

Economics of the tillage sector: Possible Brexit Implications

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Overview

■ Present

- Relative tillage sector income and direct payments

■ Future

- Where we are going in terms of the farm gate?
- Special focus on Brexit

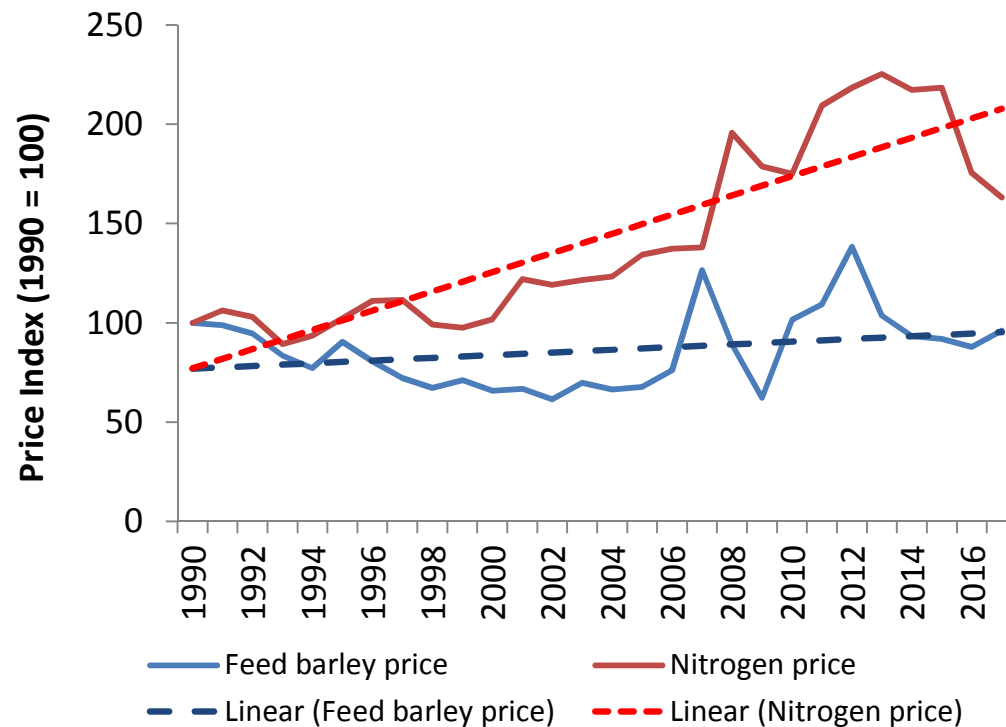


Past trends... at the farm gate



Commodity Price Trends

- Output and Input Prices



■ Prices trending upwards

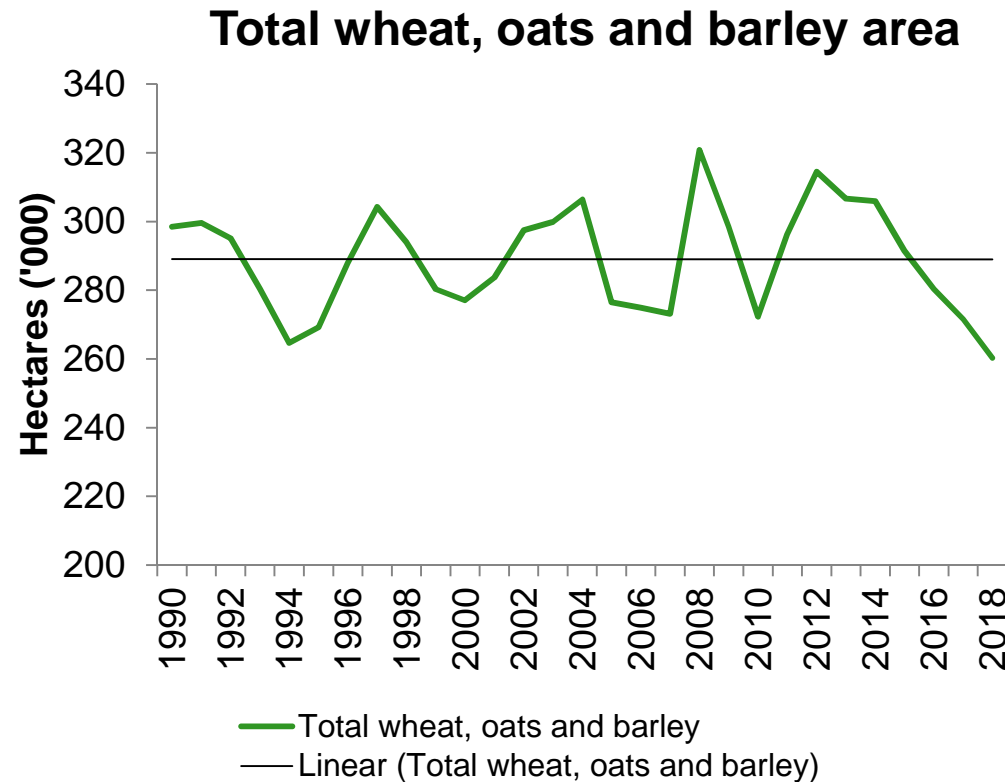
- Outputs and Inputs

■ Items to consider

- Trend in outputs versus inputs
 - » Grain versus fertilisers
 - » Inputs rising faster than outputs

Source: FAPRI Ireland

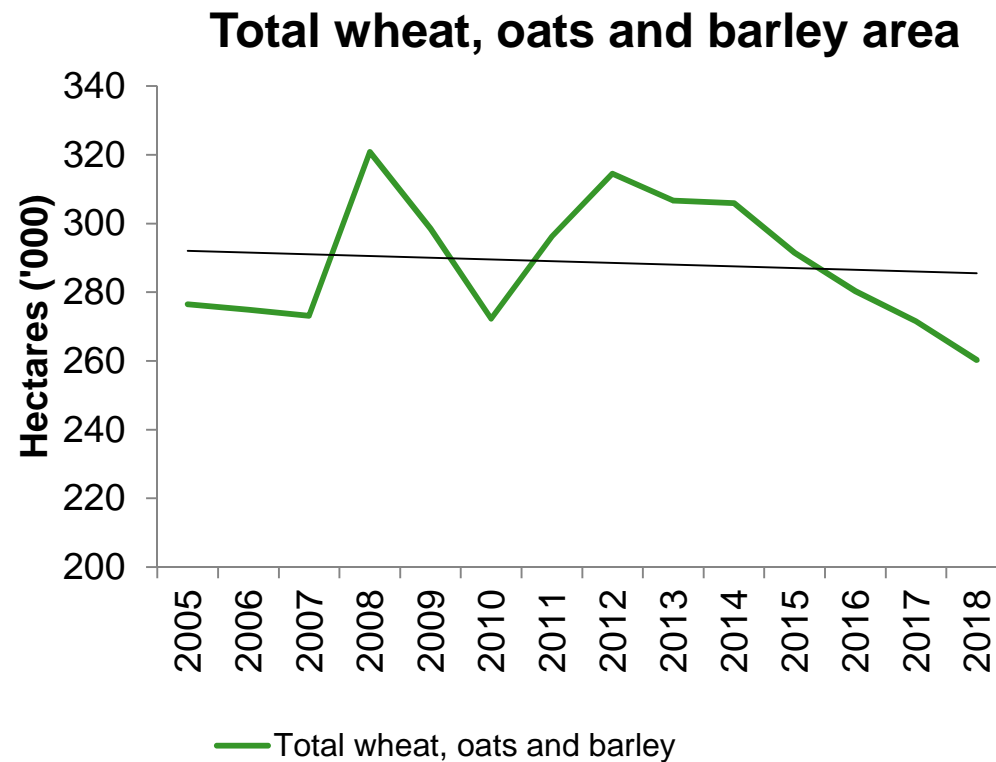
Farm level area of cereals



- Area devoted to cereals is decreasing over the past 3 decades
- But very evident since 2012

Source: CSO

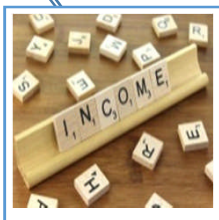
Farm level area of cereals



- Area devoted to cereals is decreasing over the past 3 decades
- But very evident since 2012
 - Decrease in trend line in later time period

Source: CSO

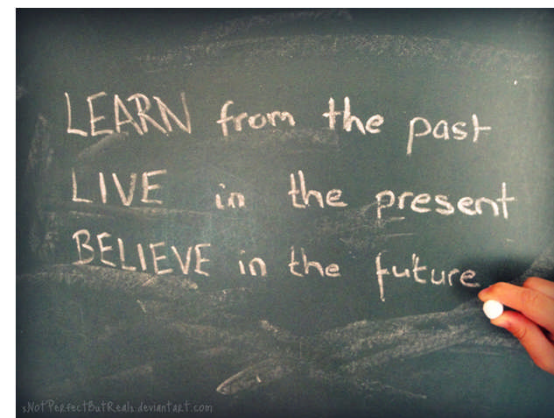
Present Situation at the Farm Gate in Ireland



Income

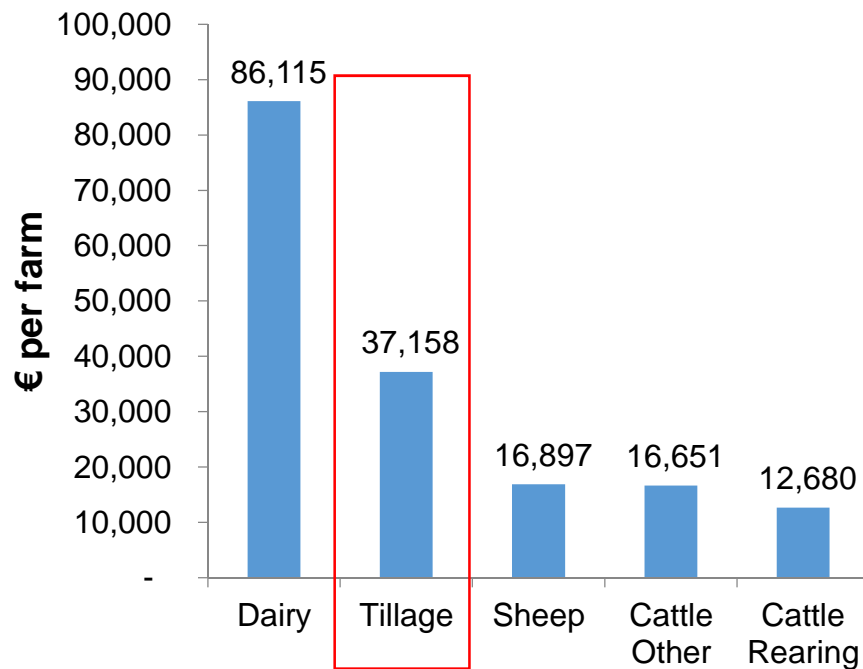


Direct Payments



Situation in 2017

Family Farm Income



Definition of Family Farm Income
- Return to all owned resources on the farm

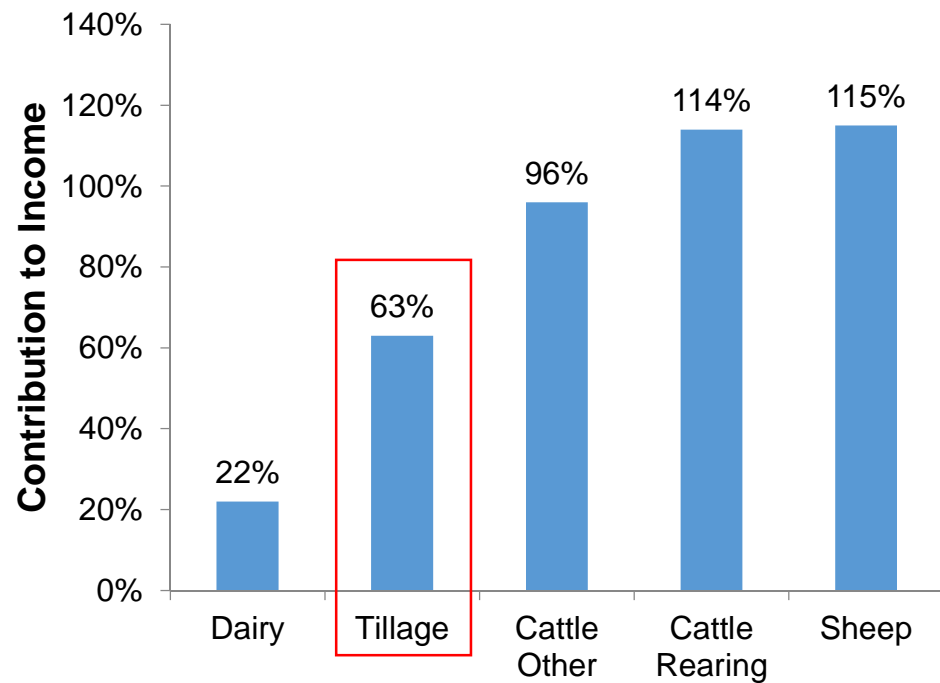
Specialist tillage farms in 2nd place,
after dairy farms

Some recovery in 2018, but still in 2nd
place to dairy

Source: Teagasc, National Farm Survey

Situation in 2017

Reliance on Direct Payments



Specialist tillage farms have the highest level DPs

Specialist tillage farms in 2nd place, after dairy farms, in reliance on DPs

Source: Teagasc, National Farm Survey

**Dear Past,
thank you for
all the lessons.**

**Dear Future,
I am ready!!!**

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What About Brexit?





Brexit Assumption



- **Brexit timeline (as things stand on Jan 30th 2019)**

- Withdrawal Agreement to allow transition period rejected by House of Commons
- UK will leave the EU on March 29th 2019
- A new EU/UK trade relationship at end of 2020 has been talked about
 - At present, no future trade relationship in place
 - Move from the current trade arrangement to WTO terms on March 30th

- **Our Scenarios for Assessment (Year 2026)**

- Baseline: No Brexit, status quo of present
- Scenario 1: 'No Deal' Brexit



Baseline versus 'No Deal'

Baseline

Year: 2026

No Brexit

Assume all trade relations remain the same

Assume no price changes due to the policy

'No Deal'

Year: 2026

'No Deal' Brexit

WTO Tariffs apply on imports and exports from/to UK

Non-tariff barriers to trade also assumed

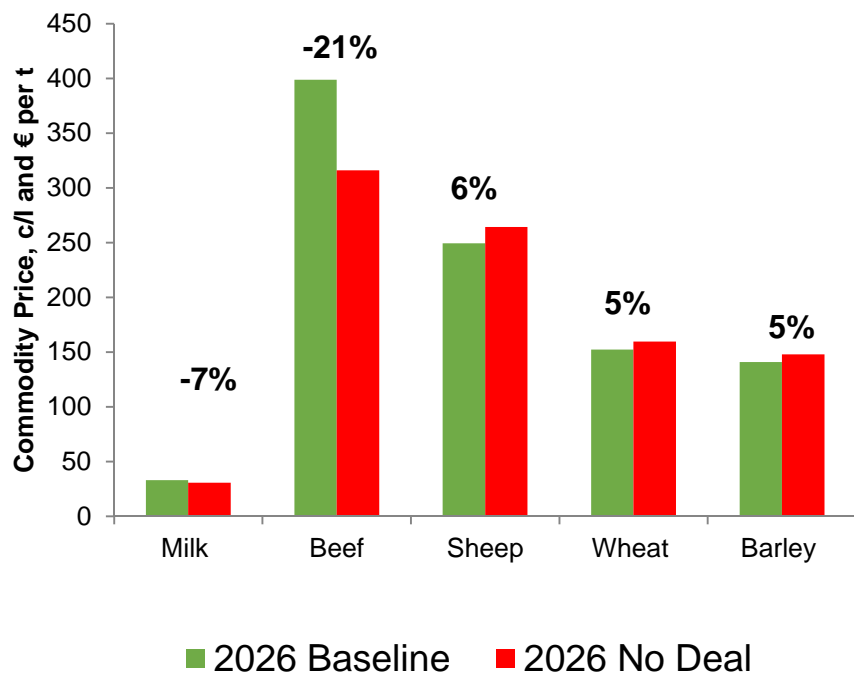
	Bound WTO tariff rates on imports*
Wheat	€95
Barley	€93
Oats	€89
* Except for the preferential rates agreed for certain TRQs	

Farm Level Brexit Analysis

- **To examine the potential impact of Brexit on Irish tillage farm income**
 - Impact on the average farm
 - Impact on the distribution of farm incomes
- **Methods**
 - Food Agricultural Policy Research Institute (FAPRI) Ireland model
 - Teagasc, National Farm Survey (NFS) data
 - Simulate the impact on Irish prices and farm level income
 - Analysis conducted at the system level
 - Important for understanding results
- **Assumptions**
 - Static analysis
 - Note on 'what ifs'?



Price Assumptions, Baseline versus 'No Deal' by 2026

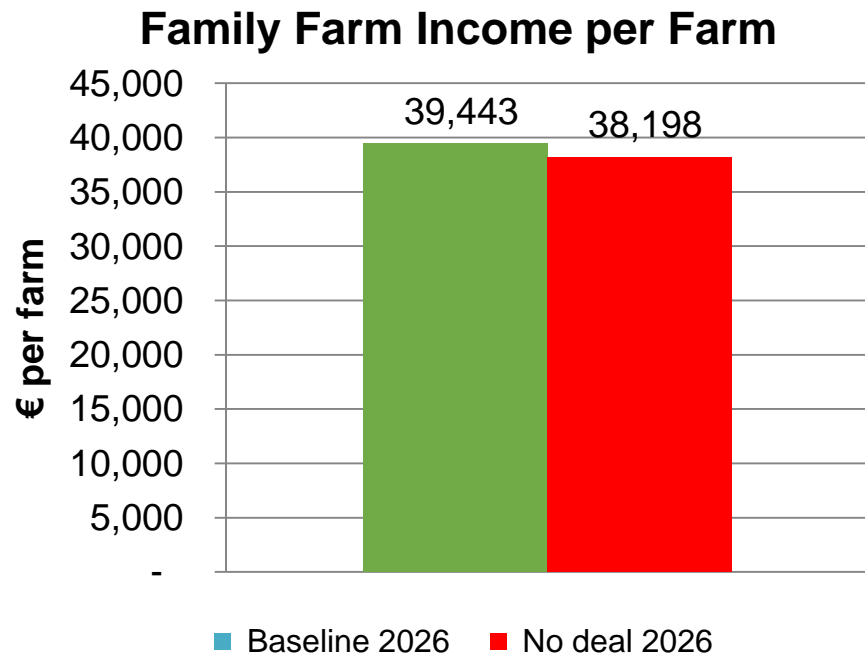


Factors affecting relative price change:

- Status of the sub sector:
 - Net importer or exporter of a product
- Trade Competitiveness
 - Size of the tariff if applied
 - Price competitiveness
- Trade Openness
 - Amount of trade with the UK
- Non-Tariff Barriers to Trade (NTB)
 - Low digit per cent increase



FFI Specialist Tillage Farms, Baseline versus 'No Deal', 2026

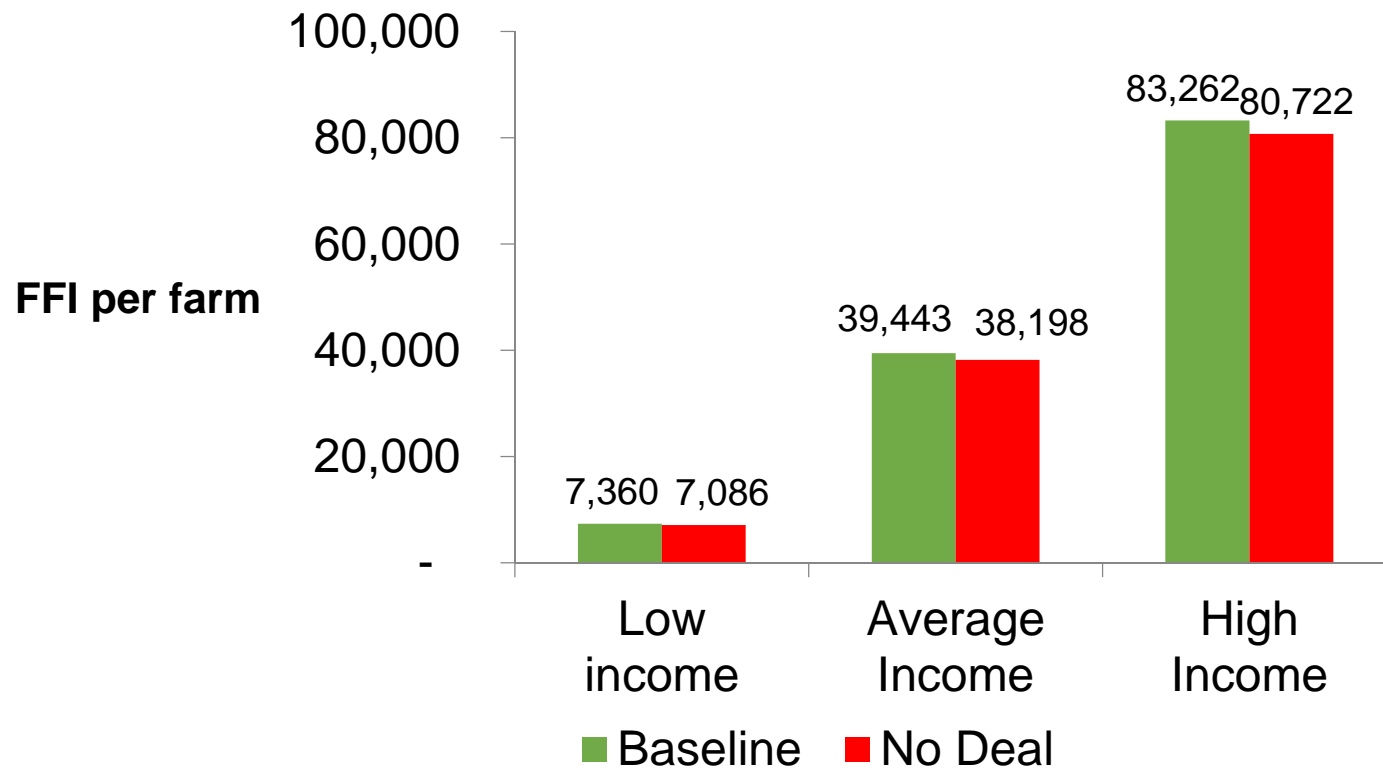


Relative income change:

- Input prices also affected:
 - Seed
 - Concentrates
 - Non tariff barriers to trade
- Remember looking at system changes (- 3%)
- Importance of beef & sheep on tillage farms
- Most severe price changes for beef output produced by tillage farmers

Source: FAPRI Ireland, farm level model

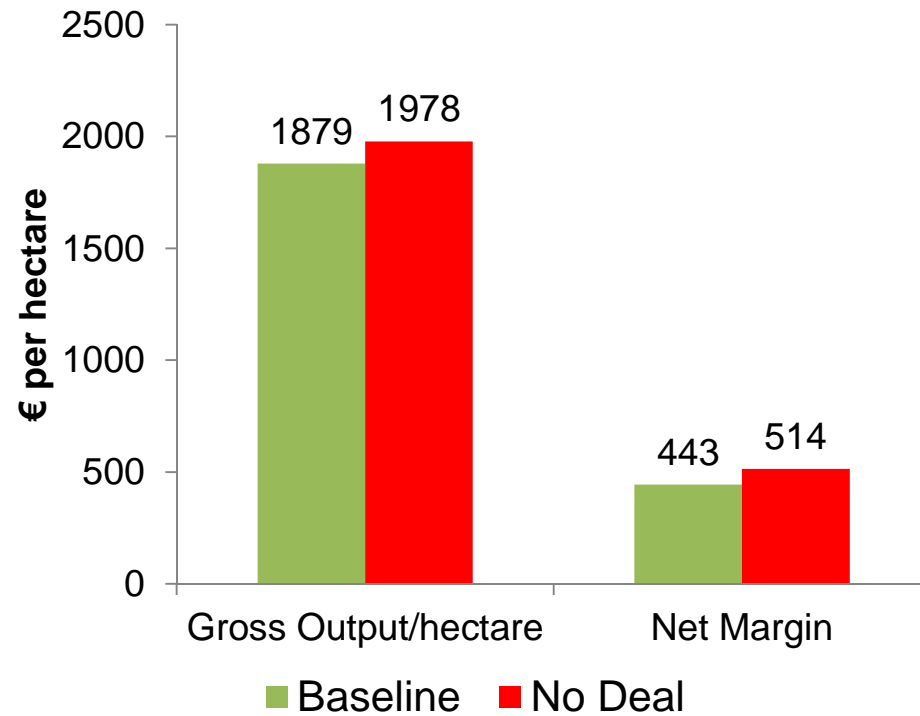
Distribution of Income, Specialist Tillage Farms



Source: FAPRI Ireland, farm level model

A brief look at cereals only.....

Winter wheat (Economics per ha.)



Relative income change:

- NOTE: looking at enterprise level here
- System decrease (last slide) becomes net margin increase
- System income effect diluted by large decrease in beef output

Source: FAPRI Ireland, farm level model

Other 'What ifs?'

- Other key unknowns for the 'No Deal' scenario
 - Long list.....
 - Exchange rate movements
 - CAP payments post 2020
 - Nature of the modelling exercise
 - Partial equilibrium model versus general equilibrium model
 - Economy wide impacts of Brexit on GDP
 - Other output and input price changes such as straw receipts?
 - Structural change
 - Assumed price changes in this exercise do include interaction between sectors
 - Key assumption is that this a static analysis at the farm level
 - BUT structural change is extremely difficult to model



Other 'What Ifs?'

Other Future Trade Policy Scenarios

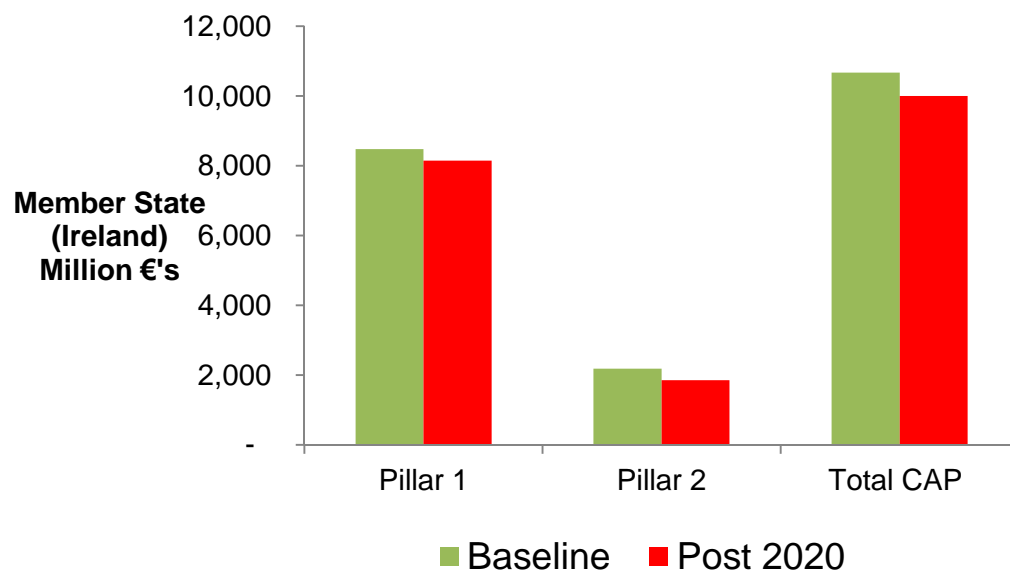


- **What about a Free Trade Agreement (FTA) scenario?**
 - NTB to trade still to apply to imports
- **What about a Unilateral Trade Liberalisation (UTL) scenario?**
 - UK decides to liberalise trade and reduce/ remove its import tariffs
 - For the tillage sector, a net importer of cereals
 - Without a bilateral agreement, WTO tariffs still apply on exports from the UK to Ireland

Other 'What Ifs?' The Future of the CAP



**CAP Allocations from MFF
(Current/Nominal terms)**



Source: Matthews, 2018

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• CAP Policy Post 2020

- Previous Brexit analysis included changes

• Extra demands on CAP post 2020

- Various different sources
- Brexit, security, migration etc

• Current figures are preliminary

- But suggestive
- Matthews (2018)
- 6% reduction in CAP supports to Ireland

Conclusions



• Present

- Specialist tillage farming FFI 2nd place to dairying

• Future

- Cereal enterprise net margin to increase slightly in a 'No Deal' scenario
- But remember the system income story not very positive

• Key Take Home Message

- Productivity improvement is the key to remaining competitive

Thank you

Questions for Slido (1)



- With reference to implications for the Irish tillage sector, do you think Brexit is a:
- Good, bad or indifferent idea?

Questions for Slido (2)

- **Due to Brexit, by the year 2026, do you think Irish cereal area will:**
 - **Stay the same**
 - **Increase by 1 - 10%**
 - **Increase by > 10%**
 - **Decrease by 1-10%**
 - **Decrease by > 10%**