has reduced prices for progeny of suckler cows. This has resulted in the loss of approximately **€35 million** in producer prices for Irish suckler farmers in the same period.

When compared with prices in 2015, the last full year before the Brexit vote, the cost to beef finishers exceeds **€7 million**. The suckler figure since September 2018 compared to 2015 is approximately **€52 million**.

Please see appendix 1 for additional information.

Traditional market intervention instruments in the form of public intervention and private storage are insufficient to mitigate the unprecedented impact on Irish beef producers.

As the normal measures available under Regulation (EU) No 1308/2013 are insufficient, and in order to avoid a situation where prices would further deteriorate and create beef market disturbances across the EU as a whole, it is essential that aid is made available to beef producers in Ireland who face severely weakened profitability and liquidity as a result of this market disturbance.

The introduction of temporary exceptional aid under this measure will enable Irish beef producers to partially absorb the current severe market disturbance caused by a set of unique circumstances.

5. Conditionality

The following conditions are suggested:

- Union aid of a total amount of [EUR XXX] shall be available to Ireland to provide exceptional adjustment aid to beef producers.
- Ireland shall use the amount available to it for measures taken on the basis of objective and non-discriminatory criteria provided that the resulting payments do not cause distortion of competition.
- As a tool to ensure against distortion of the market, the amount of aid payable shall be linked to an historical production period thereby mitigating against any threat of an increase in production.
- The measures taken by Ireland shall support beef producers who engage in one or more of the following activities that aim at fostering the economic sustainability of their holdings and that contribute to market stabilisation:
 - a) The application of extensive production methods;
 - b) The application of environmental and climate friendly production methods;
 - c) The implementation of quality schemes or projects aiming at promoting quality and value added.
- Ireland shall pay support under the proposed regulation by [xxx] at the latest.
- Ireland may grant additional support for the measures taken under the proposed regulation of an amount [up to a maximum equal to the amount] of aid payable under the proposed regulation, under the same conditions of objectiveness, non-discrimination and non-distortion of competition as laid down in the proposed regulation.

- Ireland shall pay the additional support by [xxx] at the latest.

Ireland shall notify the Commission of the following:

(a) No later than [xxx]:

- (i) A description of the concrete measures to be taken
- (ii) The objective criteria used to determine the methods for granting the aid,
- (iii) The intended impact of the measures in view of stabilising the market
- (iv) The measures taken to check that the intended impact is reached
- (v) The measures taken to avoid distortion of competition
- (vi) The level of additional support granted

(b) No later than [xxx], the total amounts paid per measure, the number and type of beneficiaries and the assessment of the effectiveness of the measure.

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Appendix 1 Estimated loss in beef output value

Beef Finishers: 2018/19 against same period 2017/18

Data below estimates the losses incurred due to continuing market disturbances to the Irish Beef sector from week 39 2018 to week 14 2019. The estimates are based on slaughter data for each category of animal in each week in that period, multiplied by the weekly price reported; compared to the price reported for the same week 12 months previously.

Based on this calculation, the total loss in output value is estimated at **€67 million**.

Total loss €	Compared to price in same period previous year (2017/18) x volume 2018/19
R3 Steers	-12,297,089
Heifers	-13,583,872
Young Bulls	-13,084,064
Cows	-28,207,489
Total	-67,172,514

Number of animals slaughtered

R3 Steers	356,432
Heifers	287,773
Young Bulls	131,764
Cows	211,335

2018/19 against 2015

On a similar basis but comparing with 2015 data only (the last full year before the Brexit vote), the total loss in output value is estimated at over **€97 million**.

Total loss €	2018/19 Compared to same periods in 2015
R3 Steers	-28,684,749
Heifers	-22,467,650
Young Bulls	-14,851,344
Cows	-31,284,997
Total	-97,288,739

Suckler Producers: 2018/19 against 2017/18

Data below estimates the losses incurred due to continuing market disturbances to the Irish Beef sector from week 39 2018 to week 14 2019. The estimates are based on liveweight prices of young store cattle (6 months – 12 months of age) each week in that period, compared to the price reported for the same week 12 months previously.

Based on this calculation, the total loss in output value is estimated at approximately **€35 million**.

Total number of suckler births	904,174
Average weaning weight	240kg
Price differential between 2018/2019 and 2017/2018	15.95c/kg
Total Loss in Output Value	€34.6m

2018/19 against 2015

On a similar basis but comparing with 2015 data only (the last full year before the Brexit vote), the total loss in output value is estimated at over **€52 million**.

Total number of suckler births	904,174
Average weaning weight	240kg
Price differential between 2018/2019 and 2015 (full year average)	24c/kg
Total Loss in Output Value	€52.08m