

Agri Food 2010

2010



Main Report

Agri Food 2010

MAIN REPORT

MARCH 2000

DUBLIN

PUBLISHED BY THE STATIONERY OFFICE

To be purchased directly from the

GOVERNMENT PUBLICATIONS SALES OFFICE,

SUN ALLIANCE HOUSE, MOLESWORTH STREET, DUBLIN 2,

or by mail order from

GOVERNMENT PUBLICATIONS, POSTAL TRADE SECTION,

4-5 HARCOURT ROAD, DUBLIN 2.

(Tel: 01-647 6834/35/36/37; Fax: 01-475 2760)

or through any bookseller

£5.00 €6.35

THIS DOCUMENT IS AVAILABLE ON THE COMMITTEE'S WEBSITE:

www.agrifood2010.ie



Agri Food 2010 Committee

Back row: Noel Cawley, Séamus Sheehy, Carmel Foley, Joe Healy, Séamus Scally, John Kane, Jim O'Grady

Front row: Dan Browne, Tom Parlon, Pat O'Neill, Frank Allen, Patricia O'Hara

Missing from photograph: Niall Fitzgerald

The Agri Food 2010 Committee was established by the Minister for Agriculture, Food and Rural Development, Mr Joe Walsh TD, in June 1999 with the following terms of reference:

'To propose a strategy for the development of Irish agriculture and food over the next decade, following the agreement on Agenda 2000, and in the light of the changes and challenges which are likely to evolve nationally and internationally over that period'.

The members of the Committee have a wide range of experience in agriculture and the food industry and are deeply aware of the scale of challenge which the sector faces over the next ten years and beyond. The Committee is convinced that there can be a bright future for the sector, and that it can continue to play a uniquely important role in our national economy and in our rural communities. However this will not be easily achieved, and substantial change is needed if this positive vision is to be realised. The Committee therefore believes that this is a timely report, and hopes that it will act as a catalyst for action by all participants in the sector.

In undertaking its task, the Committee has drawn on previous work by a variety of groups and individuals, including the Food Industry Development Group and the Beef Task Force. A list of the publications examined is set out in Appendix 4. The Committee also had the benefit of substantial input and advice from consultants and from the staff of DAFRD, Teagasc, Bord Bia, Enterprise Ireland and the Food Safety Authority among others. Some of the working papers prepared for the Committee are published in the Annexes to this report.

At an early stage in its work the Committee invited submissions from organisations and individuals, and those received are listed in Appendix 2. All were placed on the Committee's website (www.agrifood2010.ie) to facilitate their wider dissemination. These submissions contained much useful information and analysis, and the Committee is very grateful for the interest and effort of those who contributed to its work in this way.

Finally, the Committee wishes to thank its Secretariat in the Economics and Planning Division of DAFRD, and the Rural Economy Research Centre of Teagasc, for their work in preparing working papers and drafting the report.



Pat O'Neill
Chairman

Table of Contents

EXECUTIVE SUMMARY AND MAIN RECOMMENDATIONS

EXECUTIVE SUMMARY	i
MAIN RECOMMENDATIONS	v

PART I THE CONTEXT

1.	IRISH, EU AND INTERNATIONAL ENVIRONMENT	1
2.	CONSUMER AND RETAIL TRENDS	2
3.	WORLD MARKET OUTLOOK	3

PART II THE ISSUES

4.	FARM STRUCTURES AND INCOME	5
5.	FOOD INDUSTRY STRUCTURE	6
6.	FOOD SAFETY	8
7.	ANIMAL HEALTH AND WELFARE	8
8.	BIOTECHNOLOGY	9
9.	RURAL DEVELOPMENT	9
10.	RURAL ENVIRONMENT	10
11.	SPECIFIC COMMODITY ISSUES	11

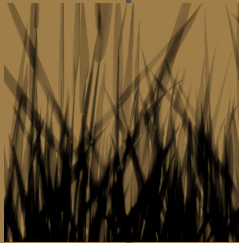
PART III THE VISION

12.	VISION FOR AGRICULTURE	13
13.	VISION FOR THE FOOD INDUSTRY	14

PART IV THE STRATEGIES

14.	ACHIEVING THE VISION	16
15.	MEETING CONSUMER REQUIREMENTS	17
	15.1: Ensuring Food Safety	17
	15.2: Assuring Food Quality	19
	15.3: Achieving the highest standards of Animal Health	22
	15.4: Achieving the highest standards of Animal Welfare	23
	15.5: Developing Organic Production	23
16.	DEVELOPING A COMPETITIVE FOOD INDUSTRY	25
	16.1: Adopting a more proactive approach to Marketing	26
	16.2: Improving the level of Consumer Focused Innovation	27
	16.3: Developing Strategic Partnerships along the Food Chain	27
	16.4: Rationalising Primary Processing	28
	16.5: Facing the current and future challenges for the beef industry	30
	16.6: Addressing the challenges facing the dairy sector	31
	16.7: Addressing the challenges facing the pig and poultry sectors	32
	16.8: Focusing on Growing Value Added Sectors	33
	16.9: Developing the potential of small food firms	34
	16.10: Developing Human Resources	34

17.	DEVELOPING COMPETITIVE FULL AND PART-TIME FARMING	36
	<i>17.1: Improving Cost Competitiveness in Major Enterprises</i>	37
	<i>17.2: Encouraging Land Mobility and Early Transfer</i>	39
	<i>17.3: Improving Scale in Dairy Farming</i>	41
	<i>17.4: Encouraging Productive Investment</i>	42
	<i>17.5: Changing Agricultural Education and Training</i>	43
	<i>17.6: Providing Equal Access to Schemes</i>	44
18.	MAXIMISING THE SECTOR'S CONTRIBUTION TO SUSTAINABLE RURAL DEVELOPMENT	46
	<i>18.1: Addressing Farm Household Viability</i>	46
	<i>18.2: Developing New Approaches to Farm Income Support</i>	47
	<i>18.3: Tackling Farm Poverty</i>	48
	<i>18.4: Encouraging the development of Off-farm Employment Opportunities</i>	49
	<i>18.5: Contributing to Environmental Protection</i>	50
19.	FACING THE CHALLENGE OF NEW TECHNOLOGY	52
	<i>19.1: Responding to the development of Biotechnology</i>	52
	<i>19.2: Developing Information and Communications Technology (ICT) in the Agri-Food Sector</i>	53
20.	SUPPORT SERVICES	56
	<i>20.1: Support Schemes and Services of DAFRD</i>	56
	<i>20.2: Research, Advisory and Training Services of Teagasc</i>	57
	<i>20.3: Marketing and Promotion Services of An Bord Bia</i>	59
	<i>20.4: Food Industry Development Services of Enterprise Ireland</i>	60
 APPENDICES		
	APPENDIX 1: AGRI FOOD 2010 COMMITTEE MEMBERSHIP	62
	APPENDIX 2: SUBMISSIONS RECEIVED	63
	APPENDIX 3: LIST OF ABBREVIATIONS	64
	APPENDIX 4: REFERENCES	65
	APPENDIX 5: INDEX	67



Executive Summary & Main Recommendations

Executive Summary & Main Recommendations

CONTEXT

The agri-food sector will face major challenges in the next decade, arising from a variety of sources. We have at best only a few years to prepare to meet these challenges, and this will require major changes at all levels from the farm to the retailer.

We cannot predict the outcome of the new round of world trade negotiations, but we can say with some confidence that they will lead to further trade liberalisation. Change in EU policy will be driven by the outcome of these negotiations and by EU enlargement and budget pressures. These issues will come to a head as early as 2003 when a review of the EU agriculture budget is due, which may coincide with a decisive phase in the trade and enlargement negotiations. The overall picture that emerges of the likely future is of a much more challenging environment, which will expose any lack of competitiveness in the agri-food system.

These changes in the international policy context will be matched by new trends in the EU food market. This market is changing rapidly and fundamentally, driven both by new consumer lifestyles and concerns and by globalisation and concentration at retail level. The effect of these changes has been to squeeze margins for processors and farmers and to place much greater emphasis on innovation, marketing and food safety assurance. These trends will intensify in the next ten years and further changes will emerge from the much wider application of new technology. The future success of our food industry will depend crucially on our ability to develop and apply the skills needed in this new marketplace.

Farm structures are also changing and this process will intensify in our 'tiger' economy. The threshold for an acceptable income is rising, and in the future full-time farmers will need output of at least 70,000 gallons of milk, or the equivalent in other enterprises, to be viable. Part-time farming will continue to grow rapidly. The Committee

believes that it is likely that by 2010 we will have 20,000 full-time and 60,000 part-time farmers, with a further 20,000 in transitional groups.

VISION

The Committee's vision for the future of agriculture and the food industry is framed in the context of the challenging future that lies ahead. It envisages:

- A dynamic agricultural sector, consisting of both full-time and part-time farming households, which is
 - Providing a viable living for farm households;
 - firmly focused on consumer requirements, in partnership with the food industry;
 - closely integrated with the wider rural economy; and
 - contributing positively to the natural environment.
- A competitive food industry
 - focused on consumer markets, with strong innovation and marketing skills and an unwavering commitment to food safety;
 - built on a strong partnership with its farmer suppliers;
 - with the necessary scale and efficiency at primary level;
 - which includes a large and growing sector focused on product innovation and quality markets;
 - which delivers competitive returns on investment, and attractive careers to employees.

Achieving this vision will require great change. This will need the committed action of all participants in the industry and a clear focus in public policy. The Committee has identified a set of strategic actions, which are necessary for the kind of transformation that is required. These changes will not be achieved without pain, but the alternative is far greater difficulty at a later stage.

Executive Summary (cont'd)

CONSUMER NEEDS

Addressing consumer needs and concerns must be the absolute priority for all stages of the food chain – farmers, the food processing industry, retailers and food service.

- ☐ Farmers, processors, retailers and caterers must accept a shared responsibility for food safety. A national Food Safety Plan should be produced, which sets out the responsibilities of all agencies involved and outlines the contingency plans for food safety emergencies. Urgent attention is required for the development of a co-ordinated laboratory service to support food safety activities.
- ☐ A range of actions are required aimed at improving the quality and production standards of beef, sheep and milk. A clear distinction should be made between the eating quality of Irish beef, which is good, and the standard of cattle, which is declining.
- ☐ Achieving and maintaining the highest standards of animal health and welfare is imperative. Clear targets should be set for animal disease measures. A new Animal Welfare Forum, with wide representation, should be established.
- ☐ There is a real market opportunity for organic production. Ambitious targets should be set for the development of the organic sector, and a new Organic Development Committee should be established to oversee the process.

FOOD INDUSTRY

Significant changes will be required if the food industry is to be profitable and to prosper in the increasingly competitive and demanding market conditions that are developing.

- ☐ A more pro-active approach to marketing by the food industry is needed, supported by a comprehensive market research and intelligence service operated by Bord Bia.
- ☐ Radical improvement in the level of customer focused innovation in the sector is required through, among other things, a much-increased research and

development effort. The possibility of allocating additional NDP funds to this heading should be reviewed regularly.

- ☐ Stronger and clearer strategic partnerships need to be developed across the food chain from producer through to final consumer.
- ☐ The industry must develop the necessary efficiencies and scale of operations, and face the need for considerable rationalisation in many sub-sectors especially beef processing, dairy processing and poultry processing. Public funding to the primary processing sector should be dependent on structural change, but primary responsibility for action lies with private stakeholders.
- ☐ Action is needed on a range of issues in the major commodity sectors, particularly in the light of further trade liberalisation. The implications for the beef industry are particularly serious. The Committee endorses the Government's stand on the defence of 'blue box' payments and export subsidies in the WTO negotiations, but believes that the industry must prepare itself for significantly lower levels of protection on the European market.
- ☐ The dairy sector should continue to focus on the development of branded products where these have been successful, while also recognising the potential of newer value added products. Increased production of cheese should remain a priority.
- ☐ Import penetration of the domestic pigmeat and poultry market is a cause of serious concern. If the domestic industry is to respond effectively, urgent action is needed on rationalisation and the development of value added products.
- ☐ Large food firms should be encouraged to form partnerships with small innovative companies in the prepared consumer food sector. State agencies should give special attention and focused support to small and micro companies.

- Far greater attention to human resource development is required if the food industry is to achieve the necessary growth in productivity and to be a competitive purchaser of labour in our tight labour market.

AGRICULTURE

Agricultural policy must be framed with a full understanding of the differing needs and capacities of full and part-time farmers, and in the light of the challenging environment which farmers will face in the future.

- A national competitiveness action programme should be developed, which includes actions and performance targets on structural reform, cost efficiency, research, technological change and training. Key competitiveness indicators should be published regularly.
- Increased land mobility and transfer of farms to younger farmers should be encouraged through tax incentives and the provision of retirement payments for farmers over 65 in place of disadvantaged areas (headage) payments. The scope for innovative forms of farm ownership should be examined.
- Considerable consolidation of milk quota will be required, as only 3,000 farmers are now over the 70,000 gallon minimum threshold for future viability. A free market in quota would be desirable well in advance of the elimination of quotas, should that arise. Specific measures should be put in place to assist smaller dairy farmers who have the potential to become viable.
- Investment will remain a key concern for both full and part-time farmers. Public support should be targeted towards lower income and younger farmers and public good investments.
- Agricultural education and training must be adjusted to meet the different requirements of full and part-time farmers. The fundamental overhaul of agricultural education currently being undertaken should be pursued urgently.

- There should be no distinction made between full and part-time farmers in terms of eligibility for schemes.

RURAL DEVELOPMENT

Agriculture and the food industry have a significant capacity to contribute to sustainable rural development, as recognised in the White Paper on Rural Development.

- Future policy should be focused on farm household viability in all its dimensions, including farm and off-farm income sources. Appropriate data is needed to support this new approach.
- Consideration should be given to innovative approaches, including insurance schemes, in supporting farm income and simplifying direct payments.
- Specific targets for reducing poverty levels in low-income farm households should be set and monitored. Disadvantaged areas payments should be targeted at lower income farmers, and the impact of the Farm Assist Scheme should be monitored.
- Balanced regional employment growth should be encouraged. The successful implementation of regional policies will be crucial in providing off-farm employment opportunities in rural areas.
- Environmental protection is a prerequisite for the future development of the agri-food sector, and specific measures to improve awareness and raise standards should be taken.

NEW TECHNOLOGY

In order to prepare for the technological changes that will occur in the first decade of the new century, the sector will need to:

- Develop a strong competence in biotechnology so that we will have the ability both to apply and regulate it; and
- Make rapid progress in the use of Information and Communications Technology at all levels of the sector from the farm to the consumer market.

Executive Summary (cont'd)

SUPPORT SERVICES

The support services operated by four of the main State agencies involved (DAFRD, Teagasc, Bord Bia and Enterprise Ireland) play a crucial role in the development of the agri-food sector. Their focus is changing to adapt to the new challenges facing the sector.

- ☐ Every effort should be made to ensure that the very large number of schemes and services operated by DAFRD are undertaken with the minimum possible bureaucracy, consistent with the necessary national and EU controls.
- ☐ Speedy implementation of the programme of change for research, advisory and training services set out in Teagasc 2000 is urged. The re-orientation of the advisory and research services around the separate needs of full and part-time farmers is particularly welcome.
- ☐ Investment in marketing, in which Bord Bia will have a key role, will be critical to the future of the sector. A comprehensive market research and intelligence service, operated by Bord Bia, could be a key catalyst for consumer focused development in the sector.
- ☐ Enterprise Ireland will have a pivotal role in providing leadership on many of the priority actions identified for the development of the food industry.

The following are the main findings and recommendations made in Sections 15 to 20 of the report.

15. MEETING CONSUMER REQUIREMENTS

Our competitiveness ultimately depends on our capacity to meet the needs and requirements of consumers, which are becoming more complex.

15.1: ENSURING FOOD SAFETY

- ☐ Ireland should be to the forefront of food safety and consumer protection, and should seek to be a model for other Member States.
- ☐ Farmers, processors, retailers and caterers must accept a shared responsibility to produce safe food.
- ☐ The promotional work of Bord Bia, the Irish Dairy Board and top companies in marketing Ireland as the 'Food Island of Europe' needs to be underpinned by robust food safety and quality initiatives.
- ☐ There is a need for greater coherence and clarity in voluntary quality assurance schemes, which should include a strong food safety component.
- ☐ Clear, honest labelling must be the norm in order to inform consumer purchasing decisions.
- ☐ Transparency in the assessment, management and communication of risk is imperative.
- ☐ Ireland should fully support efforts to ensure that the animal feed industry throughout the EU complies with the highest standards of quality and safety.
- ☐ The Committee welcomes the improved co-ordination of food safety activities that will result from the establishment of the FSAI and the FSPB.
- ☐ The FSAI and FSPB should develop a National Food Safety Plan, setting out clearly the responsibilities and functions of all agencies involved in food safety and the contingency plans for dealing with food safety emergencies.
- ☐ Urgent attention is needed to develop an adequate and co-ordinated laboratory service to support food safety activities.
- ☐ Comprehensive surveillance data on appropriate food safety indicators should be collected and published routinely by the FSAI.

- ☐ Appropriate education and training schemes for workers at all stages of the food chain should be developed.

15.2: ASSURING FOOD QUALITY

- ☐ Preserving Ireland's reputation as a quality food producer is essential for the future of the agri-food sector.
- ☐ The decline in cattle standards has led to some confusion in the media, where it has sometimes been incorrectly interpreted as a decline in beef eating quality, and this has been potentially damaging to our international marketing efforts.
- ☐ There would be considerable merit in continuing and extending the current research by Bord Bia on customer perceptions of the eating and other qualities of Irish beef on European markets.
- ☐ The results of the Bord Bia market research and of Teagasc research on the impact of breeding and feeding practices on eating quality should be widely disseminated, particularly to beef farmers and processors.
- ☐ The Committee supports the various initiatives being taken to address the issue of cattle standards, but believes that particular attention must be devoted to part-time beef producers, who increasingly dominate beef farming and who derive only a small proportion of their income from the sale of animals.
- ☐ The following issues should be pursued in order to improve the standard of cattle:
 - build a production quality incentive into direct payments where possible;
 - consider how the use of fertility synchronisation products can be encouraged and facilitated, particularly by lowering their cost, while maintaining high standards of control and food safety;
 - launch a co-ordinated education programme.

Main Recommendations (cont'd)

- ☐ The quality differential paid by the milk processing industry is a key factor in maintaining the high standards of Irish milk.
- ☐ The Committee agrees with the conclusions of the Sheepmeat Forum. In particular there is a need to ensure a better match to consumer specifications by addressing issues of quality, timing and selection. It is important that sufficient research, advisory and other support is made available to bring about the necessary changes in production patterns.

15.3: ACHIEVING THE HIGHEST STANDARDS OF ANIMAL HEALTH

- ☐ The efforts to control and eradicate BSE, TB, Brucellosis and other significant animal diseases should continue. Clearly defined targets should be set and monitored by the Animal Health Forum, and the results published.
- ☐ Research being undertaken, in co-operation with the UK authorities, on bovine and wildlife vaccines for TB should be intensified, and substantial resources should be provided for this work.
- ☐ Programmes to control zoonotic agents in all food animals should be enhanced in order to protect public health and consumer confidence.
- ☐ Other animal diseases of importance should be the subject of appropriate measures for their control and/or eradication. In particular programmes to eradicate Aujeszky's disease in pigs and scrapie in sheep should be put in place without delay.
- ☐ Effective identification systems for tracing all food animals should be put in place and maintained.
- ☐ There is a need for ongoing research in the area of rapid tests for animal diseases. This should facilitate the earliest possible detection of outbreaks of diseases.
- ☐ There is a need for much improved feedback to the farmer on the disease status of slaughtered animals.
- ☐ The structures and resources necessary to pursue disease control and eradication should be regularly reviewed to ensure maximum efficiency.

15.4: ACHIEVING THE HIGHEST STANDARDS OF ANIMAL WELFARE

- ☐ Current standards of animal welfare in this country are generally high, and will improve further with the elimination of sow tethering and battery cages.
- ☐ The Committee recommends the establishment of an advisory forum which would bring a greater focus to the issue of the welfare of farm animals.

15.5: DEVELOPING ORGANIC PRODUCTION

- ☐ The growth in organic markets in Europe presents a real, if limited, commercial opportunity for Irish agriculture. To take full advantage of this opportunity will require that we develop a critical mass in production, marketing and distribution and a strong emphasis on appropriate training.
- ☐ The Government and food industry should adopt ambitious targets for organic production and exports and draw up a coherent strategy for the development of the sector.
- ☐ An Organic Development Committee should be established for this purpose.

16. DEVELOPING A COMPETITIVE FOOD INDUSTRY

The Committee broadly concurs with the conclusions of the Food Industry Development Group. Significant changes will be required if the industry is to be profitable and provide an adequate return on capital in the increasingly competitive and demanding market conditions that are developing.

16.1: ADOPTING A MORE PROACTIVE APPROACH TO MARKETING

- ☐ Investment in effective marketing will be critical to the food industry's capacity to compete and win market share in a rapidly changing marketplace
- ☐ Irish companies must adopt a more targeted marketing approach to branded products, private labels, niche markets and food service, as well as the traditional commodity markets.
- ☐ A comprehensive market research and intelligence service should be developed by Bord Bia, in co-operation with other agencies as appropriate. This will require significant resources.
- ☐ The marketing capability of companies must be developed through the disciplines of category management. This will require the allocation of increased resources in the areas of training, personnel, shopper research and effective promotional platforms.
- ☐ Trade marketing initiatives are required to assist companies targeting new markets. There should be an increased focus on developing market presence in continental EU markets by companies who have already established a track record in the Irish and UK markets.
- ☐ An increased focus is needed on opportunities in the expanding food service sector and exploration of opportunities arising from the emergence of new retail formats, including Internet shopping.
- ☐ Irish food companies should re-evaluate their brand and private label strategies to ensure an appropriate strategic fit between their marketing capabilities and market opportunities.

16.2: IMPROVING THE LEVEL OF CONSUMER FOCUSED INNOVATION

- ☐ High quality Research and Development will be essential if the Irish food industry is to keep abreast of current market trends
- ☐ The indicative funding for food research and development in the National Development Plan should be ring-fenced, and the possibility of moving additional funds to this heading should be reviewed regularly.
- ☐ In allocating these and other public funds, priority should be given to companies which show a commitment to customer focused research, product development and innovation.

16.3: DEVELOPING STRATEGIC PARTNERSHIPS ALONG THE FOOD CHAIN

- ☐ It is imperative that stronger and clearer links across the food chain are established between farmers and processors and between processors and their customers.
- ☐ The Committee welcomes the recent establishment of some market led producer groups.
- ☐ Centralised distribution may offer opportunities to Irish companies to reduce the time and cost involved in serving a large geographical area
- ☐ The 'efficient consumer response' system is made possible by advances in information technology and the Committee believes that all food companies must, as a matter of urgency, develop high quality e-commerce capabilities.

16.4: RATIONALISING PRIMARY PROCESSING

- ☐ The search for efficiency and, within that context, the issue of scale, is vital to the future of the primary processing sector. Our current structures are far from optimum and there is a clear need for significant change.

Main Recommendations (cont'd)

- The Committee welcomes the moves initiated by the Beef Task Force to address the particular problems in that sector, and recommends that a similar effort be made to develop rationalisation plans in the other sectors.
- However, the Committee is seriously concerned at the lack of progress to date on implementing the Task Force recommendations.
- Public funding for the development of primary processing should be made dependent on structural change.
- To the extent permitted by EU State aid rules, and within the limits of the funds available, public funding for the closure of excess processing capacity should also be considered.
- However the Committee recognises that the realistic scope for Government action is limited in this area and acknowledges that responsibility for dealing with this issue rests primarily with the owners, farmers, unions and other private stakeholders who will suffer the consequences of any failure by the industry to compete internationally.
- IDA Ireland and Enterprise Ireland will need to be prepared to act rapidly where the rationalisation of the primary processing sector has a disproportionate impact in areas which are particularly dependent on employment in the sector.
- A strong and well resourced marketing effort led by Bord Bia and supported by all players in the beef industry is required to build upon the positive consumer response to the eating quality of our beef product, and on the 'green' and welfare friendly image of our extensive production systems. The objective should be to create a clear premium market in the UK, and in targeted continental countries, for quality assured Irish beef.
- The Committee strongly endorses the Government's stand on the WTO negotiations. The retention of the 'blue box' payments and the export refund system are essential to the future of the Irish beef industry.
- The industry must place itself in the best position possible to cope with future market conditions, which will inevitably be more competitive than at present. This will require:
 - a major drive for lower costs and better cattle standards at farm level,
 - improved efficiency and rationalisation at processing level, and
 - a firmly consumer focused marketing effort.
- The proposals made by the Committee on these issues must be seen as the minimum required to secure the future of the beef industry.

16.5: FACING THE CURRENT AND FUTURE CHALLENGES FOR THE BEEF INDUSTRY

- The beef sector faces profound challenges in both the short and long term.
- The emergence of a strong live export trade to the continent in the last two years poses a competitive challenge to the processing industry.
- It is particularly important that the beef industry should place itself in a realistic position to compete with live exporters for high-grade cattle. It is essential that realistic grade pricing be put in place immediately.

16.6: ADDRESSING THE CHALLENGES FACING THE DAIRY SECTOR

- The environment in which the dairy processing sector must operate in the future will be one in which milk supply is limited, at least in the short term, through quotas, while greater trade liberalisation, with consequently lower prices, is likely to occur in the longer term.
- There should be a continued focus on the further development of branded products where there has been considerable success in recent years, e.g. butter and cheese.

- The recent increase in the percentage of milk processed into cheese products, while falling short of national targets, is a welcome development. Cheese consumption is continuing to grow in developed countries in all market segments. Accordingly an increase in the production of cheese must continue as a priority for the dairy processing industry over the next decade.
- The cream liqueur sector is an important outlet for Irish fresh milk and the development of other similar high value niche products should be encouraged. Year round milk supply is vital for this sector.
- The food ingredients sector will continue to be a valuable source of added value and growth in the sector, but this must be supported by much greater R&D investment.
- Further growth in baby food production by the existing companies already located in Ireland should be encouraged and Ireland should be actively promoted as a location to other baby food manufacturers.
- Potential exists for limited volumes of new product development in related functional foods for other age groups in dairy ingredient based products e.g. growing-up milks, adult/sports nutrition, nutraceuticals, etc.

16.7: ADDRESSING THE CHALLENGES FACING THE PIG AND POULTRY SECTORS

- The steady increase in imports of pigmeat and poultry products is a matter of serious concern.
- Irish poultry processing industry must seek economies through rationalisation and the development of a franchise for quality differentiated products, including those based on free range and organic production
- Scale will remain an important issue in the pigmeat sector and our plants are still small compared to major European competitors. The Committee therefore welcomes the planned north/south study of pigmeat processing which should address this issue in detail.

16.8: FOCUSING ON GROWING VALUE ADDED SECTORS

- The prepared consumer foods sector has been one of the fastest growing sectors of the food industry in recent years and this trend will continue.
- Every encouragement should be given to Irish food companies to move further along the value added route.
- Partnership initiatives between large Irish food companies and smaller prepared food and food service operations should be encouraged.

16.9: DEVELOPING THE POTENTIAL OF SMALL FOOD FIRMS

- The further development of small and micro food firms, for example in the prepared foods confectionery and food service sectors, should be encouraged through targeted programmes.

16.10: DEVELOPING HUMAN RESOURCES

- If the food industry is to remain competitive it must also be a competitive purchaser of labour in the new circumstances of a highly skilled labour force, in an economy with near full employment.
- Productivity growth, based on economically sound investment in human and physical capital, will be a key determinant of survival in the new labour market.
- Better career structures must be provided, and workflow organised so as to move from part-time to full-time employment to the extent possible.
- The food industry must pay more attention to human resource development with appropriate recruitment, including increased graduate recruitment, and provision of appropriate training programmes.
- A Nationally Accredited Food Industry Training System, benchmarked to the best international practice, should be developed as a matter of urgency.

Main Recommendations (cont'd)

- A simplification in the bureaucracy associated with recruitment of foreign workers for the sector and provision of appropriate training in their own languages, particularly in relation to food safety and labelling, is also necessary.
- A strong commitment to partnership arrangements is needed in the food industry to enable employers and workers to work together effectively in facing the challenges ahead.

17. DEVELOPING COMPETITIVE FULL AND PART-TIME FARMING

Full-time farm numbers will decline as the larger scale requirements for a viable income in a more open market are felt, while part-time farming is likely to rise rapidly. In addition the number of older farmers will decline if appropriate policies are put in place. These changes are likely to give rise to a situation eventually where we will have approximately 20,000 full-time farmers, 60,000 part-time farmers and a transitional group of about 20,000 by approximately 2010.

Agricultural policy must be framed with a full understanding of the differing needs and capacities of farmers in each of these categories and in the light of the challenging environment which farmers will face in the future.

17.1: IMPROVING COST COMPETITIVENESS IN MAJOR ENTERPRISES

- Irish agriculture is relatively competitive in the short term, but, in the longer term, remuneration is insufficient to reward the non-cash factors including family labour.
- Our response to this situation must involve a determined drive to improve competitiveness by:
 - improving efficiency on existing farms, in particular through investment in physical and human capital;
 - improving farm structures; and
 - developing and implementing new and improved technology through research and advice.
- A national competitiveness action programme should be adopted with actions and specific performance targets on structural reform, cost efficiency improvements, research and technological change, and education and training requirements.
- The action programme should include provision for the collection and publication on a regular basis of key competitiveness indicators, with appropriate international comparisons.

17.2: ENCOURAGING LAND MOBILITY AND EARLY TRANSFER

- ☐ Only a minute proportion of land is sold each year, and 19% of land is still farmed by holders aged over 65 despite the incentives for early transfer.
- ☐ Tax incentives should be introduced for family leasing by over 55s, where the lessor is a participant in the early retirement scheme.
- ☐ The first £2,000 of lease income should be exempt from the means test for the non-contributory old age pension and other social welfare benefits.
- ☐ The possibility should be examined of introducing a retirement scheme to replace disadvantaged area payments to farmers over 65. A working group should be established for this purpose.
- ☐ The Committee favours the complete abolition of stamp duty for young-trained farmers, and notes that this is included in the Programme for Prosperity and Fairness.
- ☐ Options for new farm ownership and operator structures, including partnership and share milking, should be examined to encourage the participation of young trained people in agriculture.

17.3: IMPROVING SCALE IN DAIRY FARMING

- ☐ Prudence dictates that we should prepare ourselves for the most radical outcome to the review of EU dairy policy, including the possibility of quota elimination sometime after 2008.
- ☐ The minimum viable level of dairy production in 2010 will be at least 70,000 gallons. Given that less than 3,000 farmers were at this level in 1999, considerable consolidation of quota will be required. About 13,000 dairy farmers have the potential to succeed as commercial dairy farmers, provided that they are able to access additional quota.
- ☐ The Committee welcomes the announcement of the break in the land-quota link as a valuable first step in freeing up quota access for commercial, and potentially commercial, dairy farmers.

- ☐ It will be necessary and desirable to move to a fully open market for quota well in advance of the elimination of quotas by the EU, should that arise.
- ☐ Specific measures should be put in place to assist smaller dairy farmers who have the potential to become viable. Such measures might include the type of action proposed by the County Clare Partnership Dairy Action Research Programme.

17.4: ENCOURAGING PRODUCTIVE INVESTMENT

- ☐ Irish agriculture is still significantly less capital intensive than most other EU countries but there has been an exceptionally high level of investment on Irish farms in recent years.
- ☐ Investment will remain a key concern for full-time farmers in the period to 2010 and part-time farmers also have special investment needs and a high propensity to invest.
- ☐ Public funding in support of farm investment should be provided but should be carefully targeted at:
 - farmers with low household income, who are below 55 years of age, or have an on-farm successor and
 - farm investments that produce clear 'public good' benefits.
- ☐ Labour saving investment by part-time farmers should be recognised as productive and valid. Public subsidy schemes should treat part-time and full-time farmers equally in all respects.

17.5: CHANGING AGRICULTURAL EDUCATION AND TRAINING

- ☐ There will clearly be different demands for agricultural training from full and part-time farmers.
- ☐ The fundamental overhaul of agricultural training currently being undertaken by Teagasc, and receiving detailed consideration by the task force on agricultural education and training, should be pursued urgently and subject to continued monitoring in light of future requirements.

Main Recommendations (cont'd)

- ☐ The Committee endorses the progress being made in the integration of agricultural training with mainstream education, and recommends that it should be subject to the same standards and certification procedures. This will require close co-operation between DAFRD, Department of Education and Science, Teagasc and the other bodies involved.
- ☐ Consideration should be given to strengthening the training conditionality for development and other grants, as recommended by the ESRI.

17.6: PROVIDING EQUAL ACCESS TO SCHEMES

- ☐ The present variety of on and off-farm income conditions applicable to different schemes is potentially confusing, and is in some respects unfavourable to part-time farmers.
- ☐ The Committee recommends the introduction of one standard income assessment for all schemes. The assessment should be based on income from all sources without distinction between them.

18. MAXIMISING THE SECTOR'S CONTRIBUTION TO SUSTAINABLE RURAL DEVELOPMENT

The capacity of agriculture and the food industry to contribute to sustainable rural development is important to the Committee's vision of the future.

18.1: ADDRESSING FARM HOUSEHOLD VIABILITY

- ☐ Future policy should be focused on farm household viability in all its dimensions, including farm and off-farm income sources.
- ☐ Government policy should aim to create and maintain viable farm households through:
 - ☐ developing new approaches to supporting income from farming activities;
 - ☐ providing targeted income support for the poorest farm families; and
 - ☐ policies which create and maintain off-farm employment opportunities in rural areas.
- ☐ There is a lack of data in relation to total farm household income, but such information is now vital for policy making. Teagasc and the CSO should address this problem.
- ☐ More information could also usefully be collected about household members – level of education, off-farm employment, commuting patterns, contribution to farm enterprise, etc.

18.2: DEVELOPING NEW APPROACHES TO FARM INCOME SUPPORT

- ☐ The options for achieving coherence and simplification of the various direct payments schemes should be regularly reviewed by DAFRD.
- ☐ The Department should monitor implementation of the new French Loi d'Orientation and assess its usefulness in the Irish context.
- ☐ Research should be conducted on the existing systems of agricultural insurance in other countries and the possible application of such a scheme in Ireland.

18.3: TACKLING FARM POVERTY

- ☐ The reduction of rural poverty should continue to be a key objective of the NAPS, which is currently under review.
- ☐ A specific target should be set for reducing poverty levels in low-income farm households. Progress against this target should be regularly reviewed and the results published as part of the NAPS process.
- ☐ The Farm Assist scheme should be monitored carefully, particularly in its first few years of operation, to assess its impact on the poorest farm households.
- ☐ Disadvantaged area payments to farmers, which have a major income support objective, should be targeted towards low-income households.

18.4: ENCOURAGING THE DEVELOPMENT OF OFF-FARM EMPLOYMENT OPPORTUNITIES

- ☐ The successful implementation of regional policies will be crucial in providing off-farm employment opportunities in rural areas.
- ☐ The Committee welcomes the commitment in the National Development Plan to spread the location of enterprises, especially inward investment.
- ☐ In regions that have the highest dependence on part-time farming, particular attention should be paid to distributing investment to smaller centres. This approach should also be reflected in the National Spatial Strategy.
- ☐ Similarly attention should be focused on any areas affected by the necessary process of rationalisation in the primary food processing sector.
- ☐ Measures to support the competitiveness and expansion of other productive sectors, such as tourism, should also be given priority.

18.5: CONTRIBUTING TO ENVIRONMENTAL PROTECTION

- ☐ Substantial effort and public funds have been committed to agri-environment measures but the reality of continuing pollution impacts, and the nature of our new EU and international commitments, means that further measures will be needed.
- ☐ Special training and advisory services should be used as a key tool in educating farmers about the link between agricultural practice and pollution.
- ☐ A 'Code of Good Farming Practice' should be developed by DAFRD in consultation with the Department of the Environment and Local Government.
- ☐ The Committee would stress the need for strict implementation of environmental standards for all industry.
- ☐ There should be a fair and balanced approach to drawing up the National Abatement Strategy on foot of the commitments in the Kyoto Protocol.
- ☐ The measures decided on under the Abatement Strategy will need to be integrated into the overall development strategy for the agri-food sector in due course.
- ☐ A greater effort is required through education, the provision of appropriate facilities and the enforcement of litter laws to deal with the litter problem.

Main Recommendations (cont'd)

19. FACING THE CHALLENGE OF NEW TECHNOLOGY

Developments in Information and Communication Technologies are transforming the context in which all participants in the agri-food sector operate, and are creating important new opportunities and challenges for retailers, processors and farmers. At the same time biotechnology has emerged as a major issue of public debate and it too has the potential to bring profound changes to the sector.

19.1: RESPONDING TO THE DEVELOPMENT OF BIOTECHNOLOGY

- ☐ The future of our agri-food sector requires that we develop a strong competence in the new technology that is emerging so that we have the ability both to apply and to regulate it.
- ☐ The Committee welcomes the provision of £560m for a Technology Foresight Fund in the National Development Plan and the separate provision of a £25 million Technology Capability Fund for Teagasc. A significant share of the Foresight Fund should, in the Committee's view, be earmarked for biotechnology agri-food research.
- ☐ The Committee agrees that we should pursue a positive but precautionary national policy position on the release of GMOs to the environment, based on scientific risk assessment and management.
- ☐ Clear labelling of foods to indicate whether they contain GMOs is essential to consumer confidence and necessary to a full recognition of consumer rights.
- ☐ It will be necessary to develop systems to ensure that GMOs do not compromise the integrity of organic, or other non-GMO, production systems.

19.2: DEVELOPING INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) IN THE AGRI-FOOD SECTOR

- ☐ Retailers, processors, farmers and Government agencies will all be fundamentally affected by the future development of ICT. Only those who make the effort and investment needed to stay abreast of these developments will survive in the longer term.

- ☐ Rural industries and rural areas have more to gain from the new technology than those in less isolated locations.
- ☐ While the potential of the new technology is clear and widely acknowledged, the Committee is concerned that action is slower than warranted given the pace of ICT developments elsewhere.
- ☐ The Information Society Commission should pay particular attention to ICT applications in rural areas and in indigenous industries.
- ☐ Trade organisations, including retailer, processor and farmer organisations, in the agri-food sector should establish expert groups to examine ICT developments, and to identify and promote best practice.
- ☐ The major initiative in the NDP to encourage indigenous companies to adopt IT and e-commerce as intrinsic tools of business is welcome. Implementation of this commitment should include both specialist and management training in ICT. Companies may also require assistance with necessary capital investment, and provision should be made for this under the relevant funding elements in the NDP.
- ☐ DAFRD, Teagasc and other State agencies should become leaders in ICT applications, both because of the efficiency improvements this will produce and the encouragement it will provide for others in the sector to match these developments.
- ☐ It is important to ensure that rural areas are not allowed to fall behind in the development of the necessary infrastructure, including broadband access, for the latest ICT developments. The new National Rural Development Forum should monitor this issue carefully.

20. SUPPORT SERVICES

The support services operated by four of the main State agencies involved in the agri-food sector are changing to adapt to the new challenges facing the sector.

20.1: SUPPORT SCHEMES AND SERVICES OF DAFRD

- ☐ Every effort should be made to ensure that the very large number of schemes and services operated by the Department are undertaken with the minimum possible bureaucracy, consistent with the need to apply scrupulously the provisions of EU and national law and the requirements for proper financial and technical controls.
- ☐ New information technologies offer significant opportunities in this regard.
- ☐ Further gains are possible from the consolidation of scheme procedures.
- ☐ Adequate staff numbers, IT resources and office and other facilities are essential if DAFRD is to play a full role in supporting the development of the sector. The Committee therefore welcomes the commitment in the PPF on this issue.

20.2: RESEARCH, ADVISORY AND TRAINING SERVICES OF TEAGASC

- ☐ The Committee supports the new direction set for the research, advisory and education services in Teagasc 2000 and urges the speedy implementation of the programme, and the provision of regular progress reports.
- ☐ The re-orientation of the advisory and training services around the separate needs of full and part-time farmers is particularly welcome. This perspective should inform all the agricultural support services.

- ☐ New skills are urgently required in a number of research areas, in particular biotechnology, environmental science and animal health/welfare. These skills must be complemented by investment in upgrading production centres and providing proper food training facilities.
- ☐ Teagasc might also consider the possibility of concentrating production research at fewer locations in order to achieve critical mass in these activities.

20.3: MARKETING AND PROMOTION SERVICES OF AN BORD BIA

- ☐ Bord Bia has a lead role to play in providing the marketing perspective to support new industry initiatives and to ensure implementation of the recommendations for a more proactive approach to marketing outlined in this report.
- ☐ A strong well resourced marketing effort is now needed to re-establish Irish beef on EU markets, and Bord Bia's role will be of central importance.
- ☐ The Committee welcomes and supports Bord Bia's intention to further develop its information services. A comprehensive market research and intelligence service could be a key catalyst for consumer focused development in the sector.

20.4: FOOD INDUSTRY DEVELOPMENT SERVICES OF ENTERPRISE IRELAND

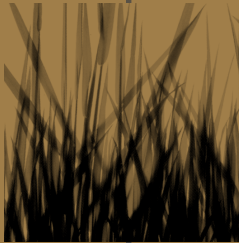
- ☐ This report contains a clear set of priorities for the development of the food industry over the coming years. Enterprise Ireland will play an important role in many of them. In particular, EI should focus on the need to:

Main Recommendations (cont'd)

- radically increase the level of R&D effort in the sector,
- develop strategic partnerships along the value chain,
- rationalise primary processing ,
- further develop the rapidly growing value added sectors,
- develop a new approach to human resource management in the food industry.

□ A strong co-ordinated focus on these strategic issues will be needed from all State bodies and industry participants if we are to make the necessary headway, but EI's role will be pivotal. The Committee therefore looks to EI to provide leadership in implementation of many of the recommendations in this report.

01



The Context

01

The Context

1. IRISH, EU AND INTERNATIONAL ENVIRONMENT

Agriculture and the food industry are key elements of the Irish economy. In 1999, the agri-food sector accounted for almost 10% of GDP and almost 12% of employment. Primary agriculture remains more important to Ireland than to 13 of the 14 other EU Member States.

The record growth experienced by the 'Celtic Tiger' economy in the 1990s has created both opportunities and threats for the agri-food sector. By increasing off-farm employment opportunities, it has improved the viability of many farm households. A more prosperous society has also benefited the food industry by increasing demand for convenience and luxury foods. On the other hand, the increased availability of employment, and higher wages in other sectors, have made farming and the food industry less attractive as career options for young people.

At EU level, the MacSharry reforms of 1992 introduced not only new policies but established a new policy direction, which was followed in Agenda 2000. Direct payments to farmers are growing, with an ever-greater focus on environment, animal welfare and other public goods, while market supports are eroding. EU budget pressures may arise due to the financial constraints imposed as part of the Berlin Agreement, and these pressures will increase with enlargement.

Public support to agriculture is now more visible and open to public debate. Direct payments account for over half of net farm income in Ireland (56% in 1999), but the total level of support (including both direct and indirect subsidies) is much higher – providing over 100% of farm income for some enterprises. These supports have a major impact on the agricultural sector and are the source of a large net transfer (£1.7 billion in 1997) from the EU to Ireland¹. The administration of these schemes is placing an increasing burden on both the State and farmers.

The outcome of the Agenda 2000 negotiations was very positive for Irish farmers and consumers. It also provides some comfort about EU policy over the next seven years. However it is important to recognise that Agenda 2000 is open to review. Six reviews are planned for the 2002/3 period with the most important, from Ireland's point of view, being those on dairy quotas, cereals and the agriculture budget. The limits set on agriculture spending in Agenda 2000 are a very important new discipline that may have significant consequences. **It is likely that there will be some pressure on the budget in the years ahead and this may trigger further reforms.**

As new members join the EU they will both expand our potential markets and increase competitive pressures on the EU market. In the shorter term, there will be a significant impact on the EU budget and a change in the political balance of EU agricultural policy.

Some commentators suggest that a number of the new countries could join as early as 2003, while total membership could be as large as 28 by 2010, or not long thereafter. In terms of potential market impact, the effect of such a radical expansion of the EU will in some respects be similar to the adoption of free trade. Low cost supplies from the applicant countries will have free access to Community markets. It will take some time for the applicant countries to develop their production to take advantage of this, and there are likely to be transitional arrangements. Nevertheless the long-term outlook is for **significantly increased competition on European markets for most of our major products.**

It is not yet clear what policy instruments will apply to the applicant countries when they join the EU, but there will be significant new demands on the EU agriculture budget. In these circumstances, we cannot reasonably expect that Ireland will be as successful as in the past at accessing EU funds for agriculture. Indeed we face the likelihood of becoming a net contributor to the EU budget, rather than a

¹ *Annual Review and Outlook for Agriculture and the Food Industry 1998*; Department of Agriculture and Food, 1998, Section 7.1

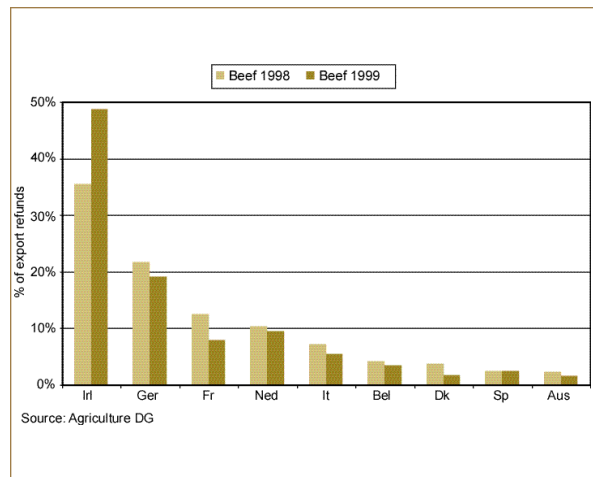
substantial net beneficiary, by 2010. At the same time the political balance in EU agricultural policy formation may significantly change as the new members exercise their influence. Overall, it is clear that **enlargement will mean a very significant change in the EU policy environment in which the Irish agri-food sector operates.**

International trade rules play an increasingly important role in shaping EU agricultural policy. The Uruguay Round Trade Agreement is currently being implemented. The agreement includes a commitment to continue the reform process and to achieve a substantial progressive reduction in support and protection. Negotiations will commence soon on a new trade round. **We cannot predict the outcome of the new round but we can, with some confidence, say that it will mean more liberalisation and further pressure on market supports and especially on export refunds.** There will also be pressure to further 'decouple' direct payments from production. This will have implications for the speed and depth of CAP reform but should not change the current direction of EU policy. Animal welfare, environment and other non-trade issues are also likely to arise in the negotiations.

Export refunds are more important to Ireland than to other Member States because we are more dependent than other countries on third country exports of beef in particular. In 1999, Ireland accounted for almost 50% of the EU's beef export refunds, but only 7% of its cattle. For this reason, the outcome of WTO in relation to the future of export refunds will have a far greater effect on Ireland than on other EU member states.

Figure 1

Share of EU Beef Export Refunds by Member State 1998/1999



It seems likely that the 2002/3 period will be critical for future EU policy. As already noted a review of the EU agriculture budget is planned for this time which is likely to coincide with a crucial phase in both the WTO negotiations and the negotiations with the applicants for EU membership. Taking all factors together **it is clear that we have a relatively short breathing space in which we must prepare ourselves for a more demanding competitive environment in more open markets.**

2. CONSUMER AND RETAIL TRENDS

Changing consumer trends have important implications for the food industry. These trends include an increasing emphasis on convenience, quality and value for money. Changing lifestyles and increased affluence mean that many people are less willing to spend time cooking. There has been a big increase in eating outside the home, and consumption of snacks and 'ready to eat' meals has increased, with a consequent growth in the food service sector. While looking for convenience, consumers are also increasingly concerned about issues of food safety, quality and health. This is reflected in growing niche markets for organic and other products which are perceived as 'healthier' than mainstream products. Consumers at different income

levels are increasingly looking for different types of products, with the highest income groups placing a premium on quality and choice, and the lowest income groups most focused on cheaper foods. **However, at all price points, consumers are looking for value for money, and are prepared to shop around to get it.**

Significant changes are also taking place at retail level². The premium and discount market segments are growing, with consequent pressure on more traditional retailers. Retail concentration is continuing, and further consolidation of the Irish and European retail sectors will occur. The continuing penetration by the discount sector will increase price competition for all retailers. Centralised distribution will facilitate the further development by retailers of own-brand/private labels. Retailers will increasingly segment 'private label' goods, with premium, standard and generic lines sold simultaneously. Internet retailing may also soon emerge as a significant new force in the grocery sector, further adding to competitive pressures.

These developments will increase the demands of retailers on their suppliers. As retailers become larger, the scale of entry for new food firms becomes higher, although there will still be opportunities for quality niche firms to enter. There will be considerable advantages for 'first movers'. Price competition will result in narrower margins for suppliers, and retailers will be more demanding about quality, safety and traceability systems. They will also require suppliers to have a strong commitment to product innovation, and an ability to stay abreast or ahead of consumer trends. **Transparency of the supply chain will enable retailers to monitor suppliers' performance more accurately, and to demand maximum flexibility in terms of delivery amounts, frequency and timing.**

The pressures and changes arising at the production, distribution and retail levels will affect Irish farmers as well as food companies. Farmers face a market increasingly

focused on quality, safety, consistency and flexibility of supply, and price. The emergence of discount operators in the domestic retail market will add to these pressures. Globalisation will also further increase competition, as retailers and consumer food processors access raw materials from a wide range of countries. This is already emerging as a significant issue in Ireland due to imports of poultry, pigmeat and milk. At the same time significant opportunities exist for farmers who can service niche markets, such as that for organic produce.

*'Agriculture can be expected to become increasingly integrated with the food industry in the future. Farmers will face a demand for differentiated agricultural products, entailing the use of sophisticated technologies. For certain products, the importance of bulk commodity markets and auction systems may decline in favour of thin market channels regulated by contracts'*³.

3. WORLD MARKET OUTLOOK

Strong growth in global demand for food is projected for the coming decades⁴. This growth will be largely in the developing countries, particularly in China and South East Asia. Demand will be driven by increases in the number of people in these countries and by a return to strong growth in their personal incomes. In contrast, demand growth in the developed countries will continue to be slow, reflecting very low rates of growth in population, at less than 1% a year, and in incomes, at around 2% per person per year. Spending on food is also being relegated to a smaller and smaller fraction of additional outlays.

World food supplies will keep abreast of demand, with projected increases in crop yields and in the efficiency of food production from animal sources. The projected outcome is that even by 2020 there is unlikely to be a significant rise in the real price of food. However, there is likely to be some long-term recovery in the real price of feed grains from the depressed levels of 1999. Under these

² See paper on Alan Collins, NUI Cork, on retailing in Annex 5

³ OECD, 'The Future of Food – Long-term Prospects for the Agro-food Sector', Paris 1998

⁴ See FAPRI-Ireland projections in Annex 6. This section is based on a review by FAPRI-Ireland of projections by FAPRI, OECD, FAO and IFPRI.

conditions, food consumption will continue to expand strongly, particularly in the developing countries as the effects of their 1998-9 crisis pass. In addition, Russian food consumption could recover some of the declines of the 1990s.

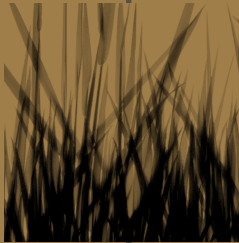
Meat consumption in developing countries is likely to increase by 4% a year up to 2005 and 3% a year to 2020. However in the developed countries usage of meat is unlikely to grow by more than 1% a year over the decades ahead. Poultry meat will provide most of the expansion, putting it ahead of beef. Total consumption of beef in the developing countries will exceed that in the developed countries by 2005.

Within the EU, the decline in beef prices projected after the CAP reforms agreed in 1999 should largely maintain levels of consumption. However outside the EU, prices are set to rise from the particularly depressed levels of 1999 and peak about 2003. As with all the projections, no allowance is made for further changes in policies, such as those that might arise from a further WTO Agreement. Were such an agreement to reduce export refunds, there would be a further narrowing of the gap between beef prices inside the EU and those outside. A second consequence would be an expansion of exports from other suppliers to the world market.

Dairy product demand is projected to evolve in ways similar to that for meat. There will be an acceleration of growth in developing countries, raising their total level of milk utilisation above that of the developed countries before 2005. Most of the extra milk will be produced in the countries of consumption. Nevertheless exports will expand considerably, other than from Europe and North America. Cheese is likely to be an important contributor to growth in both consumption and trade. By 2005, prices in international trade are projected to increase by some 15% over the particularly depressed 1999 level, amounting to just a 1.5% increase on the 1998 level.

Average grain yields and production are projected to increase in the coming decade. Even the reduced rate of yield increases will enable most countries, and the world as a whole, to supply market growth in demand for food use and animal feed, with only a slight increase in real prices relative to 1999 levels. Most of the expansion will be in utilisation for feed. The EU market will be very sensitive to the US dollar/Euro exchange rate. At levels close to parity, the EU will come to export milling wheat without subsidisation and will expand sales on world markets. However, this situation is far less likely should the euro come to be worth say US\$1.16. EU barley prices are much higher than on world markets, and its price is projected to fall despite the slightly higher prices projected for the world market.

02



The Issues

02

The Issues

4. FARM STRUCTURES AND INCOME

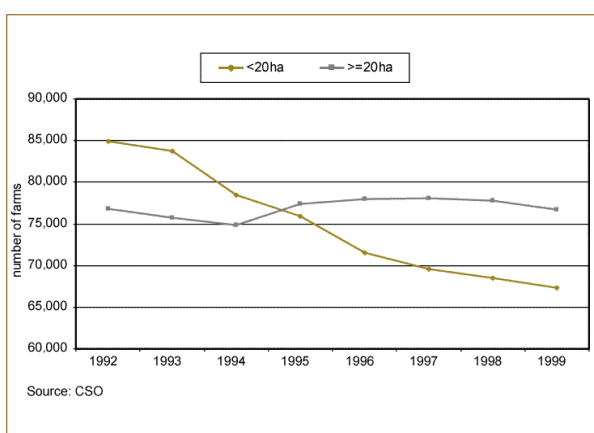
Irish agriculture has seen major changes over the last 25 years and it is clear that further challenges lie ahead⁵.

New farm structures are gradually developing. In particular,

- The number of small farms (less than 20 ha) is falling by 3.3% per year, while the number of larger farms is stable.

Figure 2

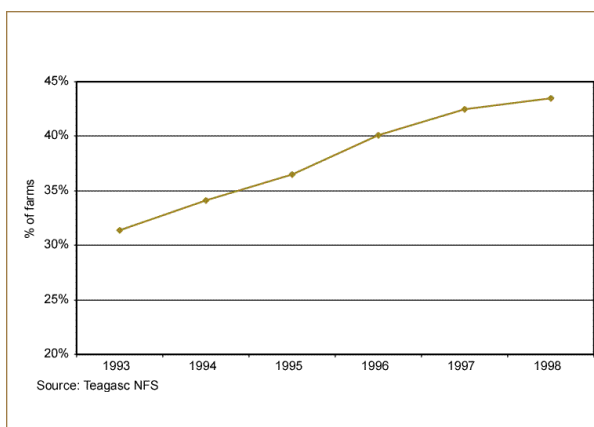
Farm Numbers 1992-1999



- Part-time farming is growing and at least half of farm household income now comes from off farm sources.

Figure 3

Off-farm job holder or spouse 1993-1998



- A large number of older farmers remain despite the substantial incentives that have been provided to encourage land transfer. Farmers over 65 control nearly 20% of farm land⁶.

As a result a new pattern is emerging in which there are a number of distinct groups of farmers. Two of these may be described as core groups, who will play a key role in the future of agriculture, while three other groups can be described as transitional.

The core groups numbering 83,000 in total are:

- **Viable full-time farmers:** Dairy farmers account for half this group, with the rest in intensive enterprises and large-scale tillage and livestock. Approximately **44,000** farms are in this category, but 11,000 of these are relatively small and only marginally commercial.
- **Part-time farmers** who combine suitable enterprises – usually beef – with full or part-time off farm work: There are **39,000** farmers in this category which is growing, and likely to grow more rapidly as off-farm job opportunities increase.

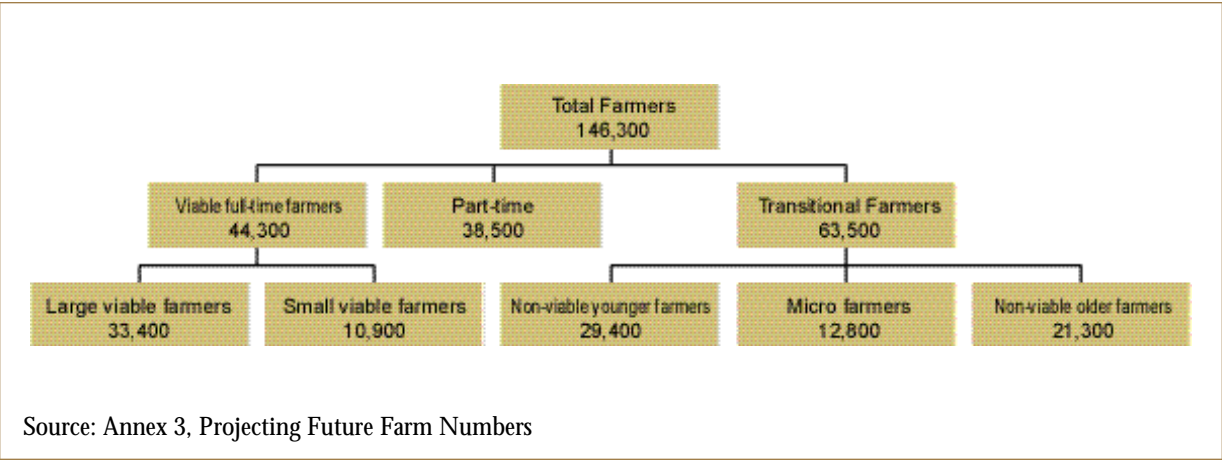
There are about 63,000 farmers in transitional groups:

- **Non Viable Younger Farmers:** Approximately **29,000** farmers have non-viable farms but a relatively good household age structure. Their best, and possibly only, chance of survival on the land is to become part-time farmers.
- **Micro Farmers:** There are a further **13,000** farmers who could probably be classed as part-time but whose farm enterprise is so small (gross margin less than £2,000) that they may alternatively be viewed as non-farmers. They are a declining group but this trend may change with the rise of 'hobby farming'. As they control little land and have little output, this group are not particularly relevant to the future of the agriculture sector.
- **Non Viable Older Farmers:** There are **21,000** older farmers in this category. Their farms are not viable and, for the most part, they do not have potential inheritors living on their farms.

⁵ Further details on the issues discussed in this section are in Annex 2

⁶ See Annex 2

Figure 4
Categories of Farmers 1998



Land mobility remains a problem and occurs mainly through inheritance. The percentage of farm land sold each year is falling, and is now 0.2% of agricultural land area (excluding sales for urban or infrastructure development), while land prices are at record levels. Renting, including both leasing and conacre, accounts for about 13% of land area and is increasing slowly.

There is also growing concern about a perceived lack of willing successors for many farms, as young people from farm families choose other options in our rapidly growing economy, while there is no realistic route into farming for those from non-farming families.

Income from farming remains low relative to other activities, with average family earnings of £5.16⁷ per hour in 1999. However, average farm household income (which includes income from both on and off farm sources) compares reasonably well with rural non-farm and urban household incomes. FAPRI-Ireland projections, based on current policies, show that aggregate farm income should be approximately stable in nominal terms to 2007⁸, which suggests that average farm incomes should be approximately stable in real terms, due to declining farm and farm labour numbers. At the same time, income from increasing off-farm employment should be growing.

The ESRI has found that poverty in farm households declined sharply in the mid-1990s, with 13% of farm households below the 50% relative income poverty line in 1997 as against 22% for the country as a whole⁹. However there are still a large number of farm families on relatively low incomes and there have been particular difficulties in recent years.

There are strong regional patterns in the distribution of farm income reflecting differing resource endowments. The country may be divided on a north-east / south-west axis with those south and east of this line far more likely to have the potential to operate commercially¹⁰. The policy approaches adopted towards the farm groups identified above will therefore have significant regional implications.

5. FOOD INDUSTRY STRUCTURE

The Irish food industry (including drinks) consists of over 700 firms, with approximately 840 local industrial units, employing over 45,000 people, with gross output of £9.9 billion and gross value added of £2.8 billion¹¹. The size structure of food firms is similar to that of Irish industry in general – 71% of food industrial units have less than 50 employees, with a high percentage of very small units.

7 Using CSO definition of aggregate income arising from self-employment and other trading income, divided by the number of work units contributed by family labour.
8 Donnellan et al, 'Impact of the Berlin Agreement on Irish Agriculture', FAPRI-Ireland/Teagasc, 31 May 1999
9 Callan et al, 'Monitoring Poverty Trends', ESRI/CPA/DSCFA, June 1999 – the 50% poverty line measures the percentage of households with less than 50% of average income per household member.
10 Lafferty et al, 'Irish Agriculture in Transition, A Census Atlas of Agriculture in the Republic of Ireland' – Teagasc/NUI Maynooth, 1999
11 CSO Census of Industrial Production 1997

Table 1
Structure of Food Industry and
All Industry, 1997

Size by No. of Employees	% of Ind. Units		% of Employees	
	Food*	All Industry	Food*	All Industry
Under 20	48%	54%	8%	9%
20-50	23%	23%	13%	14%
50-200	22%	17%	39%	31%
200+	6%	5%	39%	41%
Non-attributable	-	1%	-	5%
Total	100%	100%	100%	100%

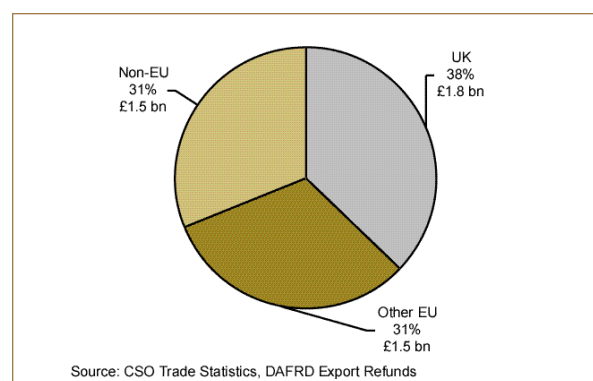
* Food, Drinks & Tobacco (not available with tobacco excluded)
Source: Census of Industrial Production, 1997

The food industry has a similar regional spread to industry generally. Food is an important source of industrial employment in all regions, accounting for 18% of industrial jobs in the country as a whole. Some counties are particularly dependent on the food industry – e.g. food accounts for 57% of industrial employment in Roscommon¹².

The sector continues to rely significantly on commodity-type products. There are particular difficulties in beef which, since the re-nationalisation of EU markets following the BSE crisis, is more dependent on exports to potentially volatile third country markets using export subsidies. The dairy processing industry has better access to EU markets, and has developed some value added products. The Food Industry Development Group¹³ identified potential growth areas in all segments of the food industry, but singled out prepared consumer foods and food ingredients as the segments offering the best growth opportunities.

The total value of agri-food exports¹⁴, including export refunds, in 1998 was £4.8 billion, of which 69% went to EU markets (38% to UK, 31% to continental Europe). The EU accounted for 52% of the value of beef exports; 77% of the value of dairy exports; and 87% of the value of pigmeat exports. For the other major commodities, including sheepmeat, poultry, cereals and horticulture, the EU accounted for over 90% of exports.

Figure 5
Destination of agri-food exports by value,
including export refunds, 1998



The fact that 69% of our exports are to non-Euro countries represents a very significant currency exposure. In the early months of 2000, both sterling and the dollar are very strong against the euro, and this is providing a substantial competitive advantage to Irish food exporters. If the euro strengthens, as most analysts predict it will, this advantage will be lost, and any substantial future weakening of sterling or the dollar against the euro would have significant implications for the competitiveness of the Irish agri-food sector.

The Food Industry Development Group identified the following as major issues to be addressed in the next round of Structural Funds:

- ☐ *food safety, quality/standards and quality assurance* require investment in capital, research and development and human resource initiatives;
- ☐ *market access* requires investment in information systems, research and development, marketing and promotion, and management development;
- ☐ *competitiveness* requires investment in equipment, improved productivity through training and management development, and enhanced innovative and marketing capabilities; as well as specific action in certain sectors (e.g. rationalisation and restructuring of the beef sector).

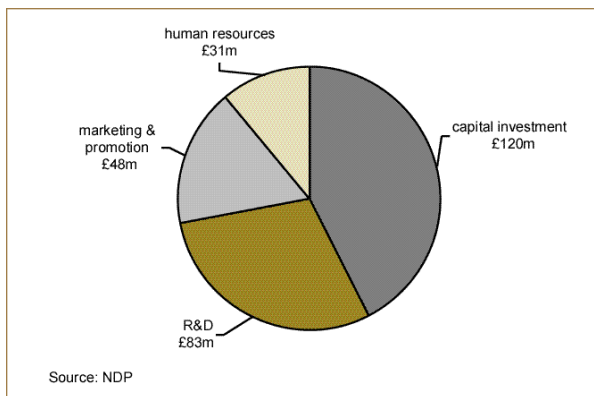
The National Development Plan for 2000 to 2006 contains a substantial allocation of £282 million in public funds for the food industry, broken down as follows:

¹² See Annex 4

¹³ *Report of the Food Industry Development Group*, DAFRD, 1998

¹⁴ Excluding tobacco – see Annex 4

Figure 6

Food Industry allocation under 2000-2006 NDP**6. FOOD SAFETY**

Food safety concerns are driving ever more demanding regulatory systems. Consumers are demanding standards and guarantees on final products, which require an integrated approach from all elements in the food delivery chain. Farmers, processors, distributors, retailers and caterers are all required to respond to consumer demands in relation to hygiene standards, traceability, the use of pesticides, animal health and medication and other food safety issues.

There is now a multiplicity of private, retailer driven, quality assurance schemes alongside the mandatory national and EU systems. Some of these have a food safety element. The lack of coherence and transparency of some of these systems is a problem for both consumers and producers, but overall it is clear that standards are rising and will continue to rise.

The establishment of the Food Safety Authority of Ireland (FSAI) places food safety in this country in a new institutional framework. The European Commission White Paper on Food Safety¹⁵ proposes the establishment of a European Food Authority together with a comprehensive programme of EU food safety legislation. The White Paper envisages that the European Food Authority will concentrate on risk assessment, information gathering and communication with the public. If the proposals are accepted, the Authority should be in place by 2002.

While BSE and other food safety problems have led to great instability on our European markets, high standards of safety offer a potential source of competitive advantage if we can clearly establish ourselves as leaders in the field.

7. ANIMAL HEALTH AND WELFARE

Animal health is vital to Irish agriculture and the food industry. High standards of animal health are necessary in order to guarantee food safety, the protection of public health and to maintain consumer confidence in Irish food both at home and on the export market.

Major resources have been devoted to the control of bovine TB and Brucellosis since the 1950s. However, the levels of both diseases remain unacceptable and further action is needed.

Since the emergence of BSE, a range of measures have been put in place to prevent BSE-infected animals from entering the food chain. The comprehensive nature of these measures has been recognised by the EU authorities and others¹⁶.

In recent years, animal welfare has also become an increasingly important issue, because of the wider recognition of the need to ensure proper protection for animals and the desire to maintain consumer confidence in animal products. A significant body of legislation has been adopted prescribing arrangements relating to farm practices and production methods, the transport of animals and their slaughter:

- ☐ Ireland has ratified a number of Council of Europe conventions on animal welfare;
- ☐ a range of EU directives on animal welfare are being implemented;
- ☐ specific national legislation has also been introduced.

Animal welfare is one of the 'non-trade concerns' which will be raised by the EU in the next round of WTO negotiations. Satisfying public concerns about animal welfare issues will be a key task for Irish farmers in the future.

¹⁵ European Commission, White Paper on Food Safety, COM/99/719, Brussels 12 Jan 2000

¹⁶ Report of the BSE Scientific Advisory Committee, DAFRD, February 2000

8. BIOTECHNOLOGY

Over the past decade, biotechnology has emerged as a major issue for the agri-food sector. The technology is not entirely new, as it builds upon previous scientific developments. However, in recent years, the rate of advance in our knowledge has been enormous, and new, sometimes controversial, applications have emerged. These have implications beyond the food industry, with important applications in health care for example, but much of the recent concern and debate has focused on the use of modern biotechnology in food production.

It is clear that the new technology has enormous potential to produce more and better food products with lower costs. At the same time there are genuine fears about the impact of the technology on human and animal health and on the environment. This has led some retailers to ban food products containing Genetically Modified Organisms (GMOs), with varying degrees of success.

The Irish Government has undertaken an extensive consultation process¹⁷ on this issue, following which the Minister for the Environment and Local Government has indicated that Ireland will pursue a *'positive but precautionary'* national policy position on the release of GMOs to the environment, based on scientific risk assessment and management¹⁸. This will be reflected both in national policy and in Ireland's input to important EU level decisions on this issue, most immediately in updating Directive 90/220.

The emergence of modern biotechnology poses enormous challenges and opportunities for the Irish agri-food sector. There is a need to strike the right balance between ensuring that we are at the forefront of emerging trends in the food industry, in order to remain competitive, and sensible precaution in embarking on a new process with an uncertain outcome. There is also an obvious and urgent need to provide the public with solid scientific information on developments in biotechnology and their implications for the consumer, the environment and animal welfare.

9. RURAL DEVELOPMENT

Agriculture and food have a vital role in the rural economy. An increasing number of farm families are availing of off-farm employment opportunities to supplement their farm incomes. For many of these families, off-farm employment offers the best means of sustaining a viable farm household. Development policies, which contribute to the creation and sustainability of employment in rural communities, are therefore as important for farm families as for non-farm rural households.

The food industry is an important source of employment in many rural areas, for farm families among others. Sustaining this pattern will require policies which encourage food companies to locate or stay in rural areas, and which provide a well-educated local workforce.

The White Paper on Rural Development¹⁹ sets out a strategy for rural development including:

- ☐ a dedicated focus on rural development policy through appropriate institutional mechanisms, including the designation of the Department of Agriculture, Food and Rural Development (DAFRD) as lead Department;
- ☐ a regional approach to development;
- ☐ service and infrastructure provision;
- ☐ sustainable economic development;
- ☐ human resources development; and
- ☐ a focus on poverty and social exclusion.

The implementation of this strategy will have significant implications for agriculture and the food industry over the next decade.

The National Development Plan for 2000 to 2006 provides £6.7 billion for rural development, of which £3.7 billion is geared primarily towards agriculture, food and related rural development.

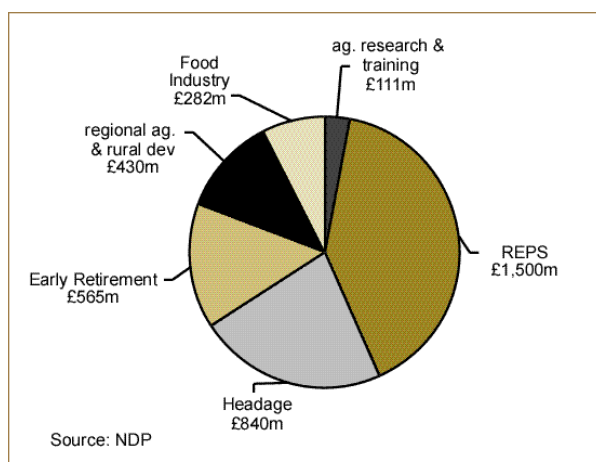
17 Report of the Charring Panel on Genetically Modified Organisms and the Environment, Department of the Environment and Local Government, October 1999

18 Policy Statement, Minister for Environment and Local Government, 9 October 1999

19 'White Paper on Rural Development: Ensuring the Future – A Strategy for Rural Development in Ireland', DAFRD, 1999

Figure 7

DAFRD allocation under NDP 2000-2006



It should be noted that this report deals only with the agriculture and food dimensions of rural development, in line with this Committee's terms of reference, rather than attempting to cover all aspects of the subject.

10. RURAL ENVIRONMENT

Irish agriculture and forestry occupies over 70% of the land area of this country and its impact on the physical environment is therefore very great. Much of this impact is positive. Our rural landscape, which is widely admired and is a valuable tourist resource, is to a large extent a by-product of our agricultural systems. However there is also concern about the negative impacts which agriculture, like other economic activities, can have. In particular agriculture is seen to contribute to water pollution, greenhouse gas emissions and reduced bio-diversity.

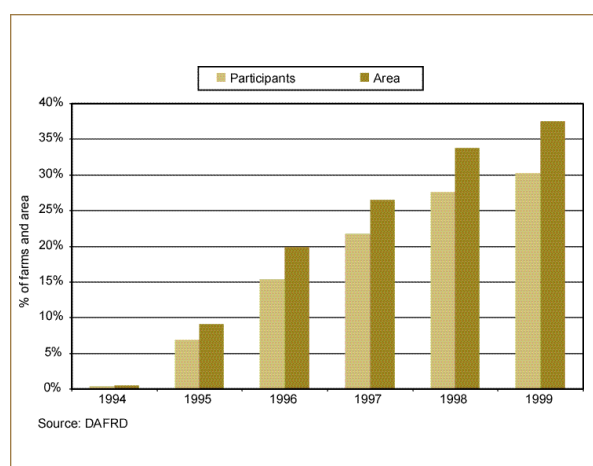
Concerns about these issues have led to an increased emphasis on sustainable agriculture at national, EU and international levels:

- 44,000 farmers, accounting for 1.5 million hectares, participated in the Rural Environment Protection Scheme (REPS) in 1999. This scheme encourages environmentally friendly farming practices. The number of participants is expected to increase to around 70,000 in the period to 2006, with planned

public expenditure of £1.5 billion over that period under the National Development Plan. In addition to REPS, grant aid is available for investment in pollution control.

Figure 8

REPS Participation 1994-1999



- Increased regulation has also encouraged higher environmental standards. Local Authorities now have the power to require farmers to prepare nutrient management plans. EPA licensing has been extended to cover intensive pig and poultry enterprises. The National Sustainable Development Strategy²⁰ and the Code of Practice on Nitrates²¹ have raised awareness among farmers about sustainable farming practices.
- At EU level, the introduction of 'cross compliance' under Agenda 2000 will create a possible link between environmental protection requirements and direct payments to farmers.
- Internationally, Ireland's commitments under the Kyoto agreement on greenhouse gases will have implications for agriculture²². A National Abatement Strategy is currently being prepared which will set out the measures to be taken on foot of the Kyoto Protocol. The relationship between agriculture and the environment will also be one of the key 'non-trade concerns' to be raised by the EU in the next round of WTO negotiations.

²⁰ 'Sustainable Development - A Strategy for Ireland', Department of the Environment, 1997

²¹ 'Code of Good Agricultural Practice to Protect Waters from Pollution by Nitrates', DAFRD/DOELG, July 1996

²² See Section 18.5

It seems clear that environmental stewardship will be a key task for Irish farmers into the future. High environmental standards may well be a source of competitive advantage to Irish farmers, as well as providing public goods.

11. SPECIFIC COMMODITY ISSUES

While the Committee is primarily concerned with strategic issues which affect the agri-food sector as a whole, it is necessary also to be mindful of key commodity specific issues. A number of recent reports – for example from the Beef Task Force, the Sheep Forum, the Milk Quota Review Group and the Poultry Industry Forum – are very relevant in this regard.

Beef

The Beef Task Force²³ identified the following issues in relation to the beef sector:

- ☐ There is considerable underused slaughtering capacity, which needs to be rationalised.
- ☐ Over the past ten years, there has been a marked deterioration in the standard of Irish beef cattle as measured by the carcass classification grid.
- ☐ The absence of partnership arrangements between producers and processors militates against quality production and against the successful development of EU markets.

There is considerable scope for improved efficiency in beef production.

The Task Force addressed these issues by:

- ☐ proposing the creation of a special fund to facilitate rationalisation of slaughtering capacity;
- ☐ proposing a link between price and carcass classification;
- ☐ supporting the Irish Cattle Breeding Federation in its efforts to establish a national breeding policy;
- ☐ agreeing that partnership arrangements would be established between producers and processors;
- ☐ supporting Teagasc's efforts to improve production efficiency through research, training and advisory services.

The increase in live exports, reduction in the national cow herd and declining carcass weights may cause a decline in processing activity in the next few years. In the long term, the nature and extent of EU support will have implications for the beef sector (see section 16.5).

Dairy

Agenda 2000 had a positive outcome for Irish dairying with the quota system, which has underpinned income stability, being maintained. The break in the land/quota link announced in October 1999 will help to reduce the rigidities which have characterised the quota system. However, Irish dairy farming and processing are on a small scale compared to many of our competitors, and significant rationalisation will be needed to improve competitiveness.

Seasonality remains a feature of our grass-based system, in contrast with the situation in Northern Ireland. The limited production season means that there is a weighting towards production of storable bulk product. Milk from extensive production systems also tends to be lower in protein than from concentrate-based production systems.

Sheep

The situation in the sheep sector is similar in many respects to the beef sector. The report of the Sheep Forum²⁴ noted that there were problems with quality and with production efficiency. In addition, the EU sheepmeat regime is very unsatisfactory for Irish sheep producers. The ewe premium does not reflect the substantial variation in prices across Member States, and there is no extensification premium for ewes.

Pigs

The key issue facing pig producers is low prices, which have been below break-even for Irish producers for some time. Competition from other countries with lower feed costs will increase pressure, particularly on small producers who lack economies of scale. Imports are running at about 14% of domestic production. Environmental (EPA licensing) and

²³ 'Report of the Beef Task Force', DAFRD, June 1999

²⁴ 'Report and Recommendations of the Sheepmeat Forum', DAFRD, September 1999

animal welfare (tethering) issues loom large for pig farming, and will increase costs leading to further questions about competitiveness.

Poultry

The Irish poultry sector faces a sharp increase in international competition, with increasing import penetration from both continental and third country producers. The Irish poultry sector has smaller scale and higher feed costs than its competitors. Improving competitiveness will require rationalisation of the processing industry, investment in processing, reduced input costs and quality assurance.

Arable Crops

The price cuts under Agenda 2000 are expected to make it possible for the EU to export unsubsidised wheat onto world markets. Irish cereal producers will therefore need to be able to compete at or near world market prices in order to survive, even with the benefit of direct payments. This will require an increased emphasis on efficiency. The minimum scale necessary for commercial cereal farming is increasing rapidly. The cost and availability of hired labour is a further problem for the sector²⁵.

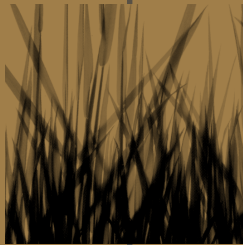
Horticulture

The horticulture market offers considerable opportunities for growth, as changing lifestyles increase consumer demand for fruit and vegetables, particularly pre-prepared, value added products. Growth in the amenity sector is also strong. At the same time, the horticulture sector is facing intensive international competition. Human resources development, quality assurance and increased investment will be necessary to ensure that the sector can avail of increased market opportunities. Labour shortages are particularly severe for this sector²⁶.

²⁵ Teagasc, National Tillage Conference 2000 Proceedings, February 2000

²⁶ 'An Bord Glas Development Plan 2000-2006', An Bord Glas, 1999

03



The Vision

03

The Vision

12. VISION FOR AGRICULTURE

Two overriding aims dominate Irish agricultural policy at present²⁷:

- **An efficient and competitive agricultural sector:** As a major agricultural trader, earning 27% of our net foreign trade earnings from agri-food exports²⁸, the competitiveness of the agri-food sector is a key issue. A major contributor to that competitiveness is the efficiency of the primary agricultural sector.
- **Maximum number of farm households:** Farming is seen as having a vital role in the economic and social life of our rural communities. To support those communities, it is desirable to ensure that the maximum possible number of farm based households are retained.

There is some tension between these objectives, but the political consensus is that both are valid. The task is to reconcile them in a way that provides a clear guide for future policy, and realistic targets to aim for. The current very favourable economic environment in this country provides a unique opportunity to advance both objectives simultaneously. The increased availability of off-farm employment is creating new options for farm families to remain in rural Ireland, while farming part-time or leasing their land to neighbouring full-time farmers. It is important that every effort be made to maximise employment opportunities in rural areas, as the only realistic alternative for many such families would be to move to towns and cities.

Looking forward, we need a clear vision of the agricultural sector in 2010 as we would wish to see it. Such a vision must be based on a realistic grasp of the international competitive and policy context in which Irish farmers will have to operate. We cannot predict with any certainty how far trade liberalisation will go over the next decade, but it is clear that the overall trend is towards more open markets and tougher competition. At the same time, consumers are becoming more demanding in terms of food quality, variety

and safety, and taxpayers are exerting more influence on agriculture through direct payments linked to environmental or other conditions. Irish farmers must adjust rapidly to this new reality and ensure that they are ready to compete successfully in such an environment.

Our vision therefore is of a sector that is competitive in all its aspects, capable of delivering high quality products, of a standard and type demanded by the European consumer, at a competitive price relative to other European producers.

We believe that the need to be competitive will trigger significant changes in our farm structures. We do not however believe that this need involve a 'flight from the land'. Indeed a new structure of farming is already developing in this country, and this process is accelerating under pressure from the rapid economic growth of recent years.

A very important feature of our vision is of a relatively small but highly productive full-time farm sector. These farmers will need to develop their enterprises to the highest international standards, as their viability will depend on their capacity to compete in increasingly open markets. Because of the natural endowments of this country, the dairy enterprise will play a particularly important role in the future of commercial farming, and dairy policy is therefore a key issue for these farmers. A realistic appraisal suggests that the number of full-time farmers will decline, as those remaining achieve the scale necessary for a viable and attractive income.

Smaller farmers are opting in increasing numbers for part-time farming. In many cases the greater portion of their income now comes from off-farm sources. We expect that part-time farming will become a much larger feature of Irish agriculture in the future as our economy continues to grow and creates further off-farm job opportunities. We see this as a very positive development, as it offers a realistic route to

²⁷ See Statement of Strategy DAF, 1998-2000, Section 7.3

²⁸ In 1997 - see Annex 8

household viability for small farmers in the increasingly competitive economic environment that is developing. An important feature of our vision therefore is of a strong integrated rural community, in which the distinction between the farming and non-farming community will be blurred, and in which farm based households create a secure future for themselves through the fullest participation in this community. We see this as crucial to the achievement of the policy aim of maintaining the maximum number of farm households on the land.

In recent years a greater recognition has grown of the role that farmers play in creating and maintaining our rural environment. As our society develops, we put a greater value on that environment and wish to conserve and enhance it. Farmers therefore are increasingly being asked or required to spend greater time and effort on what is being called the stewardship of the countryside. We strongly support this and believe that it is entirely justifiable for society to spend money on recompensing farmers for this role, from which we all derive benefits. Our vision therefore is of a model of agriculture which applies science wisely and efficiently in full respect for nature. We do not believe that this aspect of our vision conflicts with the need for competitiveness. Consumers are increasingly demanding assurance that the products they consume are healthy and are produced in a way compatible with their values. Being environmentally responsible and observing high standards of animal welfare and hygiene can therefore be a source of competitive advantage to Ireland.

In summary, our vision is of a dynamic agricultural sector, consisting of both full-time and part-time farming households, which is:

- ☐ **providing a viable living for farm households;**
- ☐ **firmly focused on consumer requirements, in partnership with the food industry;**
- ☐ **closely integrated with the wider rural economy;**
- and**
- ☐ **contributing positively to the natural environment.**

13. VISION FOR THE FOOD INDUSTRY

Agriculture and the food industry are partners in the food chain. The success of one is strongly dependent on the success of the other. Our vision for the food industry is therefore consistent with, and informs, our vision for agriculture, creating an overall view of the future of the agri-food sector.

Putting Irish food on EU and world tables must be the strategic vision which drives policy and directs the efforts of all stakeholders involved in the sector. This requires a focus on the final customer from the very earliest stages of production through the value chain to final food delivery. The consumer is becoming ever more sophisticated and knowledgeable, and is demanding new and varied food products with high assured standards of food safety and quality. The nature of this evolving marketplace places a high premium on consumer focused marketing and innovation skills and requires a total commitment to the highest standards of food safety.

The food industry faces a range of major challenges over the next decade. There will be downward pressure on prices and margins arising from a number of sources including the continued internationalisation and rationalisation of retailing and food service, and further trade liberalisation arising from the enlargement of the EU and the next world trade round. These are trends that we cannot resist, and to which we must adapt.

A key aspect of our vision for the food industry therefore is of a sector with a profound commitment to exploring every possible source of improved competitiveness. This confirms the existing aim of Government policy as articulated in many previous reports. However, the nature and scale of the pressures now facing us mean that this objective requires a new and much stronger commitment than in the past.

The food sector is not homogenous. Companies in the various food product sectors will necessarily follow different paths to future success or failure. In particular, a distinction

must be drawn between those involved in the production of large scale commodity products, such as beef and the main dairy products, on the one hand, and those producing food products of various kinds for the confectionery, prepared foods and food service areas on the other.

Production of traditional commodities, particularly in dairy and beef, will continue at a significant level in Ireland. In these sectors, efficiency and scale, sustained by an adequate return on investment, will be the primary drivers of success in the marketplace. Our vision therefore is of a much smaller number of companies and food processing locations involved in primary processing, operating at a scale that matches competitors on EU and world markets. The drive for efficiency and rationalisation in these sectors will require fewer plants, lower employment levels, new investment and automation, and high productivity growth over the next ten years. Some aspects of this vision will be difficult to accept, and will require entrepreneurial courage and commitment to implement. Any failure to do what is necessary at the key primary processing level would, however, lead to disastrous consequences for the whole agri-food sector.

The best markets for our primary products lie largely in the EU, despite recent setbacks. Our primary processors, and their farmer suppliers, must therefore focus their efforts on producing to the specifications of European markets. Our vision therefore includes strong producer-processor-customer partnerships, focused on clearly identified European and other rewarding markets. A strong commitment to the necessary marketing and innovation will be required for success.

Changes in consumer tastes and demands will open new opportunities for firms supplying the prepared foods and food service sectors. Consumers are becoming more sophisticated and knowledgeable and this, combined with lifestyle changes, is driving growing demand for ready meals, new taste experiences, and new innovative food products. The key ingredients for competitiveness in this sector are

innovation, marketing and the capacity to meet retailers' service expectations. The research and marketing costs increasingly associated with this type of business mean that scale is also becoming an issue in this sector, albeit not as acutely as in primary processing, so that there is a growing role for small focused firms in niche markets.

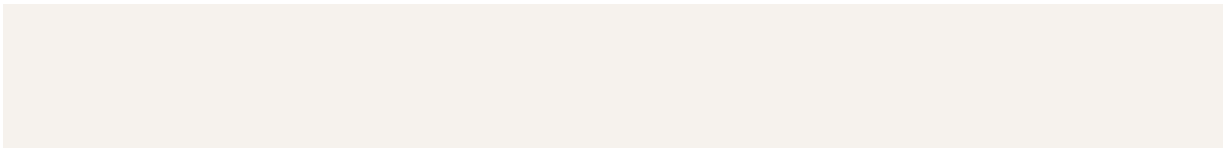
Our vision for these sectors therefore is of a relatively large number of small firms, geographically dispersed and some farm based, with strong entrepreneurial skills and a capacity for rapid innovation in response to evolving market demands. Their primary focus will be on high quality niche markets. Within this sector there should develop a small number of relatively large flagship companies with the scale to meet the most demanding requirements of retailers for both premium and mass market products.

In an era of freer trade, involvement in 'knowledge based' products, such as sophisticated ingredients or ready meals, will provide some protection from the cut-throat competition and fluctuating returns of commodity markets. These sectors also offer a real opportunity for regionally dispersed economic and employment growth.

Finally, and crucially, the food industry must be capable of attracting investment and high quality staff if it is to function in our growing economy with its competitive capital and labour markets. This requires that it deliver at least adequate returns to owners of capital, and attractive salaries and career structures to potential employees.

In summary, our vision of a competitive food sector in 2010 is of an industry:

- ☐ **focused on consumer markets, with strong innovation and marketing skills and an unwavering commitment to food safety;**
- ☐ **built on a strong partnership with its farmer suppliers;**
- ☐ **with the necessary scale and efficiency at primary level;**
- ☐ **which includes a large and growing sector focused on product innovation and quality markets;**
- ☐ **which delivers competitive returns on investment, and attractive careers to employees.**



04



The Strategies

04

The Strategies

14. ACHIEVING THE VISION

In the light of the vision set out in Part III, and recognising the context and issues identified in Parts I and II, the Committee has identified a number of key strategies for the development of agriculture and the food industry. Public policy and private action should be focused on these strategic issues in order to achieve the vision of a dynamic and competitive agri-food sector. In the following sections of this report these strategies are set out under five headings:

- ☐ meeting consumer requirements;
- ☐ developing a competitive food industry;
- ☐ developing competitive full and part-time farming;
- ☐ maximising the sector's contribution to sustainable rural development;
- ☐ facing the challenge of new technology.

We believe that implementing these strategies will provide a sound basis for the development of the sector into the future.

The Committee's terms of reference do not include issues related to the implementation of the recommended strategies. However, we feel it useful to stress that well focused and determined action by both Government and relevant private interests will be required to realise the vision set out in this report. Developing a coherent strategy for the sector is an important first step. In bringing the process forward, it will be important to ensure:

- ☐ full participation and commitment to the strategy by all elements of the agri-food industry; and
- ☐ coherence in public policy, with a clear focus on priorities.

We have a relatively short time in which to take the actions necessary to make Irish agriculture and the Irish food industry fit for the future. The changes needed are considerable, and it will not be possible to avoid pain in the process of making them. However the only alternative is much greater difficulty in the long term and huge damage to a sector which plays a unique and key role in our economy

and society. Effective action, by the Government and others, must be tightly focused around key long-term priorities, and we must resist the temptation to accept a quick fix.

It is critically important that all stakeholders in the sector understand the scale and nature of the challenges ahead, as we move inexorably towards more open markets. We have a once-off opportunity to create the conditions for future success. Inaction is all that is required for failure. We are confident that, with decisive action now, the sector can have a bright future, contributing significantly to our economy, and remaining a mainstay of our rural communities.

15. MEETING CONSUMER REQUIREMENTS

Our strategy for the agri-food sector must start with the needs and requirements of the consumer. Our competitiveness ultimately depends on our capacity to meet these demands, which are becoming more complex, as outlined in Parts I and II of this report.

The Committee considers that addressing consumer needs and concerns must be the absolute priority for all stages of the food chain – farmers, the food industry, retailers and food service. With this in mind, the Committee, in Sections 15.1 to 15.5 of this report:

- acknowledges the high standards of food safety already in place in Ireland, and makes recommendations aimed at ensuring that these standards are protected into the future;
- makes recommendations aimed at improving the quality and production standards of beef, sheep and milk;
- makes recommendations aimed at achieving and maintaining the highest standards of animal health and welfare;
- suggests that there is a market opportunity in organic production, which should be availed of.

15.1: ENSURING FOOD SAFETY

World-wide, the succession of high-profile food scares and outbreaks of food-borne disease has damaged consumer confidence in the safety of food. Consumer concerns include BSE, E-Coli 0157, Salmonella, chemical residues in food, illegal growth promoters and contamination of animal feed. These concerns now extend to production methods, intensive farming systems, genetic modification, animal welfare, environmental and ethical issues.

In addition to the issue of the health and lives of its own citizens, Ireland has a vital economic interest in becoming a centre of excellence in food safety. Food production and

tourism are major elements in the economy, and both depend crucially on favourable international perceptions of the safety of Irish food.

Ireland has a good food safety record. A number of Government Departments along with local authorities have been responsible for food safety policy and implementation. The Food Safety Authority of Ireland (FSAI), which was formally established on 1 January 1999, is now responsible for co-ordinating food safety activities from the farm gate to the point of sale. The legislation requires the Authority to take all reasonable steps to ensure that food produced or marketed in the State meets the highest standard of food safety and hygiene reasonably available.

The DAFRD, Department of Health and Children and Department of the Marine and Natural Resources (DMNR) retain their policy and legislative roles in food safety, but it is intended that a co-ordinated seamless inspection service will be achieved by the enforcement agencies operating under contract to the FSAI. Service contracts have now been signed with those State agencies involved in the provision of food control services. These agencies, which include the DAFRD, DMNR, the 8 Health Boards, 33 Local Authorities, the Office of the Director of Consumer Affairs and the Radiological Protection Institute, have undertaken to meet specific objectives and targets for food inspection within an agreed timeframe.

It is envisaged that the FSAI will also develop food safety assurance schemes for the protection of consumer interests in conjunction with the representatives of particular food business groups or organisations. Guidelines for the establishment of such schemes will be prepared, and their implementation monitored. The FSAI will also set up a consultative council of 24 members with a broad base of representatives. **The Committee welcomes these initiatives.**

The new cross-border Food Safety Promotion Board (FSPB) will further contribute to the improved co-ordination of food safety activities on the island as a whole. Its key and priority function is to bring about general acceptance that food safety on the island is a responsibility shared amongst farmers, processors, caterers and consumers. It has six specific roles:

- ☐ food safety promotion;
- ☐ development of protocols for response to food alerts;
- ☐ food safety research;
- ☐ scientific surveillance of the incidence of food borne disease;
- ☐ establishing scientific co-operation and linkages between laboratories;
- ☐ development of specialised laboratory services to create a whole island reference service.

The Committee believes that, while Ireland is fortunate in having systems of production that are conducive to producing safe food, we cannot afford to be complacent. Ireland should be to the forefront of food safety and consumer protection, and should seek to be a model for other Member States. Protecting consumers' health and addressing consumers' concerns must be paramount in all decisions relating to the production and marketing of food. The exemplars in the Irish agri-food business have demonstrated that they can achieve standards far in excess of the legal requirements. These should be the benchmarks for the Irish food industry.

The debate on food safety has to some extent been characterised by an adversarial approach by interest groups. However, farmers, processors, retailers and caterers must accept a shared responsibility to produce safe food. Food safety should be a key objective of strategic partnerships along the value chain (see section 16.3).

The promotional work of Bord Bia, the Irish Dairy Board and top companies in marketing Ireland as the 'Food Island of Europe' needs to be underpinned by robust food safety and quality initiatives. In this regard, the Committee believes that there is a need for greater coherence and clarity in voluntary quality assurance schemes, which should include a strong food safety component. This should be developed by representatives of the food industry, the regulatory agencies involved and the FSAI. A Food Quality Schemes Review Group has been established to examine existing schemes and accreditation procedures. Clear, honest labelling must be the norm in order to inform consumer purchasing decisions. Producers and suppliers must do what they can to ensure that the consumer is adequately informed. Transparency in the assessment, management and communication of risk is imperative.

The safety of animal feed is a key element in the safety of the entire food chain. The Committee welcomes the focus which the European Commission has brought to this issue. The animal feed industry operates under comprehensive legislation, mostly derived from EU directives, which could usefully be consolidated. The European Commission is reviewing the legislation in this area. The Committee recommends that Ireland should fully support efforts to ensure that the feed industry throughout the EU complies with the highest standards of quality and safety. It is clearly in Ireland's national interest to support any food safety initiatives at EU level, which strengthen effective controls and consumer confidence in European food markets.

The Committee welcomes the improved co-ordination of food safety activities that will result from the establishment of the FSAI and the FSPB, and makes the following specific recommendations:

- The FSAI and FSPB should develop a National Food Safety Plan, setting out clearly the responsibilities and functions of all agencies involved in food safety and the contingency plans for dealing with food safety emergencies. This would build upon the network of service contracts which have already been put in place and would further underpin the transparency and coherence of food safety systems.
- Urgent attention is needed to develop an adequate and co-ordinated laboratory service to support food safety activities. This will involve upgrading existing facilities, establishing new facilities where they do not currently exist on the island, ensuring uniform and co-ordinated sampling and testing procedures, and designating centres of expertise for complex testing. The Committee welcomes the FSPB's new role in this matter, and urges that high priority and adequate funding be assigned to dealing with it.
- Comprehensive surveillance data on appropriate food safety indicators should be collected and published routinely by the FSAI so that we can see whether we are improving or disimproving, relative to our competitors.
- Food safety education and training is a key strategy in the prevention of food-borne illness. Appropriate education and training schemes for workers at all stages of the food chain should be developed, including appropriate language training for foreign workers. Furthermore, food suppliers have a duty to ensure, insofar as possible, that end users are suitably advised on safe product use.

15.2: ASSURING FOOD QUALITY

Preserving Ireland's reputation as a quality food producer is essential for the future of the agri-food sector. It is very difficult to add quality during food processing if it is not present in the initial raw material. Attention must be paid to quality at every stage of the food chain.

Cattle and Beef:

Bord Bia carried out taste tests in both the French and Dutch markets during 1999, aimed at determining the eating quality of Irish beef compared to product that we are competing against in each market. Generally, the results have been positive, indicating that Irish beef is regarded by consumers in each market as being of similar quality to the other beef available.

However, over the last ten years there has been a marked deterioration in the standard of Irish cattle as measured by the EU's carcass classification system. This system measures carcass or production quality, which is primarily related to meat yield, rather than meat quality as understood by the consumer. While the decline in cattle standards does not therefore reflect on the eating quality of Irish beef, it does mean that our product is less attractive to foreign buyers and is less efficiently produced. The decline in cattle standards has also led to some confusion in the media, where it has sometimes been incorrectly interpreted as a decline in beef eating quality, and this has been potentially damaging to our international marketing efforts.

The Committee believes that there would be considerable merit in continuing and extending the current research by Bord Bia on customer perceptions of the eating and other qualities of Irish beef on European markets. The Committee is aware that Teagasc is researching the impact of cattle breeding and feeding practices on eating quality. The results of both market and production research should be widely disseminated, particularly to beef farmers and processors.

The underlying causes of the deterioration in cattle standards include the flat pricing structure used by meat plants, insufficient attention to better breeding and feeding in the beef herd and the structure of the Irish cattle system. The decline in the live export trade to third countries since 1996 has also impacted on the average standard of cattle at meat plants because these markets were largely supplied from the poorer dairy breeds. The development of a substantial trade in high quality weanlings to the continent will impact negatively on the standard of cattle retained for slaughter in this country in future years.

A number of actions have been taken to improve cattle standards:

- ☐ Teagasc is undertaking a range of research initiatives which will contribute to dealing with this issue, including work on nutrition, breeding and improved grassland management.
- ☐ The newly established Irish Cattle Breeding Federation (ICBF) has a mandate to improve the breeding quality of the Irish cattle herd, particularly by improving genetic evaluation and information provision on breeding standards. ICBF is working to provide this information to farmers so that they can make the right breeding choices.
- ☐ The issue of flat pricing has been addressed by the Beef Task Force, who proposed a grading premium /discount scale of up to + 8p/lb and - 5p/lb against a base price for the 03 grade.

The Committee supports the various initiatives outlined above, but believes that particular attention must be devoted to part-time beef producers.

Beef production is increasingly dominated by part-time farmers and this trend will continue, and probably accelerate, over the coming years. Such producers derive a very small proportion of their household income from the sale of animals, with most coming from off farm

employment and direct payments. They may therefore be less responsive than full-time farmers to grade price differentials.

Part-time farmers also find considerable advantage in the use of natural service bulls, rather than AI, due to the lower labour input and management required. An increased number of non-pedigree bulls of inferior quality are being used, while the number of artificial inseminations has fallen from approximately one million per year in the late 1980s to under 800,000 in 1998. This decline in genetic merit is now also impacting on the standard of cattle reaching meat plants. The tightening of the prescription rules under the 1996 Animal Remedies Regulations has also led to an increase in the cost of using fertility synchronisation products. These products are particularly useful to part-time farmers who wish to use AI as an alternative to non-pedigree bulls, but the increase in cost has made this option less attractive.

The Committee recommends that the following issues should be pursued in order to improve the standard of cattle:

- ☐ **Build a production quality incentive into direct payments where possible:** The national envelope, provided in Agenda 2000, has introduced some flexibility into the premia system, and this may develop further in the future. This could be used, at least in part, to provide incentives for quality production.
- ☐ **Review the application of the Animal Remedies Regulations:** Consider how the use of fertility synchronisation products can be encouraged and facilitated, particularly by lowering their cost, while maintaining high standards of control and food safety.

- ☐ **Launch a co-ordinated education programme:** Close co-operation between Teagasc, ICBF and other agencies is needed to ensure speedy development of breed improvement programmes, and for the development of a comprehensive education and promotion package to encourage all farmers to breed beef animals more selectively and maximise the use of top genetic material available through the AI service.

Milk:

In relation to milk, there is a closer relationship between the price paid to the farmer and the standard of the product than is the case for beef. The price is variable depending on how well the milk performs against a range of criteria, including:

- ☐ butterfat differential;
- ☐ protein differential;
- ☐ TBC (total bacteria count) – measures general hygiene;
- ☐ SCC (somatic cell count) – associated with mastitis;
- ☐ lactose/protein ratio (some processors only);
- ☐ registration of the dairy farm under the Dairy Hygiene Directive (92/46).

This pricing system also allows for direct feedback to the farmer in terms of the quality of milk being produced.

The Committee considers that the quality differential paid by the milk processing industry is a key factor in maintaining the high standards of Irish milk.

The seasonal nature of Irish milk production leads to reduced quality in winter. This is partly because the end of the season contains a high proportion of end-of-lactation milk, and partly because the small quantities mean that the milk is collected less often. One of the main quality problems which results from this is a higher level of free fatty acids.

Year-round milk can be produced by paying the producers higher prices in the winter. This is done in the case of domestic liquid milk supplies. The main value-added dairy product which can afford to pay this premium price is cream liqueur, which draws a high proportion of its cream from the domestic liquid milk sector. In the past the winter price premium made some products, such as shorter shelf-life cheeses, uncompetitive in the market place. Progress in this area is likely to depend on each manufacturer's decision as to the price that can be paid in winter in the light of their cost structures and market returns.

There is evidence of increased co-operation between processors in making the best use of plant, and the Committee believes that this should be encouraged.

Sheepmeat:

Foreign buyers report a significant seasonal decline in the standard of Irish lamb from September each year.

The Sheepmeat Forum examined this issue in some detail and the Committee agrees with the conclusions in the report of the Forum. In particular there is a need to ensure a better match to consumer specifications by addressing issues of quality, timing and selection including:

- ☐ encouraging better breeding practices;
- ☐ implementing a carcass classification scheme; and
- ☐ focusing on the production of mid-season, and out of season, lambs.

Unfortunately the current structure of the EU sheepmeat regime is not favourable to Irish producers, and does not allow for any link between carcass quality and direct payments although, in principle, the arguments for this are as valid as in the case of beef. **It is therefore particularly important that sufficient research, advisory and other support is made available to bring about the necessary changes in production patterns.** This support will also be necessary to achieve efficiency improvements, which are important for the future viability of this sector.

15.3: ACHIEVING THE HIGHEST STANDARDS OF ANIMAL HEALTH

Major resources have been devoted to the control of bovine TB and brucellosis since the 1950s, and strict measures are now also in place to eradicate BSE. Significant new measures are envisaged in the Programme for Prosperity and Fairness (PPF), which commits the Government and the social partners to *'reduce the incidence of TB by 50% and to make significant progress towards the eradication of brucellosis within the next four years'*.

These disease control programmes are important in order to remove potential risks to both human and animal health, maintain consumer confidence, protect farm income and trade, and also in order to free up resources for the eradication of other livestock diseases of importance. While progress on TB and brucellosis has been uneven in recent years, the continuation of these programmes is vital to the very existence of the agri-food sector. Scrapie in sheep also needs to be tackled at an early date with a view to its eradication. In pigs, a programme to eradicate Aujeszky's Disease is urgently needed if we are not to fall behind other European countries. Furthermore measures to control zoonotic agents (organisms in animals which can cause disease in humans) in all food species need to be enhanced. These are but a few examples. In addition, the Committee, while recognising the tremendous progress which has been made in the traceability of cattle, considers that effective systems to identify and trace sheep and pigs need to be put in place urgently to support all such measures in those species.

In dealing with these issues, it is essential that we ensure that the appropriate structures and resources are in place to provide high quality monitoring and controls, including the capacity to deal with emergencies. Furthermore, as European agriculture moves closer to world market prices, there is a concern (as has been the experience in certain third countries) that there could be a decline in the use of veterinary and other animal health and food safety services by farmers. If this were to happen, it could hinder the

production of safe food and threaten the capacity of the State to deliver public sector food safety and animal health programmes. It is important to ensure that this does not occur.

The Committee believes that:

- ☐ The efforts to control and eradicate BSE, TB, Brucellosis and other significant animal diseases should continue. Clearly defined targets should be set and monitored by the Animal Health Forum, and the results published.
- ☐ Research being undertaken, in co-operation with the UK authorities, on bovine and wildlife vaccines for TB should be intensified, and substantial resources should be provided for this work.
- ☐ Programmes to control zoonotic agents in all food animals should be enhanced in order to protect public health and consumer confidence.
- ☐ Other animal diseases of importance should be the subject of appropriate measures for their control and/or eradication. In particular programmes to eradicate Aujeszky's disease in pigs and scrapie in sheep should be put in place without delay.
- ☐ Effective identification systems for tracing all food animals should be put in place and maintained.
- ☐ There is a need for ongoing research in the area of rapid tests for animal diseases. This should facilitate the earliest possible detection of outbreaks of diseases.
- ☐ There is a need for much improved feedback to the farmer on the disease status of slaughtered animals.

The Committee welcomes the commitment in the Programme for Prosperity and Fairness to provide additional resources for animal health. The structures and resources necessary to pursue disease control and eradication should be regularly reviewed to ensure maximum efficiency.

15.4: ACHIEVING THE HIGHEST STANDARDS OF ANIMAL WELFARE

In recent years, animal welfare has become increasingly important both in the context of ensuring proper protection for animals, and in maintaining consumer confidence in animal products. Ireland has adopted a significant body of national, EU and Council of Europe legislation relating to farm practices and production methods, transport of animals and their slaughter.

Our agricultural economy is mainly based on animal production and up to 90% of output is exported. Apart from there being a genuine desire to provide protection for animals, Ireland must also be conscious of the increasing demands of consumers both at home and abroad for high standards of animal welfare.

Current standards of animal welfare in this country are generally high, and will improve further with the elimination of sow tethering and battery cages²⁹, which will add to production costs. Animal welfare is, however, an issue of increasing importance to a growing number of people in Ireland, across Europe and farther afield. There will continue to be a strong moral and commercial imperative driving further advances on this issue. In order to retain market share, it is likely that it will be necessary to apply standards well above those provided for in legislation. In fact, some retailers already specify the farming practices to be pursued by their suppliers. It is therefore important that Ireland is seen to meet the highest standards of welfare compatible with our capacity to compete on international markets.

While noting the advances of recent years, the Committee recommends the establishment of an advisory forum which would bring a greater focus to the issue of the welfare of farm animals. The forum should include interested parties having an involvement in:

- ☐ farming,
- ☐ the sale, marketing and purchasing of Irish farm animals and animal produce,

- ☐ veterinary science,
- ☐ the relevant statutory agencies, and
- ☐ those representing consumer and animal welfare interest groups.

The Committee recognises that animal welfare is an emotive issue. To be productive, an advisory body must in its terms of reference, composition and deliberations be capable of generating and maintaining an understanding of, and sensitivity, to the legitimate concerns of all interested parties, and of securing a balance between potentially conflicting positions.

15.5: DEVELOPING ORGANIC PRODUCTION

Organic production accounts for only 1.4% of farmland in the larger EU countries. However, sales of organic food in Europe have grown by over 70% since 1995 and are projected to continue growing strongly in the coming years. The total value of organic food sales in the UK, Germany and France is projected to grow to \$11.5b by 2004 from \$3.9b in 1999³⁰. The market penetration of organic food will rise from approximately 1.5% of the overall market in the UK to 3.7% in 2004, in Germany from 2.4% to 6.8%, and in France from 1.9% to 7.8%, according to the same estimates.

These figures illustrate clearly the scale of the opportunity that is now opening in prime European markets. Overall, the picture is one of strong growth from a low base. Organic foods are becoming increasingly mainstream. Organic private labels and prepared consumer foods are now beginning to appear. A feature of the recent growth in European markets has been the degree to which it has been driven by active promotion by major multiples.

The retail price premium for organic foods is in general around 20% to 30% in European markets but is highly variable. An adequate producer price premium is essential to provide a return on the additional inputs required. There is some, but limited, evidence that this has generally been available in some continental countries³¹.

²⁹ Under EU legislation, the use of sow tethering must be phased out by December 2005, and battery cages for hens must be phased out by 2012.

³⁰ 'European Natural and Organic Food and Drinks 1999', Datamonitor, 1999

³¹ e.g. Lampkin N and Padel S, 'The Economics of Organic Farming: An International Perspective', CAB International, 1994 which looked at returns to labour in Denmark, Germany and Switzerland.

An issue of particular interest to Irish producers is the estimate that 70% of UK organic produce is imported. The Danish Government have announced an ambitious programme to treble organic output to bring it to 10% of agricultural production over the next five years, aimed in part at the UK market. The development of the organic sector in Denmark has been Government led, in particular through the establishment of a national organic certification mark.

To date the organic market in this country has been relatively limited, but the retail chains are now showing greater interest and this is expected to lead to an expansion in the market. Organic production has grown, with 1,000 registered producers and 30,000 hectares in organic production or in conversion in 1999. This however still only represents 0.5% of our agricultural land area. Research on organic production has also been very limited. The available research indicates that commercial organic farming requires high quality management and good facilities, and should not be seen as an easy option for low intensity farmers.

The EU has recently adopted legislation (Regulation 1804/99) which extends the EU regulatory regime for organic foods to livestock and livestock products. This may help to further promote the growth of organic dairy and meat production and markets by providing greater certainty about standards.

The Committee believes that the growth in organic markets in Europe presents a real, if limited, commercial opportunity for Irish agriculture. To take full advantage of this opportunity will require that we develop a critical mass in production, marketing and distribution and a strong emphasis on appropriate training.

As things stand production is constrained by lack of processing and distribution systems, while they in turn are

constrained by the small production base. There will also need to be a change in mind-set in the agri-food sector, where organic food is frequently seen as hostile to the interests of conventional agriculture rather than as an emerging market opportunity.

We therefore believe that the Government and food industry should adopt ambitious targets for organic production and exports and draw up a coherent strategy for the development of the sector. An Organic Development Committee should be established for this purpose.

Specific actions needed to encourage organic production include the following:

- ☐ **The involvement of major processors and distributors is essential to provide some market certainty.**
- ☐ **A significantly increased research, training and advisory effort is required.**
- ☐ **Bord Bia, Bord Glas and the Irish Dairy Board need to take a focused interest in the organic market and in promoting Irish organic produce on the home and export market.**
- ☐ **Improved market intelligence needs to be collected and disseminated.**
- ☐ **A credible regulatory system must be put in place and the present confusion with competing inspection bodies ended.**
- ☐ **The problem of inadequate supplies of organic cereals for animal feed, organic seeds and reproductive materials will need to be addressed.**
- ☐ **The food safety aspects of organic foods should be further researched and should be included in broader food safety planning.**

The Development Committee should consider appropriate action on these points and propose targets for the development of the sector.

16. DEVELOPING A COMPETITIVE FOOD INDUSTRY

The food and drinks industry employs over 45,000 people and accounts for 6% of GDP. It contributes significantly to net export earnings from trade (27% in 1997³²) and remains by any measure a key sector in the economy.

The sector is facing a variety of new challenges arising from a very wide range of developments including:

- ☐ the emergence of more sophisticated and demanding food consumers with rapid growth in prepared foods and food service and much greater focus on safety, health and animal welfare;
- ☐ the development of global food companies with strong brands;
- ☐ rationalisation and globalisation of the retail sector;
- ☐ acceleration in the pace of innovation with new technologies and shorter product life cycles;
- ☐ changes in EU and international trade policy, with further changes ahead;
- ☐ segmentation in food markets, with strong price competition at the lower end and innovation and quality demands at the higher end; and
- ☐ the tightening labour market in this country.

The Food Industry Development Group (FIDG) concluded that the sector had made good progress in recent years, but also identified some key problems. These included an over-reliance on commodity-type products, scale-related inefficiencies, and over-capacity in some areas. The Group emphasised the need for the sector to focus on competitiveness and added value, and also stressed that all development must be underpinned by high standards of food safety and quality. The Group recommended support measures on capital investment, research and innovation, market development and promotion, and human resources.

The Committee broadly concurs with the conclusions of the FIDG, and has identified a number of key strategic issues which must be addressed if the food industry is to prosper in the increasingly competitive and demanding market conditions that are developing. Significant changes will be required if the industry is to be profitable and provide an adequate return on capital in these conditions. Specifically, the food industry must:

- ☐ adopt a more pro-active approach to marketing;
- ☐ radically improve the level of consumer focused innovation in the sector through, among other things, a much-increased research and development effort;
- ☐ develop stronger and clearer strategic partnerships across the food chain from producer through to final consumer;
- ☐ develop the necessary efficiencies and scale of operations, and face the need for considerable rationalisation in many sub-sectors, especially beef processing, dairy processing and poultry processing;
- ☐ address a range of specific issues in the beef and other major commodity sectors;
- ☐ focus on the rapidly growing value added sectors including prepared consumer foods and food ingredients;
- ☐ develop the potential of small food firms; and
- ☐ cope with the new demands of a tighter domestic labour market, in part through further automation, and pay far greater attention to human resource development.

These points are elaborated in the following sections (16.1 to 16.10)

16.1: ADOPTING A MORE PROACTIVE APPROACH TO MARKETING

Investment in effective marketing will be critical to the food industry's capacity to compete and win market share in a rapidly changing marketplace. With increasing market segmentation, Irish companies must adopt a more targeted marketing approach to branded products, private labels, niche markets and food service, as well as the traditional commodity markets.

Irish suppliers across a range of sectors have made considerable progress in the development of private label business in the UK and have successfully survived the process of supplier rationalisation undertaken by the British multiples. Segmentation of the private label sector should ensure continuing market opportunities for these companies. Companies must now seriously consider the need to develop a more significant presence in the broader European marketplace, if they are to continue to effectively service the needs of their increasingly international retail customers.

There are some, but few, examples of Irish companies who have successfully launched and sustained brands in export markets. Competition from private label, and the margins needed to sustain a heavy investment in branded marketing, has meant that success is increasingly confined to the top one or two brands in any product area, and is leading to pressure on local brands on the Irish market. Companies with strong brands in the Irish market will need to invest in defending and strengthening their brand positions.

For suppliers with a highly differentiated product, but who lack the resources to challenge strong private label and branded positions, development of niche markets should offer increased opportunity as larger competitors target the volume end of the market. Success in this case will be determined by the uniqueness of the product and the company's ability to provide exceptional levels of customer service.

The process of consolidation and globalisation evident in the retail sector is increasingly also a feature of the expanding food service sector, if not as well advanced. This provides opportunities for companies of varying scale to build their competencies in food service supply. The immediate opportunities are in the Irish and UK markets.

The Committee makes the following specific recommendations:

- ☐ A comprehensive market research and intelligence service should be developed by Bord Bia, in co-operation with other agencies as appropriate, focusing on consumer trends and segmentation, customer strategies and competitor benchmarking. This will require significant resources.
- ☐ The marketing capability of companies must be developed to respond to the need to forge closer relationships with their retail customers and grow existing business through the disciplines of category management. This will require the allocation of increased resources in the areas of training, personnel, shopper research and effective promotional platforms.
- ☐ Trade marketing initiatives are required to assist companies targeting new markets. There should be an increased focus on developing market presence in continental EU markets by companies who have already established a track record in the Irish and UK markets.
- ☐ An increased focus is needed on opportunities in the expanding food service sector and exploration of opportunities arising from the emergence of new retail formats, including Internet shopping.
- ☐ Irish food companies should re-evaluate their brand and private label strategies to ensure an appropriate strategic fit between their marketing capabilities and market opportunities.

16.2: IMPROVING THE LEVEL OF CONSUMER FOCUSED INNOVATION

Changing consumer trends are leading to a big increase in eating outside the home and increased consumption of snacks and 'ready to eat' meals. The range of products available in this area is likely to increase, but the product life cycle will become shorter as some food products adopt the marketing characteristics of fashion goods.

Retailers are also becoming more demanding not only in their requirements for delivery and traceability, but also in demands on their suppliers to innovate rapidly, anticipate future trends and help the retailer to differentiate itself from its competitors. One area where there are likely to be considerable opportunities, and where the knowledge component is particularly high, is that of 'functional foods'³³. The Irish food industry by 2010 ought to have a significant investment in this growing sector. There will be possibilities for joint ventures between firms in the food sector and those in the pharmaceutical industry.

High quality Research and Development will be essential if the Irish food industry is to keep abreast of these trends. However the level of R&D in the Irish food sector is lower than that in other parts of the Irish economy or in the food sector of some of our competitors. This low commitment to R&D would not enable our food industry to remain competitive in the changed market circumstances envisaged in the near future.

Significant resources for research have been provided in the National Development Plan 2000-2006. An indicative allocation of £83 million has been made for R&D in food sector firms, Teagasc and the Universities, and R&D now accounts for a much higher share of total State support than before.

The Committee welcomes this increased emphasis on Research and Development. We believe that the indicative funding for food research and development in the National Development Plan should be ring-fenced, and that the possibility of moving additional funds to this heading should be reviewed regularly. In allocating these and other public funds, priority should be given to companies which show a commitment to customer focused research, product development and innovation.

16.3: DEVELOPING STRATEGIC PARTNERSHIPS ALONG THE FOOD CHAIN

If the Irish food industry is to continue to develop and grow, it is imperative that stronger and clearer links across the food chain are established between farmers and processors, and between processors and their customers. These links are increasingly demanded by the requirements of the marketplace for high product quality, assurances on safety and hygiene, greater cost efficiencies, increased market focused innovation, and the highest possible levels of service.

Consumers are insisting on consistently higher product quality, and this requires quality raw material. Hence, farmers must be focused on consumer demands in the choices they make at the primary production level.

Moreover, the recent crises, which have affected the food industry internationally, have strengthened the determination of governments and consumers to demand higher levels of hygiene and food safety. Consequently, there is a need to provide, through clear and identified producer/processor links, (i) traceability of all food products right back to the producers of all raw materials and (ii) an assurance of consistently high safety standards.

Processors are being increasingly forced to reduce their prices, and in response they must drive any unnecessary costs out of their systems. As a consequence, they will be obliged to source from their most competitive raw material

³³ The term 'functional foods' describes foods fortified with added ingredients which are capable of having, or claim to have, a positive effect on health.

suppliers. While this presents a challenge for inefficient producers, the Committee considers that it also presents significant opportunities for those Irish farmers who can deliver high quality animals and produce at competitive prices.

The Committee welcomes the recent establishment of some market led producer groups, and the forging of tighter relationships, to mutual advantage, between farmer and processor. This is a trend that the Committee would hope to see continue and strengthen.

The trend towards centralised distribution on the part of the multiples is also significant. This will place the spotlight firmly on the efficiency of the manufacturing process and will facilitate the benchmarking of various suppliers by the multiples. However, as distance from the market poses challenges for Irish food companies, the Committee believes that centralised distribution may offer opportunities to Irish companies to reduce the time and cost involved in serving a large geographical area.

The Committee notes that the major retailers have adopted 'efficient consumer response' (ECR) as a means of reducing costs and increasing consumer satisfaction. The key elements of this system are:

- ☐ product replenishment (including inventory management);
- ☐ new product introductions with an emphasis on increasing the success rate; and
- ☐ improved customer targeting through enhanced product range and promotions.

This will place additional demands on processors to be sensitive to the changes in the market place and to quickly respond to new trends as they arise. The 'efficient consumer

response' system is made possible by advances in information technology, and **the Committee believes that all food companies must, as a matter of urgency, develop high quality e-commerce capabilities (see Section 19.2).**

16.4: RATIONALISING PRIMARY PROCESSING

As outlined in Section 5, the agri-food sector is characterised by a structure in which there are many small units. The Food Industry Development Group noted that 85% of our firms are micro, small or medium in size³⁴. This gives rise to a number of major difficulties which threaten the future of the sector. Due to our multiplicity of relatively small companies:

- ☐ many lack the turnover and profitability needed to fund significant R&D and marketing efforts which will be increasingly needed in the future;
- ☐ there is very significant over-capacity in some primary processing sectors;
- ☐ there is a lack of investment in new facilities and in human resources;
- ☐ our competitiveness is damaged due to lack of economies of scale; and
- ☐ some firms find it difficult to deal with the increasingly sophisticated demands of retailers.

In the dairy sector even our largest co-operatives compare unfavourably with many of our competitors. In Denmark one firm processes approximately 80% of the national milk pool, while in both the Netherlands and New Zealand the top two processors control over 80% of milk supply³⁵. In the beef sector, the McKinsey report found very significant over-capacity and a potential gain of £18 million per year if this was removed³⁶. The Beef Task Force confirmed the need for rationalisation, and proposed the establishment of a buyout fund by the processing industry itself to help accomplish this³⁷. Furthermore, the over-capacity in beef processing will increase as the volume of cattle for slaughter

³⁴ Micro firms are defined as having less than 10 employees, small as having 10 to 49 employees, and medium as 50 to 250 employees (Food Industry Development Group Report)

³⁵ Harte LN, 'Rapid Expansion of Irish Food Companies 1987-97: Governance, Strategy and Managerial Explanations', Agricultural Economics Society, June 1999; and Business and Finance, September 1999

³⁶ McKinsey and Co., 'Preparing the Irish Beef Sector for the 21st Century', 1998

³⁷ Report of the Beef Task Force, Department of Agriculture and Food, June 1999

declines in the future. The Poultry Industry Forum identified lack of scale, in both eggs and poultry meat, compared to our competitors as a key weakness in that sector and called for co-operation between the various elements of the industry to address the problem³⁸.

Pigmeat processing capacity is to be the subject of a joint north/south study. While considerable progress has been made in the past on rationalisation in this sector, there are now 19 EU approved plants in the Republic and this is clearly excessive.

The further globalisation and rationalisation of the retail sector and the cost of compliance with a growing body of regulation, driven by consumer demands, will continue to exert downward pressure on margins. These developments, combined with the emergence of a more concentrated and more globalised processing sector, will pose continuing challenges to producers and processors alike to become more efficient, increase scale and build market share. As a consequence, the barriers to entry for new Irish companies seeking to enter the market will be pushed even higher, and many existing companies will have to grow or merge. The pressure from rising costs (e.g. wage increases and increasing energy costs) in our near full employment economy will further reinforce these trends.

The Committee believes that the search for efficiency and, within that context, the issue of scale, is vital to the future of the primary processing sector. Urgent action is essential if major elements of our agri-food sector are to cope successfully with the competitive food market that is now evolving rapidly. The scale of the challenge can be illustrated if we consider the changes that would be needed to achieve an optimum industry structure³⁹:

- ☐ **reducing beef slaughtering capacity by up to 35%;**
- ☐ **reducing the number of EU approved poultry meat plants from 23 to perhaps 7 and capacity by at least 20%; and**

- ☐ **consolidating the dairy sector with no more than two or three processing centres for the main dairy products.**

Such extreme rationalisation is unlikely, at least for some products, as seasonal or regional patterns of production would make it impractical. Nevertheless it illustrates how far our current structures are from the optimum and therefore the clear need for significant change. In this regard the Committee welcome the moves initiated by the Beef Task Force to address the particular problems in that sector, and recommends that a similar effort be made to develop rationalisation plans in the other sectors. However, circumstances have worsened since the publication of the Task Force report, and the Committee is seriously concerned at the lack of progress to date on implementing the Task Force recommendations.

Public funding for the development of primary processing should be made dependent on structural change. To the extent permitted by EU state aid rules, and within the limits of the funds available, public funding for the closure of excess processing capacity should also be considered. However the Committee recognises that the realistic scope for Government action is limited in this area. We therefore acknowledge that responsibility for dealing with this issue rests primarily with the owners, farmers, unions and other private stakeholders who will suffer the consequences of any failure by the industry to compete internationally.

The Committee is aware that rationalisation of the primary processing sector could have a disproportionate impact in some areas which are particularly dependent on employment in the sector. IDA Ireland and Enterprise Ireland will need to be prepared to act rapidly in such cases to provide replacement jobs.

³⁸ Report of Poultry Industry Forum, DAF, March 1996

³⁹ Figure for beef based on the McKinsey Report 1998; other figures based on the views of industry experts.

16.5: FACING THE CURRENT AND FUTURE CHALLENGES FOR THE BEEF INDUSTRY

We refer elsewhere to the need to improve competitiveness at farm level and address the emerging problems with the standard of our cattle (see Sections 15.2 and 17.1). These are key issues also for the future of the beef processing industry, but the sector faces additional, and potentially profound, challenges in both the short and long term.

The emergence of a strong live export trade to the continent in the late 1990s poses a competitive challenge to the processing industry. The trade has arisen in large part because of the growing gap between Irish and continental cattle prices, due to a reduction of supplies on the continent coinciding with record cattle numbers in Ireland. The gap in prices has widened from an average of around 10%, in the last five to ten years⁴⁰, to over 16% in 1999. The factors underlying these trends include:

- ☐ the banning of live cattle exports from the UK to the continent;
- ☐ the fall in cow numbers in Eastern Europe with consequent uncertainty about this source of supply;
- ☐ lower cattle supplies due to the impact of the EU calf processing scheme in France; and
- ☐ the 'nationalisation' of EU markets since the BSE crisis, which has led to a price premium for beef from domestically slaughtered cattle in several EU countries.

The calf processing scheme has now ended, the UK ban cannot be expected to continue indefinitely and the new Agenda 2000 slaughter premium may also have some negative impact on the live trade to Spain, the main importing country. It is nevertheless likely that the live trade, having been established, will remain a factor for some time to come, and will continue to focus on high grade weanling stock.

There is no easy route for the beef processing industry in meeting this competition, but it is particularly important that it should place itself in a realistic position to compete for high grade cattle. This further emphasises the importance of strong price differentials for different grades of cattle (see section 15.2). In the Committee's view it is essential that realistic grade pricing is put in place immediately.

It is expected that the EU will introduce new labelling rules for beef. This could reinforce the nationalisation of EU beef markets and poses a serious potential threat to Irish beef exports to the continent. Our response to this must be positive and effective.

We should build upon the positive consumer response to the eating quality of our beef product (see section 15.2), and on the 'green' and welfare friendly image of our extensive production systems. This will require a strong and well resourced marketing effort led by Bord Bia and supported by all players in the beef industry. The objective should be to create a clear premium market in the UK, and in targeted continental countries, for quality assured Irish beef. This will also require strong partnerships between processors and producers focused on consumer requirement in specific markets (see sections 15.2 and 16.3).

Projections made by FAPRI-Ireland suggest that, on current policies including Agenda 2000, Irish beef prices could fall by 13% from 1998 levels and beef volumes will also decline, leading to a 26% fall in output value by 2007. In the longer term, the outlook for the beef sector is even more challenging. Threats will arise from the enlargement of the EU and from possible further reform of the CAP, either in response to internal budgetary pressures or external pressure in the next WTO round. As we have indicated elsewhere in this report, it is not possible for the Committee to fully anticipate the outcome of the WTO negotiations, or the

⁴⁰ 'Cattle and Beef Prices in the EU', O'Connell J et al, Teagasc, June 1999

impact that they will have on EU policy. It is widely accepted, however, that EU export refunds, and direct payments which are 'coupled' to current production, will both be under pressure from some major participants in the world trade talks. This raises particular concerns for the Irish beef industry, which is highly dependent on direct payments for viability at farm level⁴¹, and on export refunds for price competitiveness on third country markets (see Section 1).

In the most extreme scenario, European beef producers would have to operate, in the absence of export refunds and tariff protection, at world market prices, which might be as low as 60p/lb. Direct payments would be based purely on environmental or other public good objectives, and would not therefore provide any incentive for beef production. In this situation, only very low levels of production on extensive, grass-based seasonal systems would be viable in Ireland, even with much lower calf prices. At such price levels for finished beef, the cost of silage would be prohibitive and the feeding of meals, even as cheap as £100 a tonne, would be questionable. Furthermore, the provision of new buildings for cattle, the cost of which is rising rapidly in our economy, would not be affordable. High cost continental systems would also be threatened and the total volume of EU production would fall sharply, leaving the EU dependent on imports. Indeed there is already evidence of beef being imported into the EU from South America even with the current tariff levels.

The Government is strongly committed to resist such an outcome from the WTO talks, and the Committee fully endorses this stand. The retention of the 'blue box' payments and the export refund system are essential to the future of the Irish beef industry.

At the same time, the Committee believes that the industry must place itself in the best position possible to cope with future market conditions, which will

inevitably be more competitive than at present. The final outcome from the WTO may not be as severe as the scenario outlined above, but may nevertheless involve significantly lower levels of protection on the European market. To prepare for such an outcome will require: a major drive for lower costs and better cattle standards at farm level (see sections 15.2 and 17.1); improved efficiency and rationalisation at processing level (see section 16.4); and a firmly consumer focused marketing effort (see section 16.1). The proposals made by the Committee on these issues therefore must be seen as the minimum required to secure the future of the beef industry.

An absence of a strategic focus for the beef sector and a polarised perspective on issues between beef processors and producers has been highlighted in recent times. Deep-rooted attitudes and the culture of an industry do not change overnight. However, the Committee considers that the implementation of the recommendations of the Beef Task Force, which represents the agreed deliberations of all facets of the sector, should provide the necessary strategic focus and should unite both processors and farmers in the common cause of ensuring the future of the Irish beef sector.

16.6: ADDRESSING THE CHALLENGES FACING THE DAIRY SECTOR

The environment in which the dairy processing sector must operate in the future will be one in which milk supply is limited, at least in the short term, through quotas, while greater trade liberalisation, with consequently lower prices, is likely to occur in the longer term. The cost base of the Irish dairy processing sector, including the raw material on which it is based, will have to be competitive in order to win and retain markets in this environment. This will require major changes at farm level, as indicated in Sections 17.1 and 17.3.

⁴¹ *Inter-Country Comparisons of Direct Payments and Total Revenues for Beef* O'Connell J and Dunne L, Teagasc June 1999.

A greater market awareness and market-led innovation in the dairy processing industry will also be necessary. A move to a market-led industry will require a significant shifting of priorities within companies and a change in their culture. This will require an increased focus on innovation, new product development and marketing; the accelerated development of greater value added products, such as dairy ingredients and speciality cheeses; and the development of international markets.

Specifically, the Committee:

- ☐ Urges a continued focus on the further development of branded products where there has been considerable success in recent years, e.g. butter and cheese.
- ☐ Regards the recent increase in the percentage of milk processed into cheese products, while falling short of national targets, as a welcome development. While cheddar continues to be the dominant cheese produced, production of other varieties such as Emmental, Mozzarella and Regato are slowly increasing and now account for approximately one quarter of Irish production. Cheese consumption is continuing to grow in developed countries in all market segments. The Committee accordingly considers that an increase in the production of cheese must continue as a priority for the dairy processing industry over the next decade.
- ☐ Recognises the importance of the cream liqueur sector as an outlet for Irish fresh milk and encourages the development of other similar high value niche products. Year round milk supply is vital for this sector.
- ☐ Also believes that the food ingredients sector will continue to be a valuable source of added value and growth in the sector, but this must be supported by much greater R&D investment.

- ☐ Recommends a focus on encouraging further growth in baby food production by the existing companies already located in Ireland, and the active promotion of Ireland as a location to other baby food manufacturers.
- ☐ Also believes that potential exists for limited volumes of new product development in related functional foods for other age groups in dairy ingredient based products e.g. growing-up milks, adult/sports nutrition, nutraceuticals, etc.

16.7: ADDRESSING THE CHALLENGES FACING THE PIG AND POULTRY SECTORS

The steady increase in imports of pigmeat and poultry products is a matter of serious concern. While recognising some of the inherent disadvantages of the Irish industry, due to relatively high feed costs and labour shortages, the Committee urges immediate action by the relevant industry players and State agencies to encourage the necessary rationalisation and development of higher value added products to secure the future of the sectors.

For poultry the current situation is particularly serious, as imports are increasingly penetrating the rapidly growing value added and catering segments of the market. Bord Bia research has found that the demand for imported product is based on price (with imports over 30% cheaper than domestic product), availability, consistency and specification. The Committee recognises that this challenge to the domestic producer and processor is based on fundamental economic advantages enjoyed by Thai and Brazilian producers in particular, including lower feed and labour costs and much larger scale. To meet this challenge the Irish poultry processing industry must seek economies through rationalisation (see Section 16.4) and the development of a franchise for quality differentiated products, including those based on free range and organic production.

The price differential with imports is not so severe in the case of pigmeat, and Bord Bia's view is that there is scope for increasing supplies of pigmeat to companies making consumer foods. Enterprise Ireland is actively working with some companies to develop high value added pigmeat processing, e.g. pizza toppings. **The Committee supports this approach and believes that the pigmeat industry does have a future, despite the current problems being experienced throughout the EU due to market imbalances. However the Committee is concerned that the rationalisation of the industry which was achieved some years ago is being unwound to some extent as smaller plants obtain EU licences. Scale will remain an important issue in the sector and our plants are still small compared to major European competitors. The Committee therefore welcomes the planned north/south study of pigmeat processing which should address this issue in detail.**

16.8: FOCUSING ON GROWING VALUE ADDED SECTORS

The prepared consumer foods sector has been one of the fastest growing sectors of the food industry in recent years and this trend will continue, with some segments likely to increase at rates in excess of 10% per annum over the next decade⁴². In the US, the food service market accounts for over 50 cents out of every dollar spent on food. Continued growth in this sector is expected in the Irish, UK and continental markets⁴³.

The growth of convenience foods is driven by the changing lifestyle and preferences of consumers. This growth will increasingly include final preparation and service, and will present opportunities for further value added. The market for food ingredients is also predicted to grow strongly over the next decade as a consequence of the growth in prepared consumer products and in food service. There will also be an increasing demand for organic and functional foods.

In order to win a share of this projected growth, Irish food processors must meet the challenges posed by a highly demanding marketplace and become increasingly competitive. Besides greater operational efficiencies, which will entail the sourcing of competitively priced high quality raw materials, companies must be increasingly innovative. They must also constantly adhere to the highest standards of food safety, quality assurance and total quality management.

The changing ownership of the retail multiple sector within Ireland facilitates the internationalisation of purchasing by these groups, increases their buying power, and poses a threat to existing Irish brands on the home market. However, those Irish food companies that can satisfy the stringent demands of the multiples within Ireland are in a strong position to compete internationally. Many are using their track record with these large multiple groups in the home market as a means of entering export markets.

The initial costs associated with start-up, including the costs imposed by an increasingly rigorous regulatory environment and the costs associated with minimum scale and initial market penetration, are imposing higher barriers to market entry. However, **the larger Irish food companies, now focused primarily on commodity markets, have the resources to become involved in prepared foods.**

The Committee therefore recommends that:

- ☐ every encouragement be given to Irish food companies to move further along the value added route, and
- ☐ that partnership initiatives between large Irish food companies and smaller prepared food and food service operations should be encouraged. Such partnerships can provide a bridge for entrepreneurs and small companies to the marketplace, and provide larger companies with better access to entrepreneurial thinking and innovation.

⁴² Based on a report prepared by Enterprise Ireland for the AF2010 Committee: 'Prepared Consumer Foods', Enterprise Ireland, August 1999

⁴³ See Annex 5

16.9: DEVELOPING THE POTENTIAL OF SMALL FOOD FIRMS

The majority of food and drink enterprises are classified as small⁴⁴ or micro⁴⁵. Micro firms in particular are significant in number and represent 44% of food and drink enterprises in Ireland⁴⁶.

A number of market trends are supportive of the development of small and micro firms in the prepared foods, confectionery and food service sectors:

- ☐ increased consumer demand for innovation, variety and choice will favour creative small firms, particularly speciality food companies;
- ☐ new technology is providing opportunities for small firms to access and distribute directly to consumers, without facing the traditional scale barriers to entry.

The biggest opportunity for small and micro firms will be in speciality food and drink products, where a premium price position outweighs the necessity of large scale. Those speciality foods which also embrace aspects of convenience and luxury will be particularly successful.

The challenges facing Irish small and micro firms include:

- ☐ a tendency to focus on 'me too' products or import substitution, rather than on developing innovative market-led new products;
- ☐ distribution remains a problem for many such firms;
- ☐ meeting the food safety standards required both by legislation and by retailer demands can impose significant costs on small firms.

The Committee considers that the further development of small and micro food firms should be encouraged. Such firms are often the source of new ideas and approaches which improve the overall image of the Irish

food industry. They provide a valuable source of employment in rural areas, and can also provide alternative enterprises for farm families.

Small firms require support and advisory services from State agencies, such as Bord Bia, Enterprise Ireland and the Food Safety Authority, in order to reach their potential. Bord Bia already has a special market development programme for small business and speciality foods. The Committee recommends that programmes like this, specifically targeted at small and micro food firms, should be developed and strengthened.

16.10: DEVELOPING HUMAN RESOURCES

Both agriculture and the food industry face difficulties with recruitment due to problems with wage rates, conditions, career structure and image. In addition, much of the work in the food industry is part-time or seasonal⁴⁷. As a result of excess capacity and seasonality, over half the current workforce in beef factories are working part-time, which is causing a drain of skilled workers. Because of growing labour shortages, many food companies are recruiting foreign workers, although acquiring work permits for non-EU nationals can be a time-consuming process. The ESRI have forecast that wage rates will rise, and there will be a shift of semi-skilled workers to services from traditional manufacturing, accentuating current shortages⁴⁸. As wage rates rise, all industrial sectors will need to generate significant productivity increases if they are to be in a position to compete for staff. In the past, the traditional sectors, including the food industry, have lagged well behind the new high-tech industries in this respect. The ESRI predicts that employment in the food industry will decrease by an average of 1%, and output will grow by 3%, annually over the period 2000 to 2010.

⁴⁴ A small enterprise is defined by the EU as one which has: fewer than 50 employees; and has either an annual turnover not exceeding £5.5m or an annual balance sheet not exceeding £6.3m; and is independent (where 25% or more of the capital or the voting rights is not owned externally).

⁴⁵ A micro enterprise conforms to the definition for a small enterprise, except that it has fewer than 10 employees.

⁴⁶ This section is based on a report prepared by Bord Bia for the AF2010 Committee: *'Small Food and Drink Business'*, Bord Bia, January 2000

⁴⁷ See Annex 7

⁴⁸ Duffy et al, *'Medium Term Review 1999-2005'*, ESRI, October 1999

The White Paper on Human Resource Development (May 1997) and the National Action Plan on Employment (April 1998) pointed out that investment in human resources is a key factor in ensuring national competitiveness and international comparative advantage. The qualitative skills deficiencies mentioned in the two documents must be addressed if industry is to adapt to its changing environment.

The Beef Task Force stated that substantial investment would be needed in the improvement of human resource skills in that industry with a view to developing the skills of the workforce to the highest level. The Task Force also recommended that public funding under the new development programme should be subject to strict criteria that included the establishment of full-time employment in the sector and the upgrading of skills in the processing operations. **The Committee endorses these proposals, which are also relevant to other sectors of the food industry.**

The critical need for a systematic approach to food industry training, with proper accreditation, has been highlighted in a number of recent reports⁴⁹. The new science-based food safety systems, now becoming mandatory throughout the entire food chain, will greatly increase the demand for properly designed technical training courses for food operatives, regulators and managers. The provision of such courses is a prerequisite to inculcating a food safety culture at all levels within the industry. Other key areas where there is a growing training need include advances in processing practices and technologies, innovative technical management and information technology.

If the food industry is to remain competitive, it must also be a competitive purchaser of labour in the new circumstances of a highly skilled labour force, in an economy with near full employment. It must therefore offer competitive wage and salary rates and satisfying careers. This will be a challenging task in the context of

the new wage agreement in the Programme for Prosperity and Fairness. Productivity growth, based on economically sound investment in human and physical capital, will be a key determinant of survival in the new labour market.

In the Committee's view, the following steps are necessary in order to ensure the attractiveness of employment in food processing, both to existing employees and potential entrants:

- ☐ **Better career structures must be provided, and workflow organised so as to move from part-time to full-time employment to the extent possible. The tighter labour market will encourage necessary rationalisation of some parts of the food industry. Larger firms should be better placed to offer the type of employment now demanded by workers.**
- ☐ **The food industry must pay more attention to human resource development with appropriate recruitment, including increased graduate recruitment, and provision of appropriate training programmes. The Committee recommends that a Nationally Accredited Food Industry Training System, benchmarked to the best international practice, should be developed as a matter of urgency. To achieve this, priority should be given to investment in the development of nationally accredited courses, the provision of training facilities linked to research, and training of in-company trainers.**
- ☐ **A simplification in the bureaucracy associated with recruitment of foreign workers for the sector and provision of appropriate training in their own languages, particularly in relation to food safety and labelling, is also necessary.**
- ☐ **A strong commitment to partnership arrangements is needed in the food industry to enable employers and workers to work together effectively in facing the challenges ahead.**

17. DEVELOPING COMPETITIVE FULL AND PART-TIME FARMING

In considering a strategy for the future of Irish farming, we need to look at the needs of the different groups of farmers identified in Section 4. Full-time farmers, part-time farmers and those in the transitional categories are distinct groups with different resources, needs and capacities.

- Most full-time farmers will need to grow their enterprise and constantly improve efficiency if they are to survive. Their needs are for a facilitating commercial environment much like any other business. They will derive significant benefits from low interest rates, for example, but rigidities in the land market and in quota allocation limit their capacity to grow.
- Part-time farmers also need a strong commercial focus. Time is often the biggest constraint facing these farmers, as they combine on and off-farm work. Policy makers should recognise that this important group of farmers have different requirements, and policies should be adjusted accordingly. We must consider how best to promote quality and efficiency, particularly in beef and sheep production, when revenue from output is likely to form only a small part of their overall income. Part-time farmers also have special training and advisory needs.
- The transitional group of farmers includes: non-viable older farmers; non-viable younger farmers; and ‘micro’ farmers:
 - For the older group the issue is how to positively encourage retirement. We should look at experience in countries that have succeeded – Austria, Germany and Finland. We should also face the reality that providing incentives through direct payments for farmers to stay on the land is not helping with this objective.
 - For non-viable younger farmers, the route to income viability in most cases will involve making the transition to part-time farming. This group may also have special training needs, to facilitate their entry to off-farm employment, and special farm advisory needs, which will have to be considered.

- ‘Micro’ farmers are those with a very small farm enterprise⁵⁰, who may be viewed as non-farmers or as hobby farmers. The Committee has not addressed the needs of this very disparate group, as they contribute very little to agricultural output.

The size of each of these groups by 2010 will to a large extent be related to existing trends in farm numbers, but will also be affected by EU and national policy decisions. Current trends would bring total farm numbers down to around 120,000 from 146,000 now. Policy changes, competitive pressures and the increasing ‘pull factor’ in our rapidly developing economy are all likely to accelerate this process, so that the actual number may be closer to 100,000 by the time the effects of these changes are fully felt. Full-time farm numbers will decline as the larger scale requirements for a viable income in a more open market are felt, while part-time farming is likely to rise rapidly. In addition the number of older farmers will decline if appropriate policies are put in place.

While it is not possible to be precise about these trends, the Committee believes that these changes are likely to give rise to a situation where we will have around 20,000 full-time farmers, 60,000 part-time farmers and a transitional group of about 20,000 by approximately 2010. Further details on these figures can be found in Annex 3.

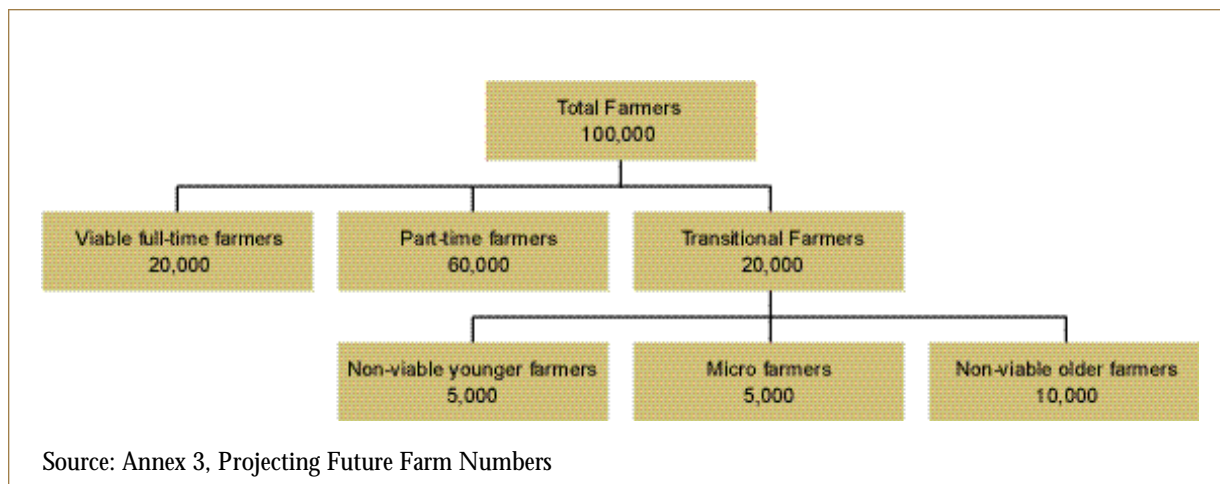
Table 2
Farm Numbers 1998 and 2010 by Category

	1998	2010
Viable full-time farms	44,300 ⁵¹	20,000
Part-time farms	38,500	60,000
Transitional farms	63,500	20,000
Total	146,300	100,000

Source: Annex 3, Projecting Future Farm Numbers

⁵⁰ Gross margin less than £2,000
⁵¹ Including 11,000 only marginally viable farms.

Figure 9
Projected Farm Numbers 2010



Agricultural policy must be framed with a full understanding of the differing needs and capacities of the farmer categories identified above and in the light of the challenging environment which farmers will face in the future. In that context, the Committee has identified a number of issues which need to be addressed in order to create the best climate for full and part-time farmers in the future:

- ☐ There will need to be a greater focus on competitiveness in the major farm enterprises.
- ☐ Increased land mobility and transfer of farms to younger farmers would make an important contribution to improving competitiveness.
- ☐ Increased scale will be necessary for commercial dairy farmers.
- ☐ Investment will remain a key concern for both full and part-time farmers.
- ☐ Delivery of agricultural education and training must be adjusted to meet the requirements of a new generation of farmers.
- ☐ Finally, the Committee believes that it is important that there should be no distinction made between full and part-time farmers in terms of eligibility for schemes.

17.1: IMPROVING COST COMPETITIVENESS IN MAJOR ENTERPRISES

A number of studies⁵² have found that Irish agriculture is competitive with European and other producers for our major commodities on the basis of cash costs. However this is much less so on the basis of total economic costs. The difference between these two estimates of the cost of production is the value placed on non-cash elements, such as family labour, owned land and returns to capital. In Ireland there is a relatively large gap between cash and total economic costs because most land is owner farmed, rather than rented, and there is very high reliance on family labour. Cash costs are therefore not a good basis for judging the long run competitiveness of farming in this country.

The implications of these findings are that Irish agriculture is relatively competitive in the short term, but, in the longer term, remuneration is insufficient to reward the non-cash factors including family labour. This problem is worsening as the opportunity cost of family labour rises due to improved off farm options⁵³. On some farms, cash costs will also rise as the cost of hired labour is pushed up.

These issues are examined in Sections 17.1 to 17.6.

⁵² Boyle G et al, 'The Competitiveness of Irish Agriculture 1992'; Boyle G, 'The Competitiveness of Irish Agriculture', 1998; Connolly L, 'Competitiveness of Irish Sheep Production', 1997; Kelly P et al 'The Cost Competitiveness of Irish Pig Industry'; Kelly P.W., 'Cost Competitiveness of Irish Cereal Production'.

⁵³ Sheehy S & O'Connor D, 'Report on the Future of Irish Agriculture', Oireachtas, 1999

Put another way, we have the capacity to withstand short-term price falls, but in the long term we would find it difficult to cope with lower prices. This is a very serious conclusion in view of the likely long-term outlook for European agriculture, which includes the possibility of significantly lower prices for our main commodities.

International cost comparisons are notoriously difficult because of the problems involved in getting consistent data. For this reason the results of these studies must be interpreted with some caution. Nevertheless, there is a general view among researchers that they are sufficiently robust to be taken as an accurate picture of the position for most commodities.

Our response to this situation must involve a determined drive to improve competitiveness. In the long run the only way to do so is to improve productivity. This can be accomplished in three ways:

- ☐ by improving efficiency on existing farms, in particular through investment in physical and human capital;
- ☐ by improving farm structures; and
- ☐ by developing and implementing new and improved technology through research and advice⁵⁴.

The structural issue is important in Ireland. The studies referred to above suggest that there is a 'long tail' of inefficient producers and this is pulling down the average performance of Irish agriculture. **This underlines the fact that the structural issues dealt with elsewhere in this report (see section 17.2) are important to the overall competitiveness of Irish agriculture.**

Research is also important and there is clear evidence, from Ireland and other parts of the world, that the economic return to agricultural research is very high⁵⁵. **A strong commitment to publicly funded research therefore also forms part of our recommendations** (see Section 20.2). The

efficiency issue is closely related to this. There is ample evidence of a very wide gap between the most and least efficient producers in terms of cost per unit of output. Significant efficiency improvements are therefore possible within existing technologies. Well-focused research on key issues can assist farmers to identify and emulate key practices of the most efficient producers, if its results are disseminated effectively.

One example of this type of work is the grassland research being undertaken by Teagasc. It aims to enable Irish farmers to produce milk at 9p/litre (41p/gallon), beef at 143p/Kg (65p/lb) and mid-season lamb at 136p/Kg (62p/lb). This research is closely integrated with the national 'Cash in on Grass' advisory programme. Our grassland is the key natural resource in Irish agriculture, and the efficiency with which this resource is managed is a major determinant of productivity in our main livestock enterprises. This work is therefore directly focused on the competitive challenge referred to above.

A related issue is the competitiveness of grass silage as against concentrates in our livestock production systems. Cereals prices are expected to fall in the coming years, because of policy changes agreed in Agenda 2000, while the costs involved in silage making are increasing⁵⁶. This will accelerate the trend towards greater utilisation of purchased animal feed, which is already observable in beef production. This trend is at least partly driven by the increase in the number of part-time farmers, for whom the convenience of concentrate feeding is attractive.

The growth in pig and poultry production in recent years has also led to increased demand for animal feed, which is the largest purchased input to Irish agriculture. Of the total 4.5 million tonnes of concentrates and straights used each year, approximately two million tonnes are imported. Ireland as a deficit area incurs additional transport costs and this results in our feed being more expensive than that of some of our competitors. To attempt to counterbalance this,

⁵⁴ Matthews A, 'Study of the Competitiveness of the Irish Agriculture Sector', 1998 (draft)

⁵⁵ Boyle G. and M. Ryan, 'Technological Progress in Irish Agriculture: The Role of the State', 1992

⁵⁶ Sheehy S, 'Cost of Energy from Grass, Silage and Concentrates', UCD November 1999

every effort must be made to ensure that the animal feed industry is as efficient as possible. The Committee notes the rationalisation in feed mills in recent times and expects this to continue, so that the present 100 sites will be reduced to perhaps 50, with only 10 mills producing the bulk of the feed.

Given the likely environment in which Irish agriculture will find itself in ten years time, it is important that there should be a determined and concerted effort to make the necessary changes in order to transform the sector so that it will be fit to face the competitive challenges ahead.

The Committee therefore recommends that a national competitiveness action programme should be adopted. It should be co-ordinated by DAFRD but involve all agencies dealing with the sector. The programme should include actions, with specific performance targets, on structural reform, cost efficiency improvements, research and technological change, and education and training requirements. The programme should incorporate the recommendations made by the Committee on these issues.

The Committee is also of the view that there is insufficient up to date evidence on competitiveness in the agricultural sector. The action programme should therefore include provision for the collection and publication on a regular basis of key competitiveness indicators, with appropriate international comparisons.

17.2: ENCOURAGING LAND MOBILITY AND EARLY TRANSFER

One of the key requirements for full-time farmers will be to increase their farm size. Only a minute proportion of land is sold each year. Land leasing has increased in recent years and now accounts for 13% of farm land. However, 803,000 hectares, or 19% of total farm land, is still farmed by holders aged over 65⁵⁷. If this land could be freed up, whether by leasing, sale or inheritance, it would make a significant

contribution towards improving the competitiveness of Ireland's commercial farmers.

There has been little change in the proportion of farmers over 65 since 1975, in spite of a range of incentives on offer to encourage early transfer⁵⁸. The Early Retirement Scheme, aimed at farmers between 55 and 66, has been taken up mainly by larger farmers in the south and east. These farmers are more likely to retire at 65 in any case. The removal of both the enlargement clause and the requirement that the transferee be a full-time farmer should draw more drystock farmers into the scheme in the future. However, these changes of themselves, while welcome, may not be sufficient.

The Committee believes that other options for improving land mobility and transfer should be pursued including:

- ☐ making leasing more attractive;
- ☐ replacing disadvantaged area payments to farmers over 65 with a national retirement scheme; and
- ☐ increasing tax incentives for young trained farmers and exploring new farm ownership and operator structures to facilitate the entry of young people to farming.

Leasing

Tax incentives already exist to make leasing to non-family members attractive⁵⁹. There may be a case for providing tax incentives for family leasing. Limited evidence from the Early Retirement Scheme (ERS) suggests that, where leases, rather than transfer of ownership, occur within families for the purpose of this scheme, the transferee is likely to be a very young farmer. The concern of the Revenue Commissioners about tax allowances for family leases has always been the difficulty of ensuring that the lease is genuine. However, leases under the ERS are already subject to a system of checks and inspections by DAFRD to ensure that they represent a genuine transfer.

39

⁵⁷ This figure excludes land being leased out by elderly farmers.

⁵⁸ See Annex 2

⁵⁹ The first £4,000 to £6,000 of leased income is tax exempt for farmers aged 55 and over who lease to an individual who is not 'connected' to the lessor, provided the lease is for at least 5 years.

Tax incentives are of no interest to those farmers over 65 who are not paying any tax because of their low income, although leasing their land might provide a better and more secure income than farming it. However, poorer elderly farmers may be worried about increasing their income if it would exclude them from eligibility for the old age non-contributory pension⁶⁰ and related benefits. Leasing could be made more attractive to these farmers if a certain amount of leased income was excluded from means testing for the old age non-contributory pension. Currently, the first £2,000 of REPS income is exempt from means testing for the old age non-contributory pension and Farm Assist.

The Committee recommends that tax incentives should be introduced for family leasing by over 55s, where the lessor is a participant in the early retirement scheme. The Committee also recommends that, in order to provide an incentive for poorer elderly farmers to lease their land, the first £2,000 of lease income should be exempt from the means test for the non-contributory old age pension and other social welfare benefits.

Disadvantaged Area Payments (Headage)

There is clearly a contradiction in funding schemes designed to promote the early transfer of land to young trained farmers, while continuing to subsidise farmers over 65 through other agricultural schemes. Up to £20m of the £120m spent annually on disadvantaged area payments (headage) goes to farmers aged over 65. The EU does not co-finance payments to farmers in receipt of contributory pensions, so in the future, as more farmers qualify for contributory old age pensions, the cost to the national exchequer will rise. Headage accounts for around 20% of farm income for over 65s. Removing headage from the over 65s would remove a considerable incentive for elderly farmers to continue in farming. However, disallowing headage to farmers over 65 without compensation would have income and equity implications for a vulnerable group of elderly farmers.

The best option may be to replace headage with a national retirement scheme for over 65s. The only EU member States with a low percentage of elderly farmers are Austria (10%), Germany (7%) and Finland (7%). In each of these countries, a condition of receiving the contributory old age pension for which farmers qualify at retirement age is that farmers must transfer or lease their farms. Imposing a new retirement condition for farmers within the existing State pension system is not a realistic option. An alternative would be a national retirement scheme for farmers over 65, operated either as a top-up on pension payments or as a once-off payment, conditional on farmers transferring or leasing their land. Any such retirement scheme would face deadweight problems and potential conflicts with the Early Retirement Scheme. Targeting both schemes on the basis of income would reduce these problems.

The Committee recommends that the possibility should be examined of introducing a retirement scheme to replace disadvantaged area payments to farmers over 65. In principle, such payments should not be made to farmers of retirement age. A Working Group should be established to work out a detailed implementation plan for these recommendations, including representatives of: DAFRD, the Department of Social, Community and Family Affairs (DSCFA), the Department of Finance, the Combat Poverty Agency; and the relevant social partners.

Young Trained Farmers (YTF)

The cost of transferring agricultural assets either by gift or inheritance is very low. For young trained farmers who are family members the only cost involved is payment of stamp duty at one third of the normal rate, so that they pay duty of only 1%.

The Committee favours the complete abolition of stamp duty for young trained farmers, and notes that this is included in the Programme for Prosperity and Fairness.

⁶⁰ Only farmers reaching 66 after 6 April 1998, who have made PRSI contributions, are eligible for a contributory old age pension, so the majority of farmers already over 66 would only be concerned with the non-contributory pension.

The extra cost to the Exchequer will not be large, in view of the existing concessions. It will, however, send a clear signal of support to new entrants. It will also provide an incentive for young people to obtain agricultural training in order to achieve YTF status, as it will increase the differential in tax treatment between trained and non-trained entrants.

The Committee also welcomes the consideration which is being given to ways to facilitate partnership arrangements in farming. We believe that all options for new ownership and operator structures, including partnership and share milking, should be examined to encourage the participation of young trained people in full-time farming. Such new structures may also facilitate efficient part-time farming and encourage the entry into farming of those with appropriate qualifications and interest who do not own, or stand to inherit, farms.

17.3: IMPROVING SCALE IN DAIRY FARMING

Ireland's milk production quota is 1,100 million gallons, set at a fat level of 3.58%. Ireland's dairy farm structure is characterised by a large number of farms with a very small quota, and a small number of farms with a large quota. Only 28% of dairy farms are in the Objective 1 region (Border, Midlands and West), mainly in the smaller size categories.

Table 3
Structure of Dairy Quota 1999

1 April 1999 (provisional results)	Gallons <20,000	Gallons 20,000- 35,000	Gallons 35,000- 70,000	Gallons >70,000	Total
Quota Holders	15,167 42%	10,304 28%	8,512 23%	2,478 7%	36,461 100%
Quota of quota holders (m. gallons)	159.0 15%	277.8 25%	401.0 37%	254.4 23%	1,092.3 100%
Active Milk Producers (AMPs)	10,758 34%	9,819 31%	8,371 27%	2,456 8%	31,404 100%
Quota of AMPs (m. gallons)	129.4 12%	266.8 26%	392.8 38%	254.1 24%	1,043.0 100%
% of Dairy Farms in Obj 1 (1998)	37%	32%	15%	17%	28%

Source: DAFRD 1999 (provisional results), special run of National Farm Survey 1998

The number of quota holders declined by 31% between 1990 and 1999. However, this decline is entirely accounted for by a 53% reduction in quota holders with less than 20,000 gallons over that period. The larger quota categories were unchanged or increased.

Until the announcement of a new quota regime in October 1999, quota could only be sold or leased on the open market with the land to which it was attached. Quota sold or leased in this way was subject to clawback measures and, within disadvantaged areas, to ring-fencing. The exceptions to the land-quota link were restructuring schemes, which allowed farmers wishing to exit dairying permanently to sell their quota without land at a controlled price, and temporary leasing schemes, which allowed farmers to lease their quota out at a controlled price.

The changes to the quota system announced in October 1999 provide for the breaking of the land-quota link. Instead quota will be sold through a pooling arrangement at co-op level. Quota from this pool will in the future be sold at a controlled price, and in the main will be targeted to certain categories of small and medium producers. There will also be restrictions on the number of times non-active quota holders can avail of temporary leasing before they must either resume production or sell the quota for use by active producers. The changes announced also provide for the targeting of the additional Irish quota acquired under Agenda 2000 (20.5 million gallons) to producers under 55,000 gallons and to young farmers with less than 35,000 gallons.

Under Agenda 2000 it has been agreed that there will be a review of the quota system in 2003. At that stage the WTO negotiations should be reasonably well advanced and therefore this would be an appropriate time for such a review. We cannot be sure of the outcome of this process but prudence dictates that we should prepare ourselves for the most radical scenario, including the possibility of quota elimination sometime after 2008.

The aim of dairy policy should be to increase competitiveness in order to prepare for further trade liberalisation in the long term. The Committee considers that the minimum viable level of dairy production in 2010 will be at least 70,000 gallons. Given that less than 3,000 farmers were at this level in 1999, considerable consolidation of quota will be required if this is to be achieved. The Committee believes that about 13,000 dairy farmers have the potential to succeed as commercial dairy farmers, provided that they are able to access additional quota⁶¹. (This includes farmers who currently exceed 35,000 gallons, and some farmers currently between 20,000 and 35,000 gallons.)

The Committee welcomes the announcement in October 1999 of the break in the land-quota link as a valuable first step in freeing up quota access for commercial, and potentially commercial, dairy farmers. Future policy should be directed towards further facilitating quota consolidation by potentially viable dairy farmers. To this end, the Committee believes that it will be necessary and desirable to move to a fully open market for quota well in advance of the elimination of quotas by the EU, should that arise.

Recognising that the transition to an open market for quota will have significant implications for smaller dairy farmers, and for regions where they are concentrated, the Committee recommends that specific measures should be put in place to assist smaller dairy farmers who have the potential to become viable. Such measures might include the type of action proposed by the County Clare Partnership Dairy Action Research Programme⁶², including: 50% advisory grant support, special investment grants and full stock relief. The Partnership also proposed tax relief on milk quota purchase up to an expansion ceiling, and the Committee notes that a commitment to tax relief is included in the Programme for Prosperity and Fairness.

17.4: ENCOURAGING PRODUCTIVE INVESTMENT

The most recent data available shows that Irish agriculture is still significantly less capital intensive than most other EU countries. The value of buildings and machinery per hectare was 40% of the EU average in 1995. However, since then there has been an exceptionally high level of investment on Irish farms. Record levels of investment were recorded in 1995 and 1996, while the levels in 1997 and 1998 were only a little below the 1996 peak. In this period, Ireland has had one of the highest rates of investment as a proportion of gross value added in agriculture in the EU⁶³.

Investment in machinery and transport equipment has grown steadily for many years but investment in buildings has been subject to greater fluctuation, probably in response to changes in farmers' incomes and interest rates and in the availability of grants and tax incentives.

Current incentives include the normal business capital allowances on plant, machinery, farm buildings and land drainage/reclamation, and a special accelerated capital allowance for farm pollution control investment. Stock relief is also allowed at a general rate of 25% and a special full 100% rate for young trained farmers who invest in stock in the four years after they take over their farms. Grant aid has also been available in the period of the last round of structural funds, principally for specific types of environmental, hygiene and animal welfare investment. Over £250 million in public funding was provided in this way.

Interest rates are now at a historically low level and this is reflected in the interest payments of farmers. Despite the recent high levels of investment, interest repayments accounted for around 11% of farm income in 1999, as against almost 30% in the early 1980s. Furthermore the introduction of the euro provides the realistic expectation that rates will remain much lower than they have been in Ireland in the last few decades.

⁶¹ See Annex 3

⁶² J. Mannion et al, *'Creating a future for Dairy Farm Households: A Key Element of Rural Renewal'*, The Co. Clare Partnership Dairy Action Research Programme, UCD, April 1999

⁶³ See Annex 2

Investment will remain a key concern for full-time farmers in the period to 2010. As these farmers grow their enterprises to achieve viable scale, they will inevitably have to invest significantly in on-farm facilities. In addition, the increased intensity of these farms will bring with it tighter environmental regulations and conditions, which will generate further investment in pollution control facilities. Most such farmers will be paying tax and will therefore derive significant benefits from tax allowances. The new low interest rate environment will also be helpful to them.

Part-time farmers have special investment needs and a high propensity to invest. NFS data for 1997 shows that new investment by part-timers was equivalent to 42% of income compared to 31% for farmers with no off-farm job. It is likely that this higher level of investment is in many cases prompted by the desire to reduce farm labour rather than to achieve on-farm financial returns. Such investment is nevertheless productive to the farmer and the economy, as the freed labour can be used to increase off-farm earnings. Like their full-time equivalents, part-time farmers benefit from low interest rates and tax allowances, both of which facilitate investment. Access to public subsidy has not always been so easy for them however.

With respect to grant aid, we note the concern of the ESRI⁶⁴ of the danger of creating a 'grant mentality' in which inappropriate investments may be undertaken to take advantage of incentives. The ESRI has also suggested that farm investments, even in pollution control, have a relatively high rate of private return and may not therefore require grant assistance. They do however point to a possible market failure in the provision of appropriate credit for investment to low income farmers. We accept that some of the ESRI's concerns are valid, but believe that there is a strong case for public subvention where clear social, environmental or animal welfare benefits of investments can be shown.

We therefore feel that public funding in support of farm investment should be provided, but should be carefully targeted at:

- ☐ farmers with low household income, who are below 55 years of age, or have an on-farm successor and
- ☐ farm investments that produce clear 'public good' benefits.

Assistance to higher income farmers could be more appropriately provided through accelerated capital allowances.

The Committee believes that it is important that labour saving investment by part-time farmers is recognised as productive and valid. Public subsidy schemes should treat part-time and full-time farmers equally in all respects (see also section 17.6).

17.5: CHANGING AGRICULTURAL EDUCATION AND TRAINING

There has been a significant drop in the demand for full-time agricultural education in recent years, as alternative careers became more attractive. Lack of investment in agricultural colleges contributed to a widening gap between agricultural and other third level education facilities. New funding has now been put in place which should begin to rectify this.

Teagasc has taken a number of initiatives in response to these developments (see Section 20.2). The recommendations of the ESRI report⁶⁵, which predicted further declines in numbers attending full-time courses, have been accepted, and one agricultural college has already closed. Training programmes are being restructured to enable better targeting of the needs of the following groups in particular: school leavers who will enter full-time farming; school leavers who will enter part-time farming; and adults on farms, particularly women, needing further education and training. Teagasc has made significant progress in mainstreaming

⁶⁴ Fitzgerald et al, 'National Investment Priorities for the period 2000-2006', ESRI, 1999

⁶⁵ 'A Study of the Likely Demand for Training in Agriculture up to 2010', Kieran A Kennedy & James Williams, ESRI, April 1999

agricultural training enabling certification of courses by the National Council for Educational Awards and the National Council for Vocational Awards and progression into university.

The Committee supports the initiatives already being taken by Teagasc in this area and broadly agrees with the conclusions of the ESRI report. Given our vision of a two-strand farming sector in 2010, there will clearly be different demands for agricultural training from full and part-time farmers. Accordingly the fundamental overhaul of agricultural training currently being undertaken by Teagasc, and receiving detailed consideration by the Minister's task force on agricultural education and training, should be pursued urgently and subject to continued monitoring in light of future requirements.

Full-time farmers will require high levels of education in technical skills and business management. They will need training in appropriate enterprises such as dairying, specialist beef, horticulture and pigs in specialist agricultural colleges. These colleges should have the critical mass to justify high quality specialist facilities and teachers. There will therefore be fewer colleges in the immediate future and the remaining colleges will require a major investment by the State.

Part-time farmers, and those making the transition to part-time farming, will require a different range of skills from full-time farmers, which will allow them to maximise incomes from their farms within the time constraints available to them. They will mainly require training in beef and alternative enterprises. Such training may have to be provided in conjunction with non-farm education in broadly based colleges. Part-time farmers also need access to short evening and weekend courses focused on their specific needs and provided at local venues.

Both groups will require skills in meeting the growing demands of consumers for traceability, proper environmental management and animal welfare.

All of this amounts to a fundamental change in the way in which agricultural education and training is provided in this country.

- ☐ The Committee endorses the progress being made in the integration of agricultural training with mainstream education, and recommends that it should be subject to the same standards and certification procedures. This will require close co-operation between DAFRD, Department of Education and Science, Teagasc and the other bodies involved.
- ☐ The Committee also agrees that consideration should be given to strengthening the training conditionality for development and other grants, as recommended by the ESRI.
- ☐ The Committee welcomes the establishment by the Minister of a task force on agricultural education, and looks forward to its report, which will provide a more detailed plan for the future development of agricultural education. The recommendations of this Committee should be brought to the attention of the task force.

17.6: PROVIDING EQUAL ACCESS TO SCHEMES

One of the key issues facing part-time farmers is access to DAFRD schemes. A range of different criteria were used to determine eligibility for schemes operated under the 1994-1999 National Development Plan. For one scheme⁶⁶, farmers were required to spend over 50% of their time farming, as well as deriving over 50% of their income from farming, in order to qualify for the scheme. Other schemes⁶⁷ were based on total income limits, but also applied a specific limit on the amount the applicant could earn off-farm.

⁶⁶ national Installation Aid scheme introduced in 1998

⁶⁷ e.g. the national Control of Farm Pollution and Dairy Hygiene schemes introduced in 1998

04 | The Strategies (cont'd)

The Committee considers that the present variety of on and off-farm income conditions applicable to different schemes is potentially confusing, and is in some respects unfavourable to part-time farmers.

The increase in part-time farming is a positive development, as it offers a realistic route to household viability for many small farmers. The objective of income limits should be to target limited funds at those most in need of assistance, regardless of the source of their income. The most appropriate qualification threshold on such schemes would be one based on total income from all sources. A single total income limit, applying to all relevant schemes, would be simpler to administer and simpler for applicants to understand than the existing variety of conditions.

The Committee therefore recommends the introduction of one standard income assessment for all schemes (see Section 20.1). The assessment should be based on income from all sources without distinction between them.

18. MAXIMISING THE SECTOR'S CONTRIBUTION TO SUSTAINABLE RURAL DEVELOPMENT

The European model of agriculture is based on competitive, multifunctional and sustainable farming throughout the EU⁶⁸. The concept of multifunctionality acknowledges that agriculture has a variety of roles, including the production of agricultural goods, ensuring food safety and quality, protecting the environment, preserving rural landscapes and contributing to the social and economic development of rural areas.

The capacity of agriculture and the food industry to contribute to sustainable rural development is important to our vision of the future. Agriculture's role in the economic dimension of rural development will primarily be determined by the numbers of viable farm households in rural areas and the level of their farm and household incomes. The food industry provides a valuable source of employment throughout Ireland, and is particularly important in remote areas which may not have many other sources of industrial employment. Protection of the rural environment is also an essential element of sustainable rural development and rural tourism. This is particularly true in relation to the key role of agriculture in the creation and maintenance of the Irish rural landscape.

The 1999 White Paper on Rural Development⁶⁹ set out a comprehensive and integrated expression of Government policy on the many aspects of rural development. As noted in Section 9, this report deals only with the agri-food dimensions of rural development, in line with the Committee's terms of reference.

The Committee has identified the following key issues for the agri-food sector in relation to rural development and the environment:

- ☐ Farm household viability must be seen in terms of total income available from all sources, rather than simply income from farming activities.

- ☐ Consideration should be given to innovative approaches to supporting farm income and simplifying direct payments.
- ☐ Although farm poverty has been reduced, more needs to be done. Specific targets for reducing poverty levels in low income farm households should be set.
- ☐ Balanced regional employment growth should be encouraged.
- ☐ Environmental protection is a prerequisite for the future development of the agri-food sector, and specific measures to improve awareness and raise standards should be taken.

These points are elaborated in Sections 18.1 to 18.5.

18.1: ADDRESSING FARM HOUSEHOLD VIABILITY

Discussion about farm viability has tended to focus solely on income from farming, rather than the total income of the farm household. With farm families increasingly involved in off-farm employment, this is no longer realistic. The viability of the household, and therefore of the individual farm, increasingly depends on a range of income sources. It is important that policy actions, intended to support the maximum number of farm households, should be based on a clear recognition of this changed environment.

The Committee therefore recommends that future policy should be focused on farm household viability in all its dimensions, including farm and off-farm income sources. Government policy should aim to create and maintain viable farm households through:

- ☐ developing new approaches to supporting income from farming activities (see section 18.2);
- ☐ providing targeted income support for the poorest farm families (18.3); and
- ☐ policies which create and maintain off-farm employment opportunities in rural areas (18.4).

⁶⁸ See for example speech by Commissioner Fischler, 'The European model of agriculture – facing the WTO acid test', CEA Congress, Verona, 24 September 1999

⁶⁹ White Paper on Rural Development, 'Ensuring the future – a Strategy for Rural Development in Ireland', DAFRD, 1999

The latest information available on farm household income is from the 1994/95 Household Budget Survey. This showed that the average farm household⁷⁰ derived 53% of its income from farming activities with the balance from off-farm sources. The level of dependence on income from farming did not vary significantly across income groups.

There is a lack of data in relation to total farm household income, but such information is now vital for policy making. The Household Budget Survey is the only source of such information⁷¹, and it is collected every 5 or 7 years, and published around 2 years later. On the other hand, very useful information on income from farming activities is available annually from the CSO (on an aggregate level) and from Teagasc (on a sample farm basis). It is not surprising therefore that analysis and discussion in this area has been focused almost exclusively on on-farm income.

The Committee recommends that Teagasc and the CSO should ensure that information on all sources of farm household income is collected and published. This would provide detailed annual information on all aspects of farm household income, and would be particularly useful in tracking developments in off-farm employment among farm households. More information could also usefully be collected about household members – level of education, off-farm employment, commuting patterns, contribution to farm enterprise, etc.

18.2: DEVELOPING NEW APPROACHES TO FARM INCOME SUPPORT

Aggregate farm income rose between 1990 and 1996, followed by a substantial fall between 1996 and 1999. Over the 1990s as a whole, aggregate farm income fell by an average of almost 3% a year in real terms⁷². The FAPRI-Ireland projections suggest that aggregate income in 2007 is likely to be similar to that in 1998, in nominal terms, with

growth in average farm income arising from reduced farm numbers⁷³.

Direct payments have grown dramatically since the MacSharry CAP reforms, and accounted for 56% of aggregate farm income in 1999. FAPRI-Ireland projects that this will grow to over 70% of aggregate income by 2007. For some farming systems, direct payments currently account for well over 100% of net income.

The increasing number and complexity of direct payment schemes place a significant administrative burden both on the farmer and on the State. There is also a danger of conflicting objectives and policy incoherence with many different payment schemes. In France, under the new Loi d'Orientation, it is intended that the impact of the multiplicity of EU and national payments to farmers will be improved and made more coherent through a system in which a contract is drawn up between the farmer and the State.

The Committee recommends that the options for achieving coherence and simplification of the various direct payments schemes should be regularly reviewed by DAFRD (see also 17.6). The Department should monitor implementation of the new French system and assess its usefulness in the Irish context.

One of the characteristics of income from farming is a tendency to fluctuate over time. That tendency may grow as trade liberalisation continues. On the other hand, direct payments and non-farm income will have a stabilising effect on the household income of farmers.

In spite of the increasing importance of direct payments and non-farm income, experience in the last few years has shown that farm incomes can still be severely affected by shocks – for example the BSE crisis and its aftermath, and the fodder crisis caused by bad weather in 1998/99.

⁷⁰ In the Household Budget Survey, farm households are defined as households where the reference person is a gainfully occupied farmer, or the reference person is a retired farmer with at least one gainfully occupied farmer in the household.

⁷¹ The 'Living in Ireland' Survey conducted by the ESRI to measure poverty trends also examine farm household income, but are naturally focused on those households below the poverty line, rather than giving information about all farm households – see section 18.3.

⁷² See Annex 2

⁷³ Donnellan et al, 'Impact of the Berlin Agreement on Irish Agriculture', FAPRI-Ireland/Teagasc, 31 May 1999

Insurance schemes are now being used in several countries to ameliorate income volatility. In Spain, the USA and Canada the State is part-funding insurance schemes, which protect farmers from losses due to crop or livestock damage. At a more advanced level, such schemes can cover price falls also - i.e. income insurance. This approach has a number of possible attractions in terms of cost and WTO compatibility.

The European Commission produced a report⁷⁴ in 1999 which examined whether there might be a case for farm income insurance in the EU in the future. It concluded that revenue insurance (rather than income insurance) was an option, but not for livestock commodities – yields and prices are more variable than for crops, and could more easily be manipulated in order to make a claim on the insurers. The report recommended further research and pilot testing of any proposed schemes. Although cautious, this report suggests that the European Commission is taking the possibility of an EU-wide agricultural insurance scheme seriously.

The Committee recommends that research should be conducted on the existing systems of agricultural insurance in other countries, and the possible application of such a scheme in Ireland. This work should address the specific problems, identified by the Commission report, of applying such schemes to livestock farming.

18.3: TACKLING FARM POVERTY

The National Anti-Poverty Strategy (NAPS), published in 1997, identified rural poverty as one of the five key areas to be addressed in implementing the strategy. NAPS identified those at risk of poverty as including both low income farmers and other non-farm rural dwellers.

The ESRI's Living in Ireland surveys, which form part of the monitoring of the NAPS, suggest that the risk of farm

households being in poverty decreased substantially in the ten years to 1997. The results show that 33% of farm households were 'in poverty' (where poverty is defined as being below 50% of average income per household member) in 1987, 20% in 1994 and 13% in 1997. In 1997, for the first time, the risk of a farm household being in poverty was lower than that for the population as a whole – 13% of farm households compared to 22% of all households.

Table 4
Composition of households at risk of poverty, 1987, 1994, 1997

RISK OF POVERTY ^(a)		
	Farmer	Total Households
1987	33%	16%
1994	20%	18%
1997	13%	22%

(a) Risk of poverty = risk faced by household in each labour force category of being below 50% relative income line
Sources: Monitoring Poverty Trends, Callan et al, ESRI, CPA, DSCFA, June 1999; National Anti Poverty Strategy, DSCFA, 1997

These figures suggest that there has been a significant improvement in poverty levels among farm households in recent years. However, a couple of points are worth noting:

- ☐ Because of volatility in farm incomes, measurements of poverty among the farming population may vary significantly from year to year.
- ☐ The definition of poverty is a key determinant of the results, and the ESRI uses a range of different poverty lines and measures to give an overall picture of poverty. If the definition of poverty is broadened to include those below 60% of average income rather than 50%, 27% of farm households would be considered at risk of poverty, compared to 37% of the population as a whole. This suggests that a large number of farm households are between 50% and 60% of average income. If on the other hand the measurement of poverty is tightened to include a 'deprivation index' (e.g. measures such as having a warm winter coat), far fewer farm households would be included.

⁷⁴ European Economy, Reports and Studies, No. 2, 1999: Income Insurance in European Agriculture, DG II, Economic and Financial Affairs

The Farm Assist Scheme is a new means tested payment for low income farmers. It is available to all low income farmers, whether full or part-time, aged 18 to 66. It is an important addition to the range of income supports available to low income farmers. As participation in this targeted scheme increases it should further reduce the numbers of farm families in poverty.

In 1999, the Combat Poverty Agency commissioned a study from Teagasc and the ESRI on low income farm households⁷⁵. This report will be published in July 2000. It will focus on options for improving the effectiveness of policies, especially farm policy measures, in addressing farm household poverty. Direct payments are of particular importance to low income farm households. The CPA study will consider how some such payments could be better focused in this regard.

The reduction of rural poverty should continue to be a key objective of the NAPS, which is currently under review. The Committee recommends that a specific target should be set for reducing poverty levels in low income farm households. Progress against this target should be regularly reviewed and the results published as part of the NAPS process.

In relation to the specific measures in place, the Committee believes that:

- ☐ **the Farm Assist scheme should be monitored carefully, particularly in its first few years of operation, to assess its impact on the poorest farm households; and**
- ☐ **disadvantaged area payments to farmers, which have a major income support objective, should be targeted towards low income households.**

18.4: ENCOURAGING THE DEVELOPMENT OF OFF-FARM EMPLOYMENT OPPORTUNITIES

Off-farm employment will provide an increasing share of farm household income in the future. Rural development policies which create and maintain jobs in rural areas are therefore vital for both farm and non-farm rural households.

The services sector, and tourism in particular, presents opportunities for job creation away from main population centres. The food industry is also a valuable source of employment in rural areas, and in many cases provides off-farm employment for farm households. The food industry accounts for up to 23% of industrial employment in some regions⁷⁶.

County Enterprise Boards, LEADER groups, area partnerships and community groups have played a useful role in developing local resources and local job initiatives. Future policy should build on this expertise through continued support for local initiatives and a bottom-up approach.

Small and medium sized enterprises, as well as micro-enterprises, are especially important in rural areas. The National Development Plan provides £1.1 billion to support such enterprises, and this should benefit rural areas considerably.

Balanced regional development is, and should remain, an important focus for both IDA Ireland and Enterprise Ireland. The Committee welcomes the commitment of these bodies to assess their performance on the basis of the regional distribution and quality of jobs created. From January 2000, Ireland is no longer regarded as a single Objective 1 region for EU funding purposes. However, 13 counties in the Border, Midlands and West regions will maintain Objective 1 status, while the remainder of the country will be designated as 'Objective 1 in transition'. The Government is further splitting the non-Objective 1

⁷⁵ 'Low Income Farm Households: Incidence, Characteristics, and Options for Improving Policy Measures', J. Frawley and P. Commins (Teagasc) and S. Scott and F. Tracey (ESRI), (draft)

⁷⁶ South-East and South-West regions – see Annex 4 on Food Industry Structure

area into two regions to differentiate within this area in terms of the potential level of funding available to companies⁷⁷. The proposed variation in funding from region to region is significant. The net effect of this differentiation in support levels on a regional basis will be to influence mobile projects to locate in the peripheral regions where the need for such projects is greatest. These new funding limits apply to all the development agencies. This greater regional emphasis is also reflected in the policies being pursued by the development agencies.

The successful implementation of such regional policies will be crucial in providing off-farm employment opportunities in rural areas.

The Committee welcomes the commitment in the National Development Plan to spread the location of enterprises, especially inward investment. We recommend that, in regions that have the highest dependence on part-time farming, particular attention be paid to distributing investment to smaller centres. This approach should also be reflected in the National Spatial Strategy being prepared by the Department of Environment and Local Government (DOELG). Similarly attention should be focused on any areas affected by the necessary process of rationalisation in the primary food processing sector (see Section 16.4).

Measures to support the competitiveness and expansion of other productive sectors, such as tourism, should also be given priority.

18.5: CONTRIBUTING TO ENVIRONMENTAL PROTECTION

There has been a growing awareness in recent years of the importance of environmental sustainability, and this has led to additional demands on the agri-food sector.

- ☐ The Waste Act 1996 empowered local authorities to require farmers to implement nutrient management plans.
- ☐ The National Sustainable Development Strategy (1997) set out a development plan for agriculture and the environment. A code of good practice on nitrates was published in 1996 by DAFRD in co-operation with DOELG⁷⁸.
- ☐ The Environmental Protection Agency (EPA) has implemented Integrated Pollution Control licensing in relation to many sectors of the food industry, as well as intensive pig and poultry enterprises.
- ☐ The increased uptake of the REPS scheme and the availability of grant aid for pollution control investments have promoted environmentally friendly farming policies.

These and other initiatives have significantly increased awareness among farmers of the need to use modern farming technology with care and attention. But more still remains to be done in terms of reducing the negative impacts of agriculture on the environment in Ireland, and in order to implement new requirements of EU and international law.

Water pollution is a major concern. The most significant threat to the water quality in rivers and lakes in Ireland is eutrophication. This is attributed in the main to nutrient enrichment by nitrogen and phosphates. One of the principal sources of this enrichment in Ireland is agriculture. According to the EPA, most of the slight and moderate pollution of rivers is attributable to agricultural activities, although there are other important sources, including domestic waste. The Code of Practice on Nitrates is part of an effort by the Government to ensure conservation of our waterways. However, this code is voluntary and there are no penalties for non-compliance.

⁷⁷ See map p. 293 of National Development Plan, 2000-2006

⁷⁸ 'Code of Good Agricultural Practice to Protect Waters from Pollution by Nitrates', Department of Agriculture and Food and Department of the Environment, July 1996

At EU level there is an active process on-going to ensure the integration of the environment into all policy areas. Under Agenda 2000, Member States are required to implement appropriate environmental measures in respect of land or production supported by direct payments, and to decide on appropriate penalties for non-observance, including a reduction or non-payment of direct payments. Compliance with minimum environmental standards will also be a condition of State aid for the food industry.

Internationally too we have new commitments. The Kyoto Protocol⁷⁹ places limits on the amount of greenhouse gases that countries may produce. Under the EU arrangements for its implementation, the ceiling agreed for Ireland allows an increase of not more than 13% above 1990 levels by 2008-2012. A National Abatement Strategy is currently being prepared. Given the importance of agriculture to Ireland, it is not surprising that the sector accounts for approximately 35% of the country's greenhouse gas emissions.

The relationship between agriculture and the environment will be one of the key 'non-trade concerns' to be raised by the EU in the next round of WTO negotiations⁸⁰. The European Commission⁸¹ has indicated that the high standards of environmental protection set out in the Agenda 2000 agreement will be vigorously defended in WTO as a key part of the 'European model of agriculture'.

The Committee believes that the great majority of Irish farmers are committed to farming in a way which uses technology wisely and is in harmony with the environment. We also recognise that very substantial efforts and public funds have been committed to support and underpin this instinctive commitment of farmers. Nevertheless we also believe that the reality of continuing pollution impacts, and the nature of our new EU and international commitments, means that further measures will be needed. In this regard we believe that the following measures should be considered:

- ☐ Special training and advisory services should be used as a key tool in educating farmers about the link between agricultural practice and pollution. Courses should be available at times to suit part-time farmers, and should be targeted in particular at farmers in sensitive catchment areas.
- ☐ A 'Code of Good Farming Practice' should be developed by DAFRD in consultation with DOELG. It could include elements of nutrient management planning and the code of practice on nitrates. It should cover actions necessary to preserve biodiversity, landscape and cultural features and other agri-environmental measures. Farmers should be encouraged to adopt this code.
- ☐ All types of industry, including the food processing industry, have the potential to cause major environmental damage if pollution control and waste disposal guidelines are not followed. In addition to environmental damage, industrial pollution has potentially serious food safety implications. For these reasons, the Committee would stress the need for strict implementation of environmental standards for all industry.
- ☐ The commitments made under the Kyoto Protocol, and the National Abatement Strategy which is being prepared to implement them, are of importance for all sectors of the economy, including the agri-food sector. The Committee would stress the need for a fair and balanced approach in this process. The measures decided on under the Abatement Strategy will need to be integrated into the overall development strategy for the agri-food sector in due course.
- ☐ Litter is an increasing problem in both rural and urban areas, and is especially damaging in areas of natural beauty and tourist potential. A greater effort is required through education, the provision of appropriate facilities and the enforcement of litter laws to deal with this problem.

⁷⁹ Kyoto Protocol to the United Nations Framework Convention on Climate Change, December 1997

⁸⁰ See *'The European Approach to the Millennium Round'*, Communication from the Commission to the Council and European Parliament, 1999

⁸¹ See for example speech by Commissioner Fischler *'The Agenda 2000 Agreement: Der Himmel über Berlin or Sleepless in Seattle?'*, Agra Europe Conference, 29 June 1999

19. FACING THE CHALLENGE OF NEW TECHNOLOGY

The Technology Foresight report⁸² concluded that Ireland needed to re-position itself as an internationally recognised knowledge-based economy. Achieving this objective would require an inter-linking partnership between industry, higher education, Government and society. In response to this report, the National Development Plan includes provision for a Technology Foresight Fund totalling £560m⁸³. This will fund RTDI (research, technological development and innovation) projects in key technologies strategic to long term sectoral and national development. The objectives of these projects will be to provide internationally competitive world class RTDI, and to signal Ireland as an attractive location in which to perform RTDI.

The technological advances of recent years have affected all sectors, but none more so than the agri-food sector. Developments in Information and Communication Technologies are transforming the context in which all participants in the agri-food sector operate, and are creating important new opportunities and challenges for retailers, processors and farmers. At the same time biotechnology has emerged as a major issue of public debate and it too has the potential to bring profound changes to the sector.

The Committee considers that even greater changes will occur in the first decade of the new century. In order to prepare for these changes the sector will need to:

- ☐ address the complex issues involved in biotechnology; and
- ☐ make rapid progress in the use of Information and Communications Technology.

19.1: RESPONDING TO THE DEVELOPMENT OF BIOTECHNOLOGY

The relatively recent emergence of biotechnology as a major issue for the agri-food sector brings a new set of challenges and opportunities for this country. We are far more dependent on the international competitiveness of our agri-

food sector than most countries in the EU. It follows that we need to be at the cutting edge of technological development in the sector if we wish to remain competitive. However the new biotechnology developments have led to a considerable degree of public debate about their implications for human and animal health and the environment. Concern has been expressed that consumers should have a clear choice of whether to consume genetically modified products, and possible conflicts between neighbouring farmers wishing to pursue different forms of agriculture – say one growing organic crops and a neighbour growing genetically modified crops – have been identified.

In response to this debate, the Minister for the Environment and Local Government established a Chairing Panel to undertake a national consultation debate on GMOs and the Environment, which reported in 1999. The panel favoured a positive but precautionary policy on the deliberate release of GMO products⁸⁴. It emphasised the need to reflect a fundamental national commitment to safety and environmental sustainability based on risk assessment and management. Environmental sustainability was in this context interpreted to include the avoidance of any impact which would undermine the viability of conventional or organic agriculture and animal welfare considerations.

The Government has established an Inter-Departmental Group on Modern Biotechnology, which is expected to report in early 2000.

The Food Safety Authority of Ireland has also published a report on Food Safety and Genetically Modified Foods⁸⁵. The key message of the report is a reassurance from the scientific sub-committee which was set up to look at all the issues, that the GM foods on sale in Ireland are as safe to eat as their conventionally grown counterparts. In its paper the sub-committee stresses that while the foods passed for human consumption are safe to eat, it would like to see better, more informative labelling so that consumers know exactly what is in the food they buy.

⁸² Technology Foresight Ireland, ICSTI/Forfás, 1999

⁸³ National Development Plan 2000-2006, para 6.47

⁸⁴ Report of the Chairing Panel on Genetically Modified Organisms and the Environment, DOELG, October 1999

⁸⁵ *Food Safety and Genetically Modified Foods*, FSAI, 1999

These reports will strengthen the information base for the debate on these issues in Ireland, and will improve our capacity to contribute to decision making at EU level, where most of the key issues will be decided. This is timely, as the EU is due to review the basic legislation on this subject in the near future⁸⁶.

Two major international reports are also currently being prepared – an OECD study on the implications of biotechnology for food safety was requested by the G8 in June 1999, and an Inter-Governmental Task Force on Foods Derived from Biotechnology has been established by Codex Alimentarius. When these reports become available they should add further to our understanding of the issues involved.

The level of debate, indicated by the reports mentioned above, underlines the importance of the issues involved. The Committee does not have any special expertise in the area of biotechnology, and therefore cannot offer any new scientific insights on the subject. However the strategic importance of biotechnology to the future of the agri-food sector world-wide is obvious, and therefore the Committee would make the following points, based on the information available to date.

The future of our agri-food sector requires that we develop a strong competence in the new technology that is emerging, so that we have the ability both to apply and to regulate it. The Committee believes that significant public resources should be provided for research in this area. In this regard we welcome the provision of £560m for a Technology Foresight Fund in the National Development Plan, and the separate provision of a £25 million Technology Capability Fund for Teagasc. A significant share of the Foresight Fund should, in the Committee's view, be earmarked for biotechnology agri-food research (see Section 20.2). Urgent action is needed on this issue due to the pace of developments, most of which are beyond our national

control. Sound scientific research is a necessary platform for informed discussion, regulation and exploitation of modern biotechnology.

***The Committee agrees that we should 'pursue a positive but precautionary national policy position on the release of GMOs to the environment, based on scientific risk assessment and management'*⁸⁷.**

Recognising that there is genuine concern about GMO foods, the Committee concurs with the FSAI on the need for a more informed and less emotive debate on the issues concerned, and in this context welcomes the recent reports on the subject.

Clear labelling of foods to indicate whether they contain GMOs is essential to consumer confidence and necessary to a full recognition of consumer rights. This gives rise to practical issues of product separation which may be difficult to manage, particularly in internationally traded goods.

Similarly it will be necessary to develop systems to ensure that GMOs do not compromise the integrity of organic, or other non-GMO, production systems. It would be self-defeating to pursue the economic advantage that GMO products offer, if we simultaneously reduced our capacity to compete in other product sectors.

19.2: DEVELOPING INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT) IN THE AGRI-FOOD SECTOR

In the past twenty years or so developments in Information and Communications Technologies have fundamentally altered how we do business. All the indications are that the changes over the next ten to twenty years will be even greater, as these technologies mature and develop further, spurred on by deregulation in telecommunications markets. As our economy continues to grow, and the labour market

⁸⁶ Directive 90/220/EEC on the deliberate release of genetically modified organisms to the environment

⁸⁷ Policy Statement, Minister for Environment and Local Government, 9 October 1999

in this country becomes tighter, IT and automation will offer an important route to the increased productivity that will be necessary for businesses to survive and prosper.

The agri-food sector will be no exception in this regard. ICT has already had a major impact, e.g. through electronic point of sale systems in retailing. Much larger changes are already beginning and will be well established by 2010:

- Internet retailing is in its infancy, but is clearly a growth sector. Initial development was mainly in sales of books, CDs and other standard products, but analysts now suggest that, within five years, 10% of Britain's £120 billion grocery trade could be controlled by internet retailers linked to home delivery operations⁸⁸. Some of the major British and European multiples are already securing their place in this new market, but Irish retailers have so far been slower to respond.
- Business to business applications of ICT are transforming the relationships between the retailers and their suppliers. The Efficient Consumer Response (ECR) model is based on close interaction between IT systems in both types of business. *'Food retailers are using extranets and e-business tools to drive efficiency in their supply chains, to streamline distribution networks, to improve traceability, to enhance quality assurance and to build customer relationships and loyalty'*⁸⁹. As retailers increase demands on their suppliers (see section 2), only those with the ICT capacity to link up in this way will be considered as potential partners by the major retailers. Enterprise Ireland's Supplier Development Programme is, in part, directed at developing the necessary capacity in Irish suppliers.
- Niche producers and retailers are also finding that the Internet is a natural and relatively easy way to sell their products to a much wider market than they would otherwise have access to. ICT offers possibilities not just

to the large company, but offers the small company the opportunity to level the marketing playing field somewhat.

- The Government is strongly committed to developing its own capacity to deliver its services electronically. The launch of the Revenue On-Line Service is an indication of the direction in which rapid movement can now be expected. As both the food industry and farmers have a higher level of interaction with Government agencies than other sectors, they can gain considerably from the improved efficiency that should result.
- Some farmers are already aware of the benefits of the Internet as a means of communication and a source of valuable information. As farmers are scattered over a wide area, and often find difficulty in coming together for training courses at set times, this technology has great potential in farmer training and agricultural extension. It will also offer the most feasible solution to the growing burden of administrative work that farmers must undertake to obtain the direct income payments on which they are increasingly dependent. E-Government potentially offers farmers very significant benefits, provided they are in a position to access this technology.

Retailers, processors, farmers and Government agencies will all therefore be fundamentally affected by the future development of ICT. In the Committee's view, it is no exaggeration to say that only those who make the effort and investment needed to stay abreast of these developments will survive in the longer term. Rural industries and rural areas have more to gain from the new technology than those in less isolated locations. There is therefore a strong social as well as economic imperative in the commitment to ICT in the agri-food sector.

⁸⁸ The Sunday Times, 23 January 2000

⁸⁹ Enterprise 2010, Forfás, January 2000

While the potential of the new technology is clear and widely acknowledged, the Committee is concerned that action is slower than warranted given the pace of ICT developments elsewhere.

The Committee therefore:

- ☐ Welcomes the work of the Information Society Commission and urges it to pay particular attention to ICT applications in rural areas and in indigenous industries.
- ☐ Suggests that trade organisations, including retailer, processor and farmer organisations, in the agri-food sector should establish expert groups to examine ICT developments, and to identify and promote best practice.
- ☐ Also welcomes the launch of a new e-business programme by Enterprise Ireland, following the commitment in the National Development Plan that *'a major initiative will be undertaken to encourage indigenous companies especially SMEs to adopt IT and e-commerce as intrinsic tools of business'*⁹⁰. Implementation of this commitment should include both specialist and management training in ICT. Companies may also require assistance with necessary capital investment, and provision should be made for this under the relevant funding elements in the NDP.
- ☐ Urges DAFRD, Teagasc and other State agencies to become leaders in ICT applications, both because of the efficiency improvements this will produce and the encouragement it will provide for others in the sector to match these developments.
- ☐ Emphasises the importance of ensuring that rural areas are not allowed to fall behind in the development of the necessary infrastructure, including broadband access, for the latest ICT developments. Indeed a cogent case can be made for a policy of positive discrimination in favour of rural areas in this respect. The new National Rural Development Forum should monitor this issue carefully.

20. SUPPORT SERVICES

Implementation of the Committee's recommendations will involve co-operation and partnership between farmers, the food industry and State agencies. The following sections of the report consider the support services operated by four of the main State agencies involved in the agri-food sector, and examine, in particular, how their focus is changing to adapt to the new challenges facing the sector.

20.1: SUPPORT SCHEMES AND SERVICES OF DAFRD

The Department of Agriculture, Food and Rural Development (DAFRD) is responsible for expenditure of almost £2 billion annually, run on an administrative budget of around £130m. Since the 1992 CAP Reform, an increasing amount of the budget has been spent on direct payments to individual farmers, rather than on market supports to the processing industry. The number and complexity of payments made each year has increased enormously, and this trend is set to continue under Agenda 2000.

The efficient administration of DAFRD's regulatory, supervisory and administrative functions is crucial to the economic position of farmers and the food industry, and is important to the wider rural community.

Recognition of this fact has led the Department to place a strong emphasis on the customer service dimension of its provision of schemes and services. Under the Charter of Farmers' Rights (1995), and the Customer Service Action Plan (1998), the Department committed itself to targets governing delivery times of headage and premia schemes, turnaround times in respect of virtually all of the schemes and services provided, and high standards of delivery (timeliness, transparency as to reasons for decisions, and courtesy).

Over the period to 2010 the Department intends to deepen and consolidate these achievements, by strengthening its

capacity to respond quickly to the individual needs of customers as well as to changes in the regulatory and economic environments. In this connection, the Department intends to participate fully in the development of e-Government.

The Government has made a number of specific commitments under the Programme for Prosperity and Fairness in relation to DAFRD customer service. These include commitments to do the following:

- ☐ Introduce a new Protocol on direct payments to farmers dealing with issues such as payment schedules, penalties, inspections etc. The Government will give priority to providing the necessary personnel and ICT resources to meet the deadlines in the Protocol, consistent with efficiency and effectiveness. A monitoring committee will be established to review performance against targets.
- ☐ Automate and streamline to the extent possible its documentation and procedures in relation to FEOGA schemes. DAFRD will also maximise the use of the data collected under the Cattle Movement Monitoring System (CMMS), thereby permitting automatic payment of supports where it is practicable.
- ☐ Work towards providing and accepting all relevant documents in electronic form, to the extent that this is legally possible.

The Committee welcomes the commitments made in the PPF. Every effort should be made to ensure that the very large number of schemes and services operated by the Department are undertaken with the minimum possible bureaucracy, consistent with the need to apply scrupulously the provisions of EU and national law and the requirements for proper financial and technical controls.

The Committee believes (see Section 19.2) that new information technologies offer significant opportunities in this regard. We also feel that further gains are possible from the consolidation of scheme procedures such as the implementation of a single farm means assessment (see Section 17.6) for all schemes, which might also usefully be further consolidated with means assessments by other Government Departments. Similarly it might be possible to amalgamate inspections for various schemes without any loss of control, but with efficiency gains to both the farmer and DAFRD from a reduction in the number of inspections. In general, every opportunity should be taken to integrate and consolidate controls and inspections consistent with good regulatory practice.

The Committee is aware that resource problems have from time to time led to difficulties in meeting the payment deadlines to which the Department is committed. Adequate staff numbers, IT resources and office and other facilities are essential if DAFRD is to play a full role in supporting the development of the sector. The Committee therefore welcomes the commitment in the PPF on this issue.

20.2: RESEARCH, ADVISORY AND TRAINING SERVICES OF TEAGASC

Teagasc is the body charged with providing research, education and training in the agri-food sector. The strategic planning initiative entitled Teagasc 2000 set out a new focus for Teagasc's Research, Advisory and Training Services for the period to 2005.

Research Services

Teagasc has nine Research Centres, and an extensive network of formal and informal collaboration has also been developed between researchers in Teagasc and their university counterparts.

The new research strategy involves a substantial re-orientation of Teagasc's research services towards the areas of food safety, quality and innovation. In addition to the further development of Teagasc's capability in policy analysis, a major new research initiative is proposed in agri-food biotechnology. Further details of the new research strategy are as follows:

- ☐ an increased proportion of Teagasc resources are allocated to food processing, and consumer aspects of agricultural production with particular emphasis on food safety, new consumer product development, ensuring more consistent quality in beef and supporting SMEs;
- ☐ substantial additional resources are required to build, in conjunction with the universities, the capacity to monitor, evaluate and harness developments in biotechnology;
- ☐ increased priority will be given to (a) the further development of sectoral and farm models to project the impact of CAP Reform, trade liberalisation and environment constraints and (b) developing models of consumer preferences to predict future demands for Irish food products;
- ☐ priority will be given to quantifying and minimising the environmental impact of a range of farming systems and to developing strategies to minimise gaseous emissions in livestock production;
- ☐ livestock and crops research will be concentrated on enhancing Ireland's competitive advantage through lowest cost production systems and increased consistency and quality of products.

The issue of biotechnology has already been referred to in Section 19.1. To have an internationally competitive agri-food sector in the immediate years ahead, Ireland must build, as a matter of urgency, a world class capability in agri-food biotechnology. To put in place this capability as rapidly as possible, Teagasc believes that priority needs to be given to developing three applied biotechnology centres in crops,

livestock and food, by upgrading existing research facilities. The investment necessary would be of the order of £50-£100 million over 5 to 7 years.

Advisory Services

Teagasc is in the process of converting the Farm Technology Service into a Technology and Business Service. The Farm Viability and Rural Enterprise Services are being brought together into a more comprehensive and cohesive Rural Viability Service.

The primary focus of the Technology and Business Service will be the transfer of technology to, and the development of best business practice by, the commercial and largely full-time farming sector. This is being achieved through increasing the number and participation in discussion groups, the establishment of monitor farms and carrying out analysis of the financial performance of individual farm enterprises and farm businesses. Future advisory programmes will focus on achieving competitiveness while ensuring full compliance with food safety, animal welfare and environmental concerns. Continuing training will be an important element in the support services for these farmers. Advanced management courses, together with short courses in areas such as food safety and operator skills training, will be essential in enabling farmers to meet these challenges.

The Rural Viability Service will target smaller scale, less intensive, full time and part time farmers. It will work with these farmers to ensure that they optimise their income from a combination of efficient environmentally friendly farming, direct income supports, REPS and the establishment of alternative enterprises, small businesses or off-farm employment. The service will proactively encourage and stimulate farm families to participate in a structured advisory and training programme, which is based on an analysis of the current position, options analysis and the implementation of a survival strategy.

Training Services

In response to the increased competitive pressures in farming, together with the growing number of part-time farmers and the demand for training in alternative farm and rural-based enterprises, substantial changes are being made in the training services provided by Teagasc. New training programmes are being implemented and fundamental changes are being made in the manner in which some programmes will be delivered.

A new three-year Diploma in Agriculture has been introduced for young people embarking on a full-time career in commercial farming. To cater for the expansion in the amenity and leisure sectors, courses in amenity and commercial horticulture have been combined into a three-year Diploma in Horticulture.

The duration of the Certificate in Farming has been reduced from three to two years, with no diminution in course content. Prospective part-time farmers will be encouraged to participate in this course. To meet their needs, the Certificate will be offered in a flexible manner employing distance learning and, where required, by providing the courses at night and weekends.

Plans are well advanced to have Teagasc's training programmes incorporated into the Central Applications Office (CAO) application system. The accreditation of the courses by the National Council for Educational Awards and the National Council for Vocational Awards will allow those students who reach the necessary standards to progress to third level diploma and degree qualifications.

Teagasc will continue to provide: further training and continuing education for adults, particularly women, on farms, including training in food safety; training courses in rural enterprises; and training courses in horticulture.

Teagasc is also considerably involved in the development of training courses for the food processing industry.

The Committee supports the new direction set for the research, advisory and education services in Teagasc 2000. The planned developments are compatible with the main findings and recommendation of this report in relation to agriculture. We urge the speedy implementation of, and the provision of regular progress reports on, the programme of change outlined in Teagasc 2000. We particularly welcome the re-orientation of the advisory and training services around the separate needs of full and part-time farmers. This perspective should inform all the agricultural support services.

The Committee believes that new skills are urgently required in a number of research areas, in particular biotechnology, environmental science and animal health/welfare. These skills must be complemented by investment in upgrading production centres and providing proper food training facilities. Teagasc might also consider the possibility of concentrating production research at fewer locations in order to achieve critical mass in these activities.

In section 17.5 of this report, we indicated the importance we attach to the much needed overhaul of agricultural education which is now being undertaken, and we welcome the formation of the task force on agricultural education. When that report is completed, its results will need to be integrated into the overall strategy for the sector.

20.3: MARKETING AND PROMOTION SERVICES OF AN BORD BIA

An Bord Bia has responsibility for the market development and promotion of Irish food and drink. It operates from the home market and has regional offices in Dublin, Dusseldorf,

London, Madrid, Milan, Moscow and Paris. It is funded through Government grant-in-aid, statutory levies on meat and livestock, industry income from programmes and services, and the EU quality beef promotion fund.

A national food marketing programme is important to the future development of the Irish food industry, as a platform for joint promotional activities, as a facilitator of company development, and as a provider of shared marketing services. Following on the work of the Food Industry Development Group, the preparation of a new beef marketing strategy, and an internal strategic review, the organisation will continue to develop its role while refocusing its activities in a number of respects.

Key new initiatives will be in the following areas:

- ☐ further development of Bord Bia's information service to provide and disseminate leading edge information and analysis for the food industry;
- ☐ increasing the emphasis on developing the marketing capabilities of food companies;
- ☐ assisting companies in targeting new markets and new market segments;
- ☐ implementation of the beef marketing strategy, with a major increase in beef promotion.

Bord Bia's strategy for supporting food industry marketing will continue to provide a platform for joint promotion of primary products, promoting an identity for Irish foods, both in Ireland and in other markets. Collective promotional programmes are important marketplace tools to Irish producers and processors. A major increase in beef promotional activity is required, as provided for in the beef marketing strategy.

The core of Bord Bia's approach to market development lies in programmes under which Bord Bia works with a group of companies to address a chosen market opportunity. These programmes are designed to assist industry in addressing the

main strategic opportunities identified in terms of geographical markets, distribution channels (ranging from retail, through food service, to remote shopping) and product categories.

It is vitally important that Irish food companies should have access to leading edge information and analysis. Bord Bia plans to substantially strengthen its existing information service and will also play a more active role in disseminating information and analysis to the industry, using appropriate delivery systems, including Internet technology.

Bord Bia also has the role of developing the marketing capabilities of food companies. It addresses this role through grants under the Marketing Improvement Programme. Bord Bia plans to strengthen and refocus its developmental role with companies by targeting resources at smaller companies which demonstrate the potential to develop. The Programme will emphasise support for enhancing capabilities in the areas of market research and acquisition of knowledge, and support for recruitment and development of marketing personnel.

The Committee views increased investment in marketing as critical to the future of the food industry – see Section 16.1. Today's rapidly evolving food market-place requires successful companies to be innovative in terms both of the development and the marketing of consumer food products. Bord Bia has a lead role to play in providing the marketing perspective to support new industry initiatives and to ensure implementation of the recommendations for a more proactive approach to marketing outlined in Section 16.

Marketing is also of vital importance for the large commodity product sectors. In particular, the Committee believes that a strong well resourced marketing effort is now needed to re-establish Irish beef on EU markets – see Section 16.5. This is an urgent

task, in which all elements in the industry must play their part, but clearly Bord Bia's role will be of central importance.

The Committee welcomes and supports Bord Bia's intention to further develop its information services. As the pace of change in the marketplace intensifies the need to produce timely, relevant and up-to-date market information to food companies will be critical. A comprehensive market research and intelligence service, embracing market and product trends, the identification of strategic opportunities and emerging market segments, and understanding customer and competitor strategies, could be a key catalyst for consumer focused development in the sector.

20.4: FOOD INDUSTRY DEVELOPMENT SERVICES OF ENTERPRISE IRELAND

In recent years Enterprise Ireland (EI) has increased the resources it allocates to work with the food industry, both centrally and in its regional offices. In addition to having sectoral specialists appointed to all the key sectors of the Irish food industry, EI is responsible for overseas food companies based in Ireland, where there is a strong relationship with the Irish raw material supply base.

Enterprise Ireland's food division is involved in:

- ☐ building strong companies to capitalise on the growing market for prepared consumer foods;
- ☐ developing sectoral strategies to address the major issues faced in the primary food sectors;
- ☐ contributing to the number and quality of new food start-ups.

Services to EI clients are delivered in an integrated manner by a Development Adviser, the company's primary point of contact within the organisation. The services are delivered within a Business Development Model framework which provides clients with solutions in the areas of strategy,

research & development, production & operations, marketing, human resources and finance.

Enterprise Ireland:

- ☐ works closely with clients to support the development of an appropriate strategic direction for the company across all key business functions;
- ☐ provides significant funding to support companies to improve the quality of their R&D by helping them access best practice in innovation from Irish and foreign companies operating across all food industry sectors; services include diagnosis, innovation management, training and overseas study trips;
- ☐ provides companies with consultancy and funding support to improve efficiency, from cost to quality, through a range of tailored programmes including world class manufacturing, total quality management and benchmarking;
- ☐ has a team of dedicated HR specialists working with companies in the development of world class management, highly skilled staff and effective business systems. Companies receive education and training programmes which are flexible and standards based;
- ☐ provides a range of financial supports, both grants and equity, to companies in the areas of capability development and capacity expansion. Support is matched to the specific development needs of the individual company.

These services are available to both existing clients and start-up companies which are considered to have high potential. Enterprise Ireland has put together a team of its most experienced development advisers to work 'hands on' with new high potential start-up companies.

The Committee has set out in Section 16 of this report a clear set of priorities for the development of the food industry over the coming years. Each of the actions indicated is critical, and Enterprise Ireland will play an important role in many of them. In particular, EI should focus on the need to:

- ☐ **radically increase the level of R&D effort in the sector (section 16.2);**
- ☐ **develop strategic partnerships along the value chain (16.3);**
- ☐ **rationalise primary processing (16.4);**
- ☐ **further develop the rapidly growing value added sectors(16.8);**
- ☐ **develop a new approach to human resource management in the food industry (16.10).**

This is a very ambitious list of priorities. EI will not be working on its own on these issues, indeed a strong co-ordinated focus on these strategic issues will be needed from all State bodies and industry participants if we are to make the necessary headway, but EI's role will be pivotal. The Committee therefore looks to EI to provide leadership in implementation of many of the recommendations in this report.

05



Appendices

05

Appendices

APPENDIX 1: AGRI-FOOD 2010 COMMITTEE MEMBERSHIP

Terms of Reference:

‘To propose a strategy for the development of Irish agriculture and food over the next decade, following the agreement on Agenda 2000, and in the light of the changes and challenges which are likely to evolve nationally and internationally over that period’

Membership:

Pat O’Neill	Chairman
Frank Allen	Former President, ICMSA
Dan Browne	Managing Director, Dawn Meats
Noel Cawley	Managing Director, Irish Dairy Board
Niall Fitzgerald	Chairman, Unilever PLC
Carmel Foley	Director of Consumer Affairs
Joe Healy	Farmer
John Kane	National Industrial Secretary, (Private Sector) SIPTU
Jim O’Grady	Group Technical Manager, IAWS
Patricia O’Hara	Senior Policy Analyst, Western Development Commission
Tom Parlon	President, IFA
Séamus Scally	Group Managing Director, Musgrave Group
Séamus Sheehy	Professor of Agri-Business, UCD

Secretariat*:

Aidan O’Driscoll	Chief Economist, DAFRD
Sinéad McPhillips	Economics and Planning Division, DAFRD
Éamonn Pitts	Head, Rural Economy Research Centre, Teagasc

* The Secretariat wish to acknowledge the significant input received to their work from a large number of individuals, in particular Julie Sinnamon of Enterprise Ireland and Aidan Cotter of Bord Bia.

APPENDIX 2: SUBMISSIONS RECEIVED

The following is a list of all the submissions received by the Agri Food 2010 Committee. All submissions have been made available on the committee's website (www.agrifood2010.ie).

- Submission 1. ICOS
- Submission 2. Irish Farmers Association
- Submission 3. Animal & Plant Health Association
- Submission 4. An Bord Glas
- Submission 5. Compassion in World Farming
- Submission 6. Earthwatch
- Submission 7. Farm Apprenticeship Board
- Submission 8. Food, Drink and Tobacco Federation
- Submission 9. Food Safety Authority of Ireland
- Submission 10. Genetic Concern
- Submission 11. Health and Safety Authority
- Submission 12. ICOSA
- Submission 13. National Co-Operative Pig Producers Society
- Submission 14. Independent Analytical Services Ltd
- Submission 15. Integrated Farm Management Ltd
- Submission 16. Irish Egg Association
- Submission 17. The Irish Grain and Feed Association
- Submission 18. Kilkilleen Organics
- Submission 19. Lendac Data Systems
- Submission 20. Mayson, Hayes & Curran, Solicitors
- Submission 21. National Sheep Breeders Association of Ireland
- Submission 22. The Natural Law Party
- Submission 23. Organic Trust Limited
- Submission 24. Royal Dublin Society
- Submission 25. An Taisce
- Submission 26. Veterinary Council of Ireland
- Submission 27. Kim Pierce
- Submission 28. Charles Kennedy
- Submission 29. Kathleen Walker
- Submission 30. Noel & Jean Molloy
- Submission 31. John Brennan
- Submission 32. Jean Perry
- Submission 33. Dr. Matthew A Parkes
- Submission 34. Macra na Feirme
- Submission 35. Irish Grassland Association
- Submission 36. Teagasc
- Submission 37. Irish Veterinary Union and Irish Veterinary Association
- Submission 38. Irish Landowners Organisation Ltd.
- Submission 39. Tony Petitt

APPENDIX 3: LIST OF ABBREVIATIONS

AI	Artificial Insemination
BSE	Bovine Spongiform Encephalopathy
CAP	Common Agricultural Policy
CMMS	Cattle Movement Monitoring System
CPA	Combat Poverty Agency
CSO	Central Statistics Office
DAFRD	Department of Agriculture, Food and Rural Development
DMNR	Department of Marine and Natural Resources
DOELG	Department of Environment and Local Government
DSCFA	Department of Social, Community and Family Affairs
ECR	Efficient Consumer Response
EI	Enterprise Ireland
EPA	Environment Protection Agency
ERS	Early Retirement Scheme
ESRI	Economic Social Research Institute
FAO	Food and Agriculture Organisation
FAPRI	Food and Agriculture Policy Research Institute
FEOGA	European Agricultural Guidance and Guarantee Fund
FIDG	Food Industry Development Group
FSAI	Food Safety Authority of Ireland
FSPB	Food Safety Promotion Board
GDP	Gross Domestic Product
GMO	Genetically Modified Organisms
ICBF	Irish Cattle Breeding Federation
ICT	Information and Communications Technology
IDA	Industrial Development Authority
IFPRI	International Food Policy Research Institute
NAPS	National Anti Poverty Strategy
NDP	National Development Plan
NFS	National Farm Survey
OECD	Organisation for Economic Co-operation and Development
PPF	Programme for Prosperity and Fairness
REPS	Rural Environment Protection Scheme
R&D	Research and Development
RTDI	Research, Technological Development and Innovation
SMEs	Small and Medium Enterprises
TB	Bovine Tuberculosis
WTO	World Trade Organisation
YTF	Young Trained Farmers

APPENDIX 4: REFERENCES

- Bord Glas, *'An Bord Glas Development Plan 2000-2006'*, 1999
- Boyle G, *'The Competitiveness of Irish Agriculture'*, 1998
- Boyle G et al, *'The Competitiveness of Irish Agriculture'*, 1992
- Boyle G. and M. Ryan, *'Technological Progress in Irish Agriculture: The Role of the State'*, 1992
- Callan et al, *'Monitoring Poverty Trends'*, ESRI/CPA/DSCFA, June 1999
- Connolly L, *'Competitiveness of Irish Sheep Production'*, Teagasc, 1997
- Datamonitor, *'European Natural and Organic Food and Drinks 1999'*, 1999
- Delgado C. et al, *'Livestock to 2020, the Next Food Revolution'*, IFPRI/FA/ILRI, May 1999
- Department of Agriculture, Food and Rural Development, *'Report of the BSE Scientific Advisory Committee'*, February 2000
- Department of Agriculture, Food and Rural Development, *'Report and Recommendations of the Sheepmeat Forum'*, September 1999
- Department of Agriculture, Food and Rural Development, *'White Paper on Rural Development: Ensuring the Future – A Strategy for Rural Development in Ireland'*, 1999
- Department of Agriculture, Food and Rural Development, *'Report of the Beef Task Force'*, June 1999
- Department of Agriculture and Food, *'Annual Review and Outlook for Agriculture and the Food Industry 1998'*, 1999
- Department of Agriculture and Food, *'Report of the Food Industry Development Group'*, December 1998
- Department of Agriculture and Food, *'Statement of Strategy, 1998-2000'*, 1998
- Department of Agriculture and Food, *'Report of Poultry Industry Forum'*, March 1996
- Department of Agriculture and Food, Department of the Environment, *'Code of Good Agricultural Practice to Protect Waters from Pollution by Nitrates'*, July 1996
- Department of the Environment and Local Government, Policy Statement, Minister for Environment and Local Government, 9 October 1999
- Department of the Environment and Local Government, *'Report of the Chairing Panel on Genetically Modified Organisms and the Environment'*, October 1999
- Department of the Environment, *'Sustainable Development - A Strategy for Ireland'*, 1997
- Department of the Taoiseach, *'Programme for Prosperity and Fairness'*, January 2000
- European Commission, *'White Paper on Food Safety'*, COM/99/719, Brussels 12 Jan 2000
- Donnellan et al, *'Impact of the Berlin Agreement on Irish Agriculture'*, FAPRI-Ireland/Teagasc, 31 May 1999
- Duffy et al, *'Medium Term Review 1999-2005'*, ESRI, October 1999
- European Commission, *'The European Approach to the Millennium Round'*, Communication from the Commission to the Council and European Parliament, 1999
- European Economy, *'Reports and Studies, No. 2, 1999: Income Insurance in European Agriculture'*, DG II, Economic and Financial Affairs
- Fischler, Franz, *'The Agenda 2000 Agreement: Der Himmel über Berlin or Sleepless in Seattle?'*, Agra Europe Conference, 29 June 1999
- Fischler, Franz, *'The European model of agriculture – facing the WTO acid test'*, CEA Congress, Verona, 24 September 1999
- Fitzgerald et al, *'National Investment Priorities for the period 2000-2006'*, ESRI, 1999
- Food Safety Authority of Ireland, *'Food Safety and Genetically Modified Foods'*, 1999
- Forfás, *'Enterprise 2010'*, January 2000
- Frawley J and Commins P. (Teagasc), S. Scott and F. Tracey (ESRI) *'Low Income Farm Households: Incidence, Characteristics, and Options for Improving Policy Measures'*, (draft)
- Gardner B., *'European Agriculture in the New Millennium'*, Agra Europe 1999
- Goodbody Economic Consultants, *'Food, Drink & Tobacco Industry Sectoral Study 1998-2003'*, August 1998
- Government of Ireland, *'National Development Plan 2000-2006'*, 1999
- Government of Ireland, *'Sharing in Progress: National Anti Poverty Strategy'*, 1997
- Harte LN, *'Rapid Expansion of Irish Food Companies 1987-97: Governance, Strategy and Managerial Explanations'*, Agricultural Economics Society, June 1999
- ICSTI/Forfás, *'Technology Foresight Ireland Report'*, 1999

APPENDIX 4: REFERENCES (cont'd)

- Kelly P et al, *'The Cost Competitiveness of Irish Pig Industry'*, Teagasc, 1998
- Kelly P.W., *'Cost Competitiveness of Irish Cereal Production'*, Teagasc, 1999
- Kennedy, K. & Williams, J., *'A Study of the Likely Demand for Training in Agriculture up to 2010'*, ESRI, April 1999
- Kyoto Protocol to the United Nations Framework Convention on Climate Change, December 1997
- Lafferty et al, *'Irish Agriculture in Transition, A Census Atlas of Agriculture in the Republic of Ireland'*, Teagasc/NUI Maynooth, 1999
- Lampkin N and Padel S, *'The Economics of Organic Farming: An International Perspective'*, 1994
- Mannion J. et al, *'Creating a future for Dairy Farm Households: A Key Element of Rural Renewal'*, The Co. Clare Partnership Dairy Action Research Programme, UCD, April 1999
- Matthews A, *'Study of the Competitiveness of the Irish Agriculture Sector'*, 1998
- McKinsey and Co., *'Preparing the Irish Beef Sector for the 21st Century'*, 1998
- O'Connell J et al *'Cattle and Beef Prices in the EU'*, Teagasc, June 1999
- O'Connell J and Dunne L, *'Inter-Country Comparisons of Direct Payments and Total Revenues for Beef'*, Teagasc, June 1999
- OECD, *'The Future of Food – Long-term Prospects for the Agro-food Sector'*, OECD 1998
- Sheehy S, *'Cost of Energy from Grass, Silage and Concentrates'*, UCD November 1999
- Sheehy S & O'Connor D, *'Report on the Future of Irish Agriculture'*, Oireachtas, 1999
- Teagasc, *'National Tillage Conference 2000 Proceedings'*, February 2000
- Teagasc, *'National Farm Survey 1998'*, July 1999
- Teagasc, *'Teagasc 2000: A Strategy for Teagasc Services to the Food and Agriculture Industry in Ireland'*, July 1998

APPENDIX 5: INDEX

Agenda 2000	1, 10, 41, 51	GMOs	See biotechnology
agricultural education	See human resources	horticulture	7, 12, 44, 58
animal feed	18, 38	human resources	15, 19, 25, 34, 35, 37, 43, 44, 58
animal health	8, 21	innovation	14, 25, 27, 32, 57
animal welfare	8, 12, 23	investment	37, 42, 43
arable/cereals	7, 12, 24, 38	land mobility	6, 37, 39
beef	2, 7, 11, 15, 19, 20, 25, 28, 30, 31, 35	marketing	14, 15, 18, 26, 28, 30, 31, 59, 60
biotechnology	9, 52, 53, 57	National Development Plan	7, 10, 27, 52, 55
Bord Bia	18, 19, 24, 26, 30, 34, 59	organic	23, 32, 53
competitiveness	3, 12, 13, 14, 15, 25, 35, 36, 37, 38, 39	partnership	15, 25, 27, 33, 35, 41
consumer	2, 13, 14, 15, 17, 25, 27	part-time farmers	5, 13, 20, 36, 43, 44, 50
DAFRD	9, 39, 40, 44, 47, 51, 55, 56, 57	pigs	10, 11, 22, 29, 32
dairy	7, 11, 13, 15, 21, 25, 28, 29, 31, 32, 37, 41, 42	poultry	10, 12, 25, 29, 32
direct payments	1, 20, 21, 31, 46, 47, 49, 51, 56	prepared consumer foods	15, 25, 33, 60
enlargement	1, 2, 14, 30	Programme for Prosperity and Fairness	22, 40, 42, 56
Enterprise Ireland	29, 34, 49, 54, 55, 60, 61	R&D	See innovation
environment	See rural environment	rationalisation	11, 14, 15, 25, 28, 29, 31, 32
euro	4, 7	retail	2, 17, 25, 26, 28, 33
export refunds	2, 7, 31	rural development	9, 10, 14, 46, 49
farm income	6, 46, 47, 48	rural environment	10, 12, 14, 46, 50
food ingredients	7, 25, 32, 33	rural poverty	6, 46, 48
food quality	2, 8, 14, 19, 20, 33	sheep	11, 21, 22
food safety	8, 14, 17, 18, 19, 25, 27	Teagasc	11, 19, 27, 44, 47, 55, 57, 59
food service	2, 14, 15, 17, 26, 33	technology	52, 53, 55
full-time farmers	5, 13, 20, 36, 39, 43, 44	WTO	2, 8, 10, 30, 31, 41, 51