

Project number: 6107
Funding source: Teagasc

Date: June 2015
Project dates: Jan 2011-Dec 2014

The relative competitiveness of Irish agriculture



Key external stakeholders:

Policy-makers, primary producers, agri-food businesses, local government, banking institutions

Practical implications for stakeholders:

Agriculture and the dairy sector in particular, have entered a phase of considerable change. Traditional EU policy supports are now less prevalent due to CAP reform and the most significant policy in the dairy sector, the milk quota, was removed in early 2015.

Accordingly, attention is increasingly focused on the importance of maintaining and improving the competitiveness of the agricultural sector. Several studies over the last 30 years have compared the performance of the agricultural sector at farm level in Ireland with that of other countries. The majority of these studies were undertaken in a period when milk quotas applied in the European Union (EU), relatively stable input and output prices prevailed and the EU agricultural sector was largely insulated from variations in world market supply and demand conditions. Increasingly, it is the case that these factors no longer apply. Furthermore, the abolition of milk quota opens up potential opportunities for Irish dairying on the condition that the industry is competitive in international terms as outlined in Food Harvest 2020 (DAFF 2010). In that context, it was timely to review the competitiveness of Irish agriculture over the past and provide an indication as to how the sector might perform in the medium term.

This project examined the relative competitiveness of Irish agriculture over the recent past. The impact of a number of policy issues that are of critical interest to the agri-food sector, including milk quota elimination were examined in the context of their impact on competitiveness.

Main results:

- Research carried out as part of this project concluded that the Irish milk sector's competitive position in the future will be strengthened as Irish dairy farming adjusts towards larger scale production post-quota removal.
- While the competitiveness of the dairy sector is currently at the forefront of the debate in light of quota abolition, it is important that the competitiveness of other sectors of Irish agriculture is also contextualised given that most sectors are now competing in a globalised marketplace to a greater or lesser extent.
- The competitive position of the Irish beef finishing sector beyond the EU15 deteriorates very substantially for the average size farm when total economic costs are considered, which is not a positive indication for the future competitiveness of the sector in the medium term.
- The average size Irish barley producer had the lowest cash cost: output ratio at 72 per cent, compared to the other countries examined within the EU, namely Denmark, Germany, France, Italy and the UK. When total economic costs were measured, Irish barley producers still maintained a competitive advantage compared to the average of all countries, with a cost: output ratio that was 10 per cent lower than the average for all countries examined. This finding indicates that the competitive position of Irish barley producers within the EU is more positive than the position outlined for beef farms previously.

Opportunity / Benefit:

In terms of benefits of the research for specific end users:

(1) This research facilitates the regular monitoring of the competitiveness of Irish agriculture, which enables policy makers to monitor progress in the achievement of policy objectives; (2) To better understand the potential competitiveness of Irish agriculture under alternative policy reform scenarios and projected baseline situations in the future.

Collaborating Institutions: UCC

Teagasc project team: Dr. Fiona Thorne, Dr. Thia Hennessy, Mr. Trevor Donnellan, Ms. Anne Kinsella

External collaborators: Dr Michael Keane, UCC

1. Project background:

Agriculture and the dairy sector in particular, have entered a phase of considerable change. Traditional EU policy supports are now less prevalent due to CAP reform and the most significant policy in the dairy sector, the milk quota, is to be removed in 2015.

Accordingly, attention is increasingly focused on the importance of maintaining and improving the competitiveness of the agricultural sector. Several studies over the last 30 years have compared the performance of the agricultural sector at farm level in Ireland with that of other countries. The majority of these studies were undertaken in a period when milk quotas applied in the European Union (EU), relatively stable input and output prices prevailed and the EU agricultural sector was largely insulated from variations in world market supply and demand conditions. Increasingly, it is the case that these factors no longer apply. Furthermore, the abolition of milk quota opens up potential opportunities for Irish dairying on the condition that the industry is competitive in international terms as outlined in Food Harvest 2020 (DAFF 2010). In that context, it is now timely to review the competitiveness of Irish agriculture over the past and provide an indication as to how the sector might perform in the medium term.

- Research by Donnellan et al., (2011) concluded that the Irish milk sector's competitive position in the future will be strengthened as Irish dairy farming adjusts towards larger scale production post-quota removal.
- In a wider agricultural sector context, this research project has illustrated that the competitive position of the Irish beef finishing sector beyond the EU15 deteriorates very substantially for the average size farm when total economic costs are considered;
- Furthermore, the average size Irish barley producer had the lowest cash cost: output ratio compared to the other countries examined within the EU, namely Denmark, Germany, France, Italy and the UK. When total economic costs were measured, Irish barley producers still maintained a competitive advantage compared to the average of all countries.

2. Questions addressed by the project:

- What has been the competitive performance of Irish agriculture at farm level over the recent past?
- What are the main sources of competitive potential of Irish agriculture at farm level?

3. The experimental studies:

Using data from EU FADN, International Farm Comparisons Network (IFCN) and AgriBenchmark sources the following analyses were carried out:

- A review of the competitive performance and potential of Irish dairy, beef and cereals sectors, using data from 1996 to present.

4. Main results:

- Compared with key competitor EU MS, namely, Belgium, Denmark, France, Germany, Italy, the Netherlands and the UK, Irish milk production is characterised by low yields. This is a reflection of the low input system of production in Ireland compared to the EU average. However, future analysis shows that cash costs of production are also relatively low in Ireland.
- Using the cost relative to output value approach, on a cash costs basis, Ireland appeared as quite competitive in the EU15. Cash costs as a percent of output were relatively low in Ireland over the period 1996-2010.
- When full economic costs were considered, the competitive position of the selected countries changes. The competitive advantage experienced by Irish producers deteriorates when all imputed charges for owned resources are taken into consideration. The most significant imputed cost that contributed to the relatively high total economic costs experienced in Ireland over the period was that for owned land.
- When larger specialist dairy farms were examined, total economic costs for this sample of farms were generally substantially lower than the average farm position. While Ireland still remained as a

comparatively high total economic cost producer for farms with 50-99 dairy cows, the gap with other countries was narrowed for these larger specialist producers.

- Given that the EU's competitors have increased their share of global dairy trade in recent times, and with the elimination of the EU milk quota, the current competitive position of the Irish dairy sector in a global context is of increasing importance. The analysis of cash costs per unit of product and relative to output value confirms the strong competitive position of the larger size Irish dairy farm in a global context, especially in relation to key global competitors.
- While the competitiveness of the dairy sector is currently at the forefront of the debate in light of impending quota abolition, it is important that the competitiveness of other sectors of Irish agriculture is also contextualised given that most sectors are now competing in a globalised marketplace to a greater or lesser extent.
- The relative cash cost position illustrated by the average size Irish beef finishing farm in a global context shows that Ireland is about mid-way in terms of the range of cash costs (per unit of output and relative to output value). This is compared to a range of non-EU countries which were considered important for international trade purposes, namely, the US, Canada, Brazil, Argentina, Australia and China. However, the competitive position of the Irish beef finishing sector beyond the EU15 deteriorates very substantially for the average size farm when total economic costs are considered. On average, farms in Brazil and Argentina appear to consistently exhibit the lowest total economic costs per unit of beef produced, but the average returns per kg of meat produced on these farms are also relatively low in a global context.
- Ireland is a net importer of cereals, and in this context, the relative costs and returns of cereal production from our nearest neighbours within the EU are important in determining the competitive performance of the sector over time. The average size Irish barley producer had the lowest cash cost: compared to the other countries examined, namely Denmark, Germany, France, Italy and the UK. When total economic costs were measured, Irish barley producers still maintained a competitive advantage compared to the average of all countries. This result is consistent with previous studies, such as Boyle (2002), Thorne (2004) and Matthews et al., (2007) which showed that total economic costs in Irish cereal production were lower than the average of other countries examined. However, it is important to remember that scale of production in Irish cereals is not as advanced as that in other important EU producing countries.

5. Opportunity/Benefit:

It is important that all stakeholders have the best information available to them in terms of future planning requirements for the sector. This project clearly quantifies the competitive position of Irish farms.

6. Dissemination:

Main publications:

Donnellan T., Hennessy T., Keane M. and Thorne F. (2011) Study of the International Competitiveness of the Irish Dairy Sector at Farm Level, Rural Economy Research Centre, Teagasc.

Hemme, T., Thorne, F., et al., (various years) Dairy Report, International Farm Comparisons Network, Dairy, Kiel, Germany.

Popular publications:

Donnellan, T., Hennessy, T. and Thorne, F. (2011). How Competitive is Ireland as a Dairy Producer?. Teagasc IE 4 ISSN Dairy Manual

Thorne, F., Hanrahan, K. and Kinsella, A. (2012) How competitive is Ireland as a beef producer? Teagasc IE, Beef Manual

7. Compiled by: Fiona Thorne