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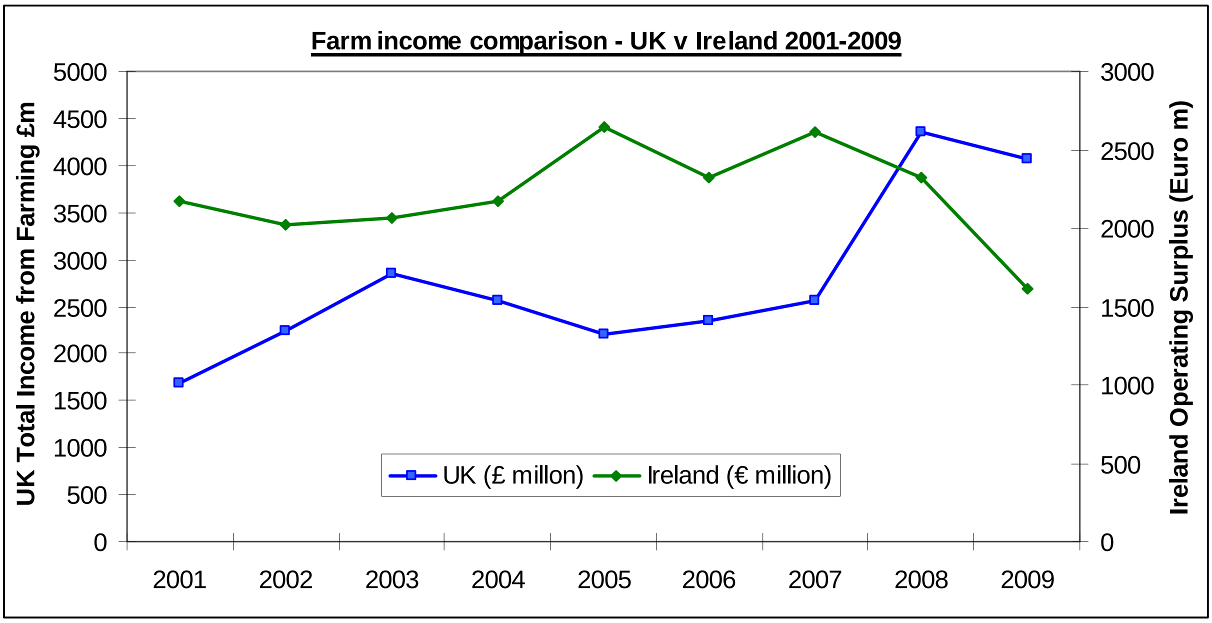
Ireland's farmers under pressure: Farm incomes and a 'broken' food supply chain

The latest farm income data for Ireland shows the impact of lower global commodity prices and tougher trading conditions on Irish agriculture. The preliminary estimate for 2009 estimates the operating surplus[1] of Ireland's agriculture to fall 30.6% to €1.615 billion, and follows a fall in the previous year. This decline was shaped by a collapse in milk prices that only began to recover towards the end of 2009. Lower cereals prices and a 25% decline in production combined to reduce the value of output. Cattle and pork prices both fell in 2009, with only sheep prices showing a marginal year on year increase. Although the costs of major inputs fell back from the exceptionally high prices of 2009, they could not offset the overall drop in the value of Ireland's agricultural output.

This contrasts somewhat to farm income trends in the UK. Although total income from farming fell in 2009, the income level in the UK compares favourably to recent years and the decline was 6.7%. Currency has had a significant impact on UK performance, with the weaker £ resulting in a circa 14% increase in single payment receipts as well as supporting domestic prices. The chart below shows trends in farm income since 2001for the UK and Ireland (note that the data is presented on separate axis for £ and €).



Ireland's farm income figures follow a study of the food supply chain by the Irish Farmers Association that points to market volatility threatening the viability of the family farm structure in Ireland. Equity for Farmers in the Food Supply Chain underlines the challenges that IFA members face. Agriculture in Ireland is very reliant on exports. Some 85% of the food produced is exported, with the UK a key

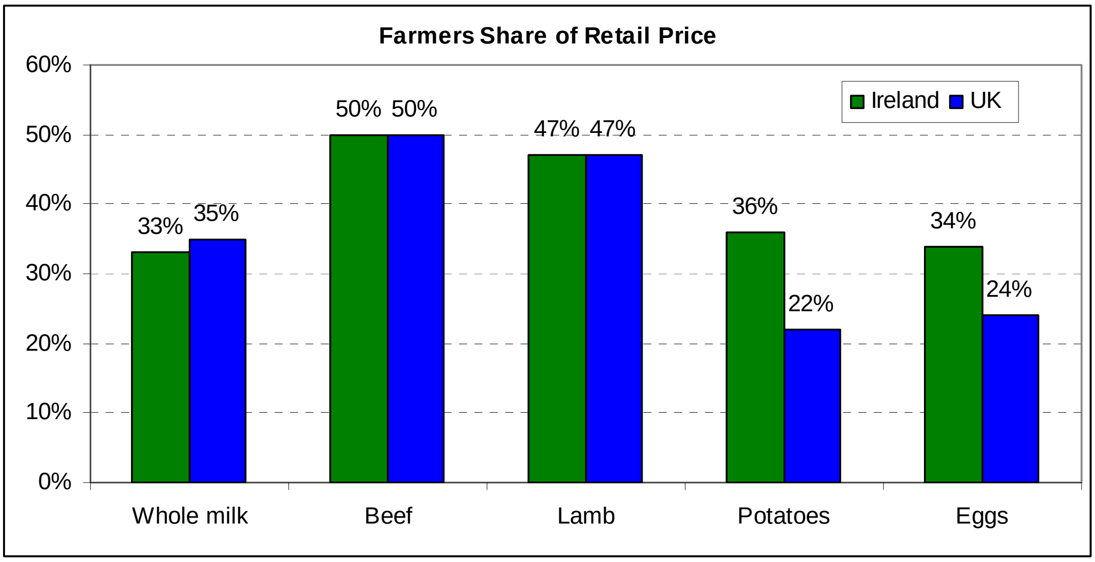
[1] The operating surplus used in the Ireland farm income figures are calculated before deductions for interest payments on borrowed capital and before deductions for land annuities and for rent paid by farmers to landowners for the use of their land. The TIFF data presented for the UK has already accounted for interest and rent deductions.

destination. The value of exports fell 12% in 2009, with export revenues impacted by the global downturn and the weak £. The fall of sterling against the Euro has made imports less competitive in UK markets, and effectively made agri-food products imported from Ireland more expensive. Irish suppliers are faced with lower prices in order to compete in the short term.

Average farm incomes in Ireland were €13,000 (approx £14,400) last year, a decline of 38% over the last 2 years. The report claims that farmgate prices for many products are below breakeven levels. A 53% increase in input costs since 1995 coupled with declining farmgate prices has eroded profitability. It points to the sheep sector (a 40% decline in that national flock since 2000) as an example of how output levels are at risk from low farm incomes. Further concern is expressed due to Ireland's likely failure to fulfill milk quota in 2009/10. With prices too low for farms to be viable, the IFA believes it has implications for the viability of the entire food supply chain.

The IFA contest that a food chain that offers farmgate prices below the cost of production 'is broken' and will erode the primary production base. The report calls on the Irish Government and the European Commission to address these challenges through regulation and enforcement of existing competition law. There are also proposals relating to proper labelling and the auditing of commitments to source Irish products. It points to the concentration of buying power and agriculture's relatively weak bargaining position.

There are obvious parallels with the UK. Greater transparency, equitable treatment of suppliers and greater commitment to food in the longer term are all traits that Irish and British farmers would like to see increasingly characterise their trading relationships. Indeed, the evidence presented in the IFA report is not dissimilar from that seen in the UK. For example, the IFA report focuses on farmers' share of retail price as a key indicator. Analysis shows that the ratio of farmgate to retail price for key products are similar based on the current levels seen in both Ireland and the UK. The chart below illustrates the current farmers' share of retail price based on IFA and Defra statistics for selected products.



Ireland's farmers will likely be keeping a close eye on the introduction of the Grocery Suppliers Code in the UK, and particularly UK government acceptance that a body to monitor, communicate and enforce compliance with the code is necessary if it is to be effective. Of course, as major suppliers to the UK food market, Irish farmers would also benefit from the new, strengthened code of practice. Currently, the NFU is looking for members' views on a government consultation which considers how the long-awaited supermarkets ombudsman might work and more information can be found online at http://www.nfuonline.com/news/Views-wanted-on-ombudsman-role/