



**BRITISH-IRISH
INTER-PARLIAMENTARY BODY**

**COMHLACHT IDIR-PHARLAIMINTEACH
NA BREATAINE AGUS NA hÉIREANN**

REPORT

from

COMMITTEE C (Economic & Social Affairs)

on

**CHALLENGES AND OPPORTUNITIES
FACING THE SMALL FARM SECTOR**

EXECUTIVE SUMMARY

During the course of its enquiry, the Committee held meetings in Dublin on 1 February and in London on 28 February 2005. Members of the Committee visited farms on both sides of the Irish border on 3 March 2006 and a farm in Scotland on 20 April 2006.

In Dublin the committee heard oral evidence from the Minister for Agriculture and Food, Mary Coughlan TD, Minister of State at the Department of Agriculture and Food, Brendan Smith TD, Mr. Alan Dukes, Chairman of the Agri-Vision 2015 Committee, officials from the Department of Agriculture and Food and the Department of Community, Rural and Gaeltacht Affairs and representatives of the Irish Farmers Association. In London, the Committee held meetings with Lord Whitty, Parliamentary Under-Secretary of State at the Department of Environment, Food and Rural Affairs (DEFRA) as well as representatives of the National Farmer's Union, the Small Farms Association and the organisation FARM.

In writing this report, the Committee acknowledges that much study has been done in recent years on the future of farming in these islands. The Committee did not seek to replicate work that has previously been done. Rather, the Committee sought to highlight issues of particular concern to small farmers and in so doing identify appropriate responses to them. Brief summaries of the Agri-Vision 2015 report on Irish Agriculture and the Curry Commission report on the agricultural sector in England are provided below in order to give an overview of the current situation and the factors influencing policy development.

Many of the issues identified by the Committee were similar to those identified in 2000, such as rationalisation of the farming industry and the need to focus on niche high-quality products in order to survive. These issues are even more relevant today than they were in 2000. However, other factors, not least increased competition, the impact of the evolving EU Common Agricultural Policy and world trade negotiations have greatly increased the pressure on small farmers to evolve and meet the challenges of the new environment.

Trends and Issues

During their discussions with farmers and farmer representatives, a number of issues and trends were identified. These included

- The introduction of Decoupling and Single Farm Payment
- An increasing trend towards large and very small farms, and a consequent reduction in small-medium sized farms
- A reduction in the number of full-time farmers and an increase in part-time farming
- The increased role of the market
- An increase in the net value of subsidies as a percentage of farm income
- A move towards "country of origin" labelling

- A decline in the Sugar Beet Industry
- Changes to the milk quota system
- Increased regulation including the nitrates directive
- Restructuring of the industry
- Increase in the sale of farm sites for development and house-building
- Increased gap between sales price and price paid to farmers
- A higher demand for organic farming and produce
- The development of bio-fuel and forestry

Issues which emerged as specific problems for Small Farmers included:

- Lack of funds for capital investment
- Increase in part-time farming
- Bureaucracy involved in applying for funding
- Low economies of scale
- Need to supplement farm income through diversification and off-farm activity

CONCLUSIONS AND RECOMMENDATIONS

It is the view of the Committee that a number of factors need to be addressed in order to ensure the viability of small farmers in Ireland and Britain into the future. These include

- **Financial Management**

Proper financial management can have a serious affect on the viability of small farms. In particular, the need to balance income with costs and secure bridging finance, as well as availing of grant and funding sources. The Scottish 'monitored farms' initiative is a good example of trying to help farmers to improve their financial management, and in so doing increase efficiency and reduce costs. Governments and farmers organisations should provide assistance and training in cash flow management so that farmers achieve maximum efficiency and reduce costs

- **Increasing Regulation**

Ever more stringent regulations, such as the EU Nitrates Directive, place increased pressure on farmers to comply and can have significant cost implications. Assistance needs to be provided to assist farmers in complying with regulations.

- **Bureaucratic Procedures**

Farmers often find that they are unable to avail of existing funding and grants due to the lengthy and bureaucratic procedures involved in making applications. The new EU Farm Advisory System, if implemented by Member States and taken up by the farming community should assist farmers in

accessing funding available to them. Further efforts should be made to simplify procedures and advise farmers on applying for funding.

- **Price Pressures**

So long as the existing imbalance in power between primary producers and supermarkets continues, it is difficult to see farmers receiving a fair share of the final selling price. Farmers are encouraged to develop relationships with local and niche retailers which can command higher prices and avoid expensive middlemen where possible.

- **Diversification**

It is clear that many small farmers are having to diversify into non-core activities in order to maintain viability. This should be encouraged and support systems put in place to enable farmers to extract maximum benefit from their land resources and supplement their income. Opportunities for diversification include the production of bio-fuels and forestry.

- **Niche Markets**

Farmers are encouraged to develop products for niche markets with a focus on high quality and local branding. The growing market for organic produce offers significant opportunities in this regard.

- **Education, Training and R&D**

Training should be provided in the latest techniques so that farmers can avail of new technologies in order to improve efficiency. Governments are encouraged to increase their investment in R&D via agencies such as Teagasc in Ireland.

Background

At its meeting in Chepstow, Wales in October 2004, Committee C agreed to commence an enquiry into issues affecting the small farm sector in Ireland and Britain. The enquiry would build on the Committee's previous work in this area while focusing on key recent developments including the enlargement of the European Union, reform of the Common Agricultural Policy, and impact of the recent WTO negotiations.

2000 Report on the Future of Small Farms

Committee C previously carried out an enquiry into the future of small farms in the rural economy between 1998 and 2000. This enquiry, which focussed on small farming regions in Ireland, North and South, raised a variety of issues and made a number of recommendations. The Committee concluded that the preservation of vibrant rural communities should remain a primary objective of Governments, and of

the EU, and to that end the largest reasonably attainable number of viable farm units should be supported. The Committee suggested that the long-term future for farmers in Ireland must lie in opting for the production of a quality product, instead of an intensive system. The report also explored issues such as the take up of innovative developments, in particular where there was a significant time lapse between the initial investment and income coming on-stream and off farm incomes and rural development schemes. The enquiry examined the different assistance schemes then available including the Leader Programme and, more generally, pointed to the need, if small farms and rural communities are to survive, to find a new generation to take up farming.

Scope of Enquiry

In the six years which have elapsed since the 2000 enquiry, there have been significant changes to the landscape in which small farms operate and in particular to the public policy environment in which they are positioned. The objective of the new enquiry was to revisit some of the issues raised in the 2000 report, while exploring the impact of recent developments such as EU enlargement, changes in EU Agricultural policy and implications for farmers of the recent WTO negotiations.

Definition of Small Farm

There is no commonly accepted definition of what constitutes a small farm. However, the most common approach in the British/Irish context is to define small farms on the basis of the size of landholding or livestock numbers. For the purpose of this enquiry, we defined a small farm as anything between 80 and 250 Acres.

EU Agricultural Policy

A fundamental change is taking place in European Agricultural Policy with the **decoupling** of agricultural direct payments from production. The new policy environment will lead to changes in both the volume of output and level of inputs used in European agriculture.

The 2003 reform of the CAP introduces a new system of **single farm payments** (income support) and cuts the link between support and production (decoupling). The CAP was based on a series of direct aids linked to area, production and number of livestock units. Following decoupling, aids paid to producers will no longer be dependent on the type of production. The main aim of this payment is to ensure greater income stability for farmers. Farmers are free to decide what they want to produce in response to demand without losing their entitlement to support. The new system was introduced in Ireland and Britain in 2005.

Situation in Ireland

Agriculture continues to play a very important role in the Irish economy. The agri-food sector is responsible for around 8.8% of GDP, employs approximately 9% of workers and annually generates €7 billion in exports.

Direct payments to farmers have continued to increase over the past decade and now account for €1.6bn or 75% of aggregate farm sector income.

The average farm size is 32.3 hectares (80 acres). The total estimated number of **viable small farmers in Ireland is 3,600** or 3% of the total number of farmers (136,000). This figure is expected to fall to 1,500 by 2015. In addition there are many part-time farmers, both viable and non-viable.

Agri-Vision 2015

The most recent comprehensive study of the agricultural industry in Ireland is the report of the Agri-Vision 2015 Committee published in November 2004. Taking account of the foreseeable factors influencing the decisions of farm families, the Committee forecast that, by the year 2015:

- There will be a total of 105,000 farmers in Ireland
- 45,000 will be non-viable (meaning that family income from the farm is insufficient to cover family labour and return on assets but the farmer and/or the spouse has an off-farm job);
- 20,000 will be transitional (meaning that family income from the farm is insufficient to cover family labour and return on assets and there is no off-farm employment)
- These numbers will include 12,500 viable dairy farms, 1,500 non-viable part-time dairy farms and 1,500 transitional dairy farms

The Agri-Vision 2015 Committee concluded that the agriculture and food industries would remain important to the national economy over the next 10 years but that the competitive potential of these industries would depend on their ability to develop as knowledge based industries.

In an increasingly competitive environment, the ability of the industry to compete will be increasingly determined by its ability to **develop new and innovative products** and production processes.

The Agri-Vision 2015 expressed support for the development of **agriculture's role as a protector of the environment and the rural landscape** and concluded that this would provide an increasingly important justification for the public support of agricultural incomes.

Despite the decline in the relative importance of agriculture, when expressed as a share of national income, **some 40% of the population currently live in rural areas**. The Committee therefore recommended that development policies relating to the agricultural and food industries that enhance the sustainability of Ireland's rural areas should remain part of the core Irish economic development policy.

Government Action Plan

In March 2006, the Minister for Agriculture and Food, Mary Coughlan TD, published the Government's action plan for the farming, food and drinks sector. The Action Plan was based on the Agri -Vision 2015 Report.

The Minister said that **the industry would be consumer-driven** in the future, with a focus on food quality, nutritional value and ethical production needs. She listed a range of practical steps to be taken, including better labelling, marketing, animal traceability, a focus on nutrition in product development, and more research into consumer needs. A greater emphasis would be placed on **research and development**.

The Minister stated that **structural changes** would be necessary to increase productivity levels, improve economies of scale and maximise earning potential.

The Minister also announced a change in the **Milk Quota System** in 2007 with the introduction of an open-market system of transferring quotas designed to facilitate consolidation of holdings, increase efficiency and contribute to more competitive milk production.

Rural Ireland 2025 - Foresight Perspectives

The report on rural Ireland, drawn up by scientists from NUI Maynooth, University College Dublin and Teagasc, the agricultural and food development authority, warns of an "unacceptable regional balance in Ireland's economy" in 20 years. The report predicts that it is unlikely that Ireland will have appreciably more than 10,000 full-time commercial farmers, comprising predominantly dairy farmers, 1,000 or so commercial dry stock farmers, with roughly a similar number of sheep producers and a few hundred pig enterprises.

Situation in Britain

Curry Commission

The Policy Commission on the Future of Farming and Food was set up by the Prime Minister in August 2001, and its remit covered England. The Commission presented its report to Government on 29 January 2002.

The Commission found that farming had declined in importance as an economic activity. Its share of the national economy was now only 0.9% although it was recognised that the food sector as a whole represents around 8% of GDP. Farming's share of the retail food price was found to have declined significantly.

Trends in English farming are broadly similar to those in Ireland and include:

- Consolidation of industries upstream and downstream of farming
- Reduced negotiating power of farmers
- Falling world food prices
- Decline in importance of farming as an economic activity

- Reduction in farming's share of the retail food price
- Increased competition
- Increased importance of the market

Recognising that the CAP would eventually go and commodity food prices would continue to come under pressure, the Commission concluded that farmers would need to be ready to meet this change, by adding value, improving their efficiency and/or diversifying their business.

Northern Ireland

There are 27,000 farm enterprises in Northern Ireland, a significant number of which are not profitable or viable. In Northern Ireland, total farm income equals stg£185 million, while the value of grants paid to farmers amounts to stg£230 million.

The NFU estimates that the number of farms would decrease by approx 7,000 if unviable farms were to close.

Issues identified as being of particular relevant to Small Farmers

The Committee visited two farms in Ireland, one North and one South of the border: a 140 acre farm in Bawnboy, Co. Cavan and a 32 hectare farm near to Eniskillen. The farmers carried out a variety of enterprises maintaining dairy, suckler herds, sheep, forestry, and horse-breeding. The Committee also visited an intensive pig farm on the outskirts of Edinburgh on 12 hectares producing 5,000 pigs per annum.

During their visits, the Committee also met with Government officials and representatives of farming organisations including the Northern Ireland Department of Agriculture and Rural Development (DARD), the Ulster Farmers Union (UFU), the Northern Ireland Agricultural Producers Association (NIAPA) and the National Farmers Union of Scotland (NFUS)

Overall, the farmers and farmer representative groups the Committee met with were not optimistic about the long-term future for small farmers. The following issues were highlighted as being of particular concern:

Farm incomes

The average farm income in Northern Ireland amounts to half the minimum wage. Innovative schemes and long-term solutions are required to increase farm incomes as a substantial number of farmers are living off their assets. Programmes need to be provided that encourage families to live on the farm and develop additional income sources from farm enterprises. A crèche built on a local farm was cited as a good example of maximising the earning capacity of the family. The Committee agreed that such activity should be supported and encouraged.

Financial Management and Efficiency

A major issue highlighted by farmers was the difficulty in finding money for capital investment. There was a reluctance to borrow money from banks due to the instability of farm incomes and low profit margins. This was also a disincentive to extending the farm where opportunities arose.

The need for farmers to carry out cost analysis was stressed as increasingly important as it helps to improve efficiency and cut costs. The production costs between the top 25% of farmers and bottom 25% of farmers who carried out benchmarking on their farms was cited 4p/litre in NI. A significant number of farms fail to carry out any cost analysis. It was considered likely that higher differences in cost productions would be identified if it were possible to establish the production costs of farmers who do not carry out any cost analysis.

The Scottish Agriculture College, the Scottish equivalent of Teagasc, operates 6 monitored farms in Scotland. The concept behind monitored farms is to improve farm methods for greater efficiency through group discussion. A farmer agrees to open up his processes and books to the farming community in his locality. Study visits are conducted to look at the best means to develop a farm enterprise and monitor results. Consensus is sought from all those involved on methods to improve farm efficiency. The key success is openness of the farmer to implement other peoples' ideas on his farm.

Nitrates Directive

The EU Nitrates Directive places limits on the amount of fertilisers and slurry farmers are permitted to spread on their land, in an effort to tackle freshwater pollution. The Irish Government faces daily fines by the European Court if it fails to comply with the directive and the Minister for Environment and Local Government, Dick Roche TD, has indicated that he is reluctant to allow any significant relaxation of new limits imposed by the EU. Teagasc, the State agricultural advisory body, has advocated easing the limits in certain areas. Farming organisations have criticised the regulations as unworkable.

Farmers that the Committee met in the course of its enquiry highlighted the new regulations as a serious issue with significant cost implications. It is clear that some smaller farmers will struggle to find the money to build extra storage capacity in order to comply with the directive and may be forced to sell some stock or land so as to avoid borrowing money. It was noted that some support was provided in NI via the Farm Nutrient Management Scheme while the Irish Government also provides grant support to assist farmers in complying with the Directive. Compliance with the Directive also counts towards eligibility for the REPS payment.

Bureaucratic application procedures

The lengthy and overly bureaucratic process involved in applying for grants such as the installation aid for young farmers (worth €14,000) was cited as a disincentive to availing of such funding.

By 1 January 2007 EU Member States are to set up a system for advising farmers on land and farm management. Farm advisory work will relate to compliance with regulatory requirements and to good agricultural and environmental conditions. The system will operate on a voluntary basis. Member States are to give priority to farmers receiving more than EUR 15 000 in direct payments per year. By 1 January 2011 the Commission is to present a report on the application of the farm advisory system accompanied, if necessary, by proposals for making it compulsory.

Over Regulation

Overly burdensome regulations were identified as a problem for small farmers. One example cited was the restriction on cutting turf off farmland.

Part-time Farming

There has been a significant increase in the incidence of part-time farming which can be seen as evidenced that farmers are increasingly having to supplement their income through non-farming activities.

Isolation

Isolation was identified as a major problem in rural communities amongst all age groups. The decline in the rural community meant that there were few social outlets for farmers. Previously neighbours would help each other to carry out heavy manual work on farms however this practice had died out with the reduction in people working the land. This had also resulted in a smaller number of businesses selling products locally which necessitated farmers travelling greater distances to purchase essential farm equipment. The suicide rate amongst farmers had increased dramatically over the past 30 years. A helpline staffed by volunteers - Farm Crisis Network - is in operation in Northern Ireland. This service, which is provided throughout Britain and Northern Ireland, provides assistance to families in farming and related activities that are struggling to cope with their problems. The concept of farming co-operatives was floated as a means of helping farmers cope with feelings of isolation, as well as providing business opportunities to work together to purchase machinery etc.

New Technologies

New technologies were identified as helpful in improving productivity. Extended grazing, cross-breeding, information technology, and benchmarking were cited as examples.

Support

The high proportion of farm income accounted for by direct support was evidence that a significant number of farms are not viable and a number of farmers are under-employed. There is a need to strike a balance between helping small farmers, and simply keeping farmers afloat, which is not in the best interests of farming.

Milk quota

A significant portion of the UK milk quota is allocated to Northern Ireland which increases competition with farmers in the South. Up to 50% of milk consumed in the South is produced in the North. Nonetheless, the trend in the North is towards a smaller number of dairy farmers with increased herd size, a trend which is expected to continue. Milk quota trading across borders in the EU would be opposed by the farming community in Northern Ireland. While it benefited from the current system that allows quota trading within the UK, farmers in the North could not compete with prices from other EU countries such as Poland.

Niche market

It was suggested that farming enterprises in Ireland and Britain should focus on the niche market - high quality, organic produce - as farmers on these islands cannot compete with beef prices from Brazil or Argentina. Farmers' markets were cited as examples of servicing a niche market, and allowing the farmer to achieve the maximum price for his produce. It was acknowledged that farmers required additional support to enable such businesses to flourish.

Environment

If farming in Ireland and the UK were to truly compete at global prices, then it would need to switch to large range-style farms. However this would have a seriously negative impact on the countryside.

There appears to be a general consensus that farmers are the custodians of the land, and should be reimbursed for their activity on the land which also protects the countryside as well as maintaining communities in marginal rural areas. This is the rationale behind the Rural Environment Protection (REPS) scheme.

This role of farmers in maintaining the rural environment was highlighted by the recent report on rural Ireland which argues for the importance of attaching a specific economic value to it.

Price Pressure

Price instability was cited as a major concern. There is a general consensus amongst farmers that supermarkets have too much control over the price, a situation that is unlikely to change unless there was a more equitable relationship between producers and supermarkets.

The Scottish pig farmer observed that he made more money by transporting and selling his pigs in England than he did through selling locally. However, higher prices could be achieved on a small scale through selling to smaller outlets, such as premium butchers, who were able to charge a higher price for local produce. In addition, this approach cut out the middleman, increasing profit to the farmer and

the butcher. The Scottish farmer did not feel that labelling would make a substantial difference in terms of higher prices.

Diversification

Many smaller farmers are now diversifying into new areas in order to increase their sources of income. One farmer had diversified with a motorcycle training business run by two members of his family.

The production of **bio-fuels** was identified as a potential future source of stable income for farmers.

Imports

The level of imports into the UK has increased dramatically in the last decade, while the number of pig producers have halved. The NFUS expressed the view that supermarkets had demanded a number of reforms from pig producers in terms of animal welfare etc, but had then abandoned the industry. No significant effort was being made to distinguish between British produced and imported pork.

Food Security

The NFUS expressed the view that food security would become a major issue with the public in the future and provide a strong argument for continued subsidisation of the farming industry.

Automation

There was an increasing move towards automation by farmers in an effort to reduce labour costs. This was likely to result in fewer people, in particular fewer part-time employees, working on the farm.

Acknowledgements

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In Ireland

Department of Agriculture and Food
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Irish Farmers Association.

In Northern Ireland

Northern Ireland Department of Agriculture and Rural Development (DARD)
Ulster Farmers Union (UFU)
Northern Ireland Agricultural Producers Association (NIAPA)
National Farmers Union of Scotland (NFUS)

In Britain

Department of Environment, Food and Rural Affairs (DEFRA)

National Farmer's Union

Small Farms Association

FARM

National Farmers Union of Scotland

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