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The role of the EU in shaping issues and challenges in Agriculture

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Key Points

- Agriculture remains a significant industry both North and South;
- The number of full time farmers and active farms in each jurisdiction is falling and those who remain in the industry are ageing;
- The industry, North and South, is dominated by the raising and keeping of livestock for meat and the production of dairy products;
- The EU's Common Agricultural Policy (CAP) has had a major impact on the industry in both parts of the island;
- CAP reforms over the last few decades have seen the introduction of the Single Farm Payment (SFP) and the decoupling of farm support and production
- Over the last few decades the moves towards environmental protection within the EU exemplified by initiatives such as the Nitrates Directive have directly affected how the industry operates and is funded North and South;
- The Agricultural industry, North and South, faces a range of challenges within the context of increased trade liberalisation, increased competition, climatic implications, future price volatility on world markets and the generally poor global economic position;
- The CAP is currently the single largest item of expenditure under the EU budget and will, in the context of the negotiations of the EU's Financial Perspectives post 2013, be in competition with other emerging priorities. This could lead to a re-examination of the way in which the CAP is financed.

Executive Summary

Agriculture remains a key industry both North and South. Whilst the numbers of people directly employed by the industry in both jurisdictions has been in decline the key economic, social and environmental contribution and impact of the agricultural industry North and South remains clear.

Since its formal inception in 1962 the EU's Common Agricultural Policy(CAP) has shaped the agricultural industry North and South in the form of pricing support for produce, grant support and direct payment and through the introduction of regulation.

Recent decades have also witnessed a growing EU emphasis on environmental protection and sustainability which have led to significant changes in agricultural practices.

In both current and future terms the agricultural industry both North and South faces a number of common key issues and challenges that will need to be addressed if the industry is to have a long term and viable future. These common areas of concern include:

- Ensuring that pending CAP reform does not decimate farming – protecting the Single Farm Payment;
- Supporting Agriculture and communities within Less Favoured Areas;
- Meeting the obligations of the EU Nitrates Directive – present and future;
- Food and fuel security – are these an EU and national government priority?;
- The diversification challenge – numbers, options, locations and skills;
- Farm and farmer succession – supporting older famers and the younger generations;
- Striking the balance between environmental protection/habitat conservation and a living working countryside;
- Securing a fair market price for agricultural products;
- Minimising the negative impacts of the abolition of the milk quota system in 2015 – maximising the potential opportunities; and
- Minimising the impact of any government cuts on the agricultural industry.

Contents

1. Introduction

This paper sets out some of the issues affecting the area of Agriculture both North and South, at present, and in the near future. As such, this paper does not seek to present solutions to the issues but rather attempts to quantify and focus on many of the key challenges that rural communities and those who live and work within them face.

The first part of this paper provides background information on agriculture both North and South and also as to how EU policy has impacted and continues to impact upon the industry.

In addition this paper explores in some greater detail the specific challenges being faced by the agricultural industry.

2. The role and contribution of Agriculture

2.1 Northern Ireland

Agriculture and the agri-food industry in general continues to be a significant industry within Northern Ireland. DARD's 2009 Agricultural Census[1] for example highlights the fact that in June 2009 there was a total labour force of 48,000 people directly involved in agriculture. Even taking into account the fact that this figure included spouses/partners and other workers it still makes agriculture one of Northern Ireland's biggest employers.

Whilst these figures are still significant the overall trend in agriculture over the last 10 years has been a reduction in the number of farms and full and part time farmers as illustrated in table 1 below and based upon data contained in the 2009 Agricultural Census.

	1999	2009	Percentage change
Total farms	31,100	25,300	-19%
Full time farmers	21,500	16,400	-24%
Part time farmers	16,100	13,800	-14%

Table 1: Number of farms and farmers in Northern Ireland - comparative figures for 1999 and 2009

The provisional figures for the 2010 Agricultural Census were published by DARD on the 26th August 2010 and whilst only based upon 8,000 returned forms they also showed a continuation of the previously outlined trend, with the number of full time farmers showing a 2% fall from the 2009 figure to stand at 16,100, and the part time farmer number showing a 3% fall on the 2009 figure to stand at 13,500.[2]

[1] Agricultural Census 2009, DARD
[2] Agricultural Census 2010, preliminary results press release and tables, 26th August 2010

The EU Farm Structure Survey completed by DARD in 2007[3] also reveals a number of interesting facts in relation to the makeup of the agricultural workforce:

- 94% of farmers were male;
- The median age for farmers in Northern Ireland was 57 – and the trend over the last few surveys is very much one of this median figure increasing;
- Those with Medium or Large farms were generally younger, 44% over 55 years old, than those with Very Small or Small farms, where 57% and 54% respectively were of that age;
- 52% of farmers worked for at least 30 hours per week and have been termed "full time", compared with 65% in 1993;
- 37% of farmers had some other gainful activity (the same as in 2005), on or off farm, the proportion having risen significantly from 19% in 1993

In terms of the actual economic contribution of agriculture to the wider economy the gross value added at basic prices for agricultural products equates to £304 million in Northern Ireland in 2009. As set out in table 2 below agriculture in Northern Ireland contributed 1.2% of gross added value in 2008 and this figure was double the UK average.

	Northern Ireland	England	Scotland	Wales	UK
Gross value added* at basic prices - £ million 2009	304	5,977	672	215	7,168
Gross value added* at basic prices - % of country total 2008	1.2%	0.6%	0.8%	1.1%	0.6%
Area of agricultural holdings 2009 - % of total land area	74.2%	72.3%	72%	71.8%	72.2%
Total labour force in agriculture (2009) - thousands	48	363	67	57	535
Total labour force in agriculture (2009) - % of country total	5.7%	1.4%	2.5%	4.3%	1.6%

Table 2 : GVA, Total labour force in Agriculture and Agricultural Holdings comparisons - UK

*Gross Value Added (GVA) is a means of measuring the contribution of each individual producer, industry or sector in the United Kingdom.[4]

[3] EU Farm Structure Survey 2007, Northern Ireland, Policy and Economics Division, DARD
[4] Office for National Statistics website

It is clear from the data provided in table 2 that agriculture continues to have a greater economic and landuse significance in Northern Ireland than it does in the other constituent parts of the United Kingdom.

With regard to the actual types of farming undertaken in Northern Ireland the climate and nature of the land have a major bearing. The prevailing mild and damp conditions mean that agricultural land in Northern Ireland is particularly well suited to the production of livestock and it is for these reasons that the numbers of cattle for both beef and dairy production per hectare are far higher than the numbers recorded other parts of the UK, as shown in table 3. Similarly Northern Ireland is well below the UK average in terms of the percentage of holdings which are used to produce crops.

	Northern Ireland	England	Scotland	Wales	UK
% of area on holdings under crops	6%	52%	10%	6%	27%
% of area on holdings under grassland	78%	43%	24%	75%	42%
Number per ha. of agricultural holdings - sheep	1.88	1.59	1.23	5.59	1.83
Number per ha. of agricultural holdings – cattle	1.59	0.58	0.32	0.76	0.57
Number per ha. of agricultural holdings - pigs	0.43	0.41	0.07	0.01	0.27

Table 3 : Crops, grazing and livestock levels - UK comparative statistics

In addition the number of pigs reared per hectare in Northern Ireland was higher than any other part of the UK, whilst in relation to sheep, Northern Ireland was second only to Wales in terms of stock density.

70% of the agricultural land within Northern Ireland is also recognised as being Less Favoured[5]. Two sub categories of classification exist: severely disadvantaged area (SDA), accounting for approximately 480,000 ha, and disadvantaged area (DA), accounting for approximately 300,000 ha (see figure 1).

[5] Review of Support Arrangements for Less favoured Areas in Northern Ireland, DARD Consultation Document, March 2009

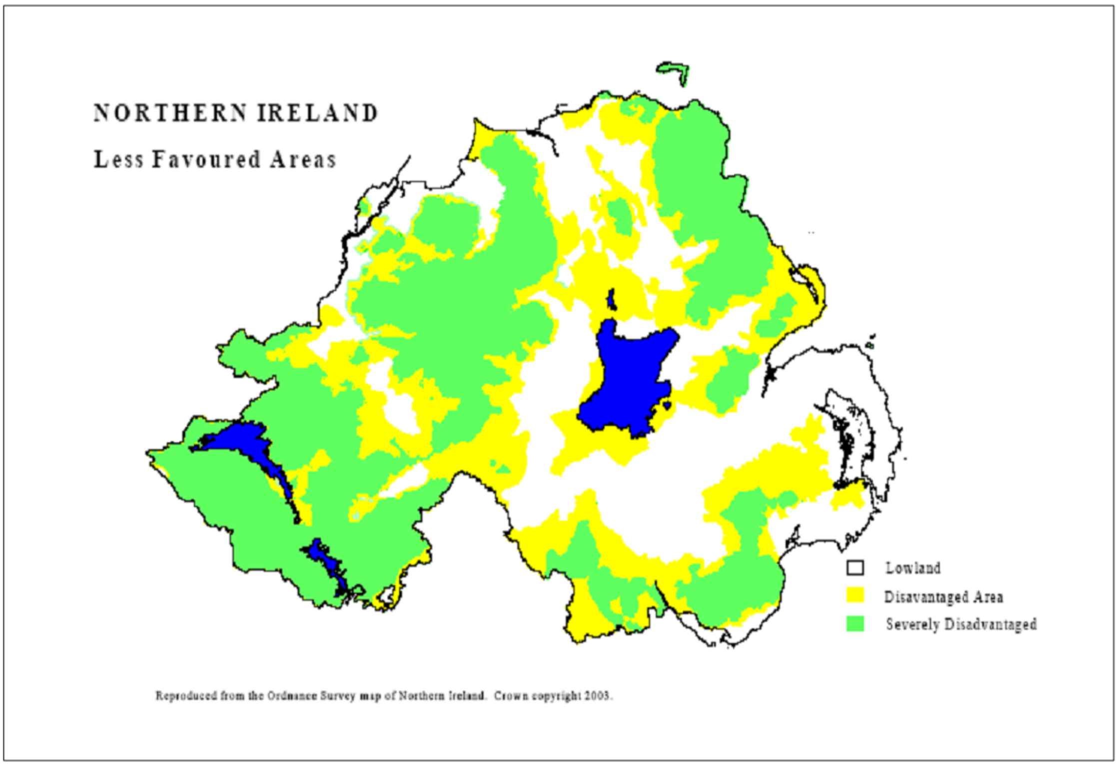

Figure 1: Less Favoured Areas of land in Northern Ireland[6]

In simple terms the Less Favoured Area (LFA) status refers to the fact that these areas are locations in which agricultural production is hampered or restricted by factors such as lower quality vegetation to support animal grazing, low population densities, a high reliance on agriculture and a low economic potential for farming in terms of the outputs that can be generated versus the inputs required.

The LFA designation owes its origins to EU Directive 75/276 which was adopted in 1975.

2.2 Ireland

There are a number of sources of information for agricultural statistics in Ireland including the Central Statistics Office, the Department of Agriculture, Fisheries and Food and the national agriculture and food development body, Teagasc.

In Ireland, the agri-food sector consists of primary agriculture, forestry, fishing, agri-food and beverages (excluding tobacco) and wood-processing. This report focuses on primary agriculture.

The most recent *Factsheet on Irish Agriculture* was released in August 2010 by the Department of Agriculture, Fisheries and Food (DAFF). The Factsheet (DAFF 2010a)[7] provides some of the most up-to-date statistics on Irish agriculture. As in Northern

[7] DAFF, 2010a. Factsheet on Irish Agriculture – August 2010

Ireland, the agri-food sector continues to be a significant industry. Overall there are approximately 175,700 people employed in the agri-food sector; 110,300 of these are employed directly in primary agriculture and a further 45,800 work in the agri-food industry.

As detailed in Table 4 hereunder, primary agriculture in Ireland contributed to 0.68% of GVA at basic prices in 2009.

GVA at basic prices - € million 2009	GVA at basic prices - % of country total 2009	Area of agricultural holdings 2009 - % of total land area	Total labour force in agriculture (2009) – thousands	Total labour force in agriculture (2009) - % of country total
983.3	0.68% (1.01% in 2008)	60.9%	48.5	5.43

Table 4: Gross Value Added (GVA), Total labour force in primary agriculture and agricultural holdings in Ireland

According to The Factsheet, Ireland's land area is 6.9 million hectares (ha), of which 4.2 million ha are used for agriculture with almost 80% devoted to pasture, hay and grass silage (3.34 million ha), 11% to rough grazing (0.45 million ha) and 10% to crop production (0.42 million ha). Of the 10% under crop production, in June 2009 there were 83,000 ha in wheat, 20,100 ha in oats, 185,900 ha in barley and 12,900 ha in potatoes. Beef and milk production currently account for 66% of agricultural output at producer prices (excluding forage).

The Central Statistics Office (CSO) conducts a Farm Structure Survey every two to three years. Apart from the Census of Agriculture, this is the largest regular survey of farming in Ireland. The most recent Farm Structure Survey was completed by the CSO in 2007[8] (CSO 2008). Some of the results of the survey and comparisons to earlier Farm Structure Surveys (CSO 2003[9]) indicate that:

- There were 128,200 active farms in June 2007, compared to 141,500 in June 2000. This was a fall of some 9.4% in the number of farms.
- The average farm size increased from 31.4 hectares in 2000 to 32.3 hectares in 2007.
- Between 1991 and 2007 there has been a decrease of 42,400 farms, an average of 2,650 a year.
- In 2007, a little over half (52.5%) of farmers described farm work as their sole occupation, compared to 57.5% of farmers in 2000
- In 2000, 39.5% of family farm holders were aged 55 or over; this age category represented 41.8% of holders in 2003, 47.7% of holders in 2005 and 50.5% of holders in 2007.

[8] Central Statistics Office (CSO), 2008. Farm Structure Survey 2007
[9] Central Statistics Office (CSO) 2003. Survey news - Farm Structure Survey

- In 2000, 13.0% of family farm holders were aged under 35; this age category represented 11.2% of holders in 2003, 8.2% of holders in 2005 and 7.0% of holders in 2007.
- Specialist beef production was the most common type of farming, accounting for over half of all farms in 2007.

Data on farm incomes, outputs, costs and investments are up-dated annually in the National Farm Survey (NFS) which is undertaken by Teagasc. The most recent NFS was conducted in 2009 and published in 2010 (NFS 2010[10]). Page 5 of the 2009 NFS states:

"Since the mid-1970's, the NFS measures farm incomes across the main farming systems and size categories. The exception to this is pigs and poultry, which are excluded from the sample. Also since 1995, very small farms…. are excluded from the survey. These exclusions result in the NFS survey representing 102,270 farms in 2009 compared to overall farm numbers nationally of 128,200 (Farm Structure Survey 2007, CSO)."

Based on the 102,270 farms represented in the NFS, there were 31,090 (or 30.4%) full time farmers and 71,180 (or 69.6%) part time farmers in 2009. The average Family Farm Income (FFI) in 2009 was €11,968, a decline of 30% on 2008 (€16,993) (NFS 2010).

The equivalents of Northern Ireland's LFAs within the rest of Ireland are called Disadvantaged Areas. Disadvantaged Areas are designated into four categories – Mountain type land, More severely handicapped (lowland), Less severely handicapped (lowland) and Areas with specific handicap (coastal areas). The Disadvantaged Areas Compensatory Allowance Scheme (DACAS) provides financial aid to farmers who are farming land which is classified as Disadvantaged by the Department of Agriculture, Fisheries and Food. Payment is based on eligible forage areas and the lands must be used for grazing of cattle, sheep, equine, goats or deer. The DACAS is co-financed by the EU, paid through the Rural Development budget and administered by the DAFF.

3. Significant EU policy impacts on Agriculture – EU wide

The EU and many of the policies and programmes that have emerged from it have had a major impact on the agricultural industry across Europe. In general terms the following EU initiatives are generally acknowledged as having had some of the most significant impacts on agriculture past, present and future.

3.1 The Common Agricultural Policy (CAP)

The Common Agricultural Policy (CAP) has been an integral component of the EU right back to its Common Market Origins in 1957, with the CAP being formally instigated in

[10] Connolly, L., Kinsella, A., Quinlan, G. & Moran, B., 2010. National Farm Survey 2009 [online]. Galway : Teagasc

1962. The principle of supporting agricultural production so that European consumers had access to a stable and affordable supply of food whilst ensuring that the farmers who produced the food had a viable income and livelihood was one of the primary motivations for the creation of the Common Market.

The creation of a system offering subsidies and guaranteeing high prices for agricultural produce undoubtedly encouraged farmers to ramp up production, but it also led to the creation of the famous “wine lakes” and “butter mountains”, whilst also adversely distorting world markets for particular commodities.

At the same time farmers and their businesses have benefitted from grants and support that have increased the efficiency of their businesses through the introduction of new technology, skills and techniques.

The focus of the CAP has gradually been moving away from production since the 1980’s with the introduction of milk quotas in 1983 for example setting the trend for limitations on production and the reduction of food surpluses.

This general move away from agricultural production has been further embedded by two major attempts to reform the CAP to over the last 18 years. The so called McSharry Reforms of 1992 had a reduction of production as their major concern largely as a result of international trade pressures, whilst the proposals that came forward as part of ‘Agenda 2000’ split the CAP into two ‘pillars’ – rural development and support for production. The concept of farm diversification was a key element of the rural development support to farmers instigated from these reforms.

The 26th of June 2003 is also a significant date with regard to CAP as it saw EU farm ministers agree to the ‘decouple’ subsidy support from agricultural produce. As a result of this change farmers no longer receive a direct subsidy payment for production. Rather, famers now receive a ‘Single Farm Payment’ (SFP) which is dependent upon their ability to ensure ‘cross compliance’ conditions are met by their farm business. In simple terms these cross compliance conditions require farmers to meet standards around animal welfare, food safety and environmental protection.

EU agriculture ministers also agreed to the concept of ‘voluntary modulation’ as part of this reform package for the CAP, which provided a mechanism whereby farmers in receipt of a Single Farm Payment in excess of €5,000 had their direct aid payment reduced by 5% with the money being transferred to the national rural development budget.

EU agriculture Ministers made further progress on the area of CAP reform when they reached agreement on the so called ‘Health Check of the CAP’ on the 20th November 2008[11]. This agreement saw the formal endorsement of a number of key proposals over the next few years. Milk quotas for example will be abolished by 2015 and there will be further ‘decoupling’ of support for production. The trend for moving money from

[11] "Health Check" of the Common Agricultural Policy, Overview of agreed reforms, European Commission Website.

direct support for farmers into rural development measures will also be accentuated by the increase in voluntary modulation rates to 10% by 2012.

The EU is also currently committed to a further and wide ranging reform of the CAP in 2013. Whilst there are no definitive indications around how this reform will eventually shape up there are indications around the type of CAP that is envisaged by administrators in Brussels. As recently as the 20th July 2010, EU agriculture commissioner Dacian Ciolis, in his closing statement at a conference on the future of the CAP, revealed his wish for a "strong, efficient and balanced Common Agriculture Policy for the future[12] and which took account of the following 7 key challenges:

- food production;
- globalisation;
- the environment;
- economic issues;
- a territorial approach;
- diversity; and
- simplification.

3.2 The EU Nitrates Directive

In 1991 the EU adopted the so called Nitrates Directive[13] with the express aim of protecting water quality across Europe from pollution from nitrates produced through agricultural processes. The Directive is also an integral part of the Water Framework Directive which was adopted in the year 2000.

The Nitrates Directive requires member states to identify so called Nitrate Vulnerable Zones (NVZs) within their national territory. An NVZ is defined as being land which drains to water/waters which either are or have the potential to be polluted by nitrates.

As well as defining NVZs, national governments have a responsibility to develop a mandatory Action Plan which details measures by which farmers can address nitrate loss from agricultural practices. In particular each Action Plan must contain rules pertaining to:

- periods when the land application of certain types of fertilizer is prohibited;
- the capacity of storage vessels for livestock manure;
- the land application of fertilizer to steeply sloping ground;
- the land application of fertilizer to water-saturated, flooded, frozen or snow-covered ground;
- the conditions for land application of fertilizer near water courses;

[12] Conference on the Public Debate on the CAP post 2013, Closing statement, EU Agriculture Commissioner Dacian Ciolis, 20th July 2010
[13] EU Nitrates Directive, 1991

- procedures for the land application, including rate and uniformity of spreading, of both chemical fertilizer and livestock manure;
- limitation of the land application of fertilizers based on a balance between the foreseeable nitrogen requirements of the crops, and the nitrogen supply to the crops from the soil and from fertilization; and
- the amount of livestock manure applied to the land each year, including by the animals themselves, shall not exceed 170 kg N per hectare.

National governments are also required on a 4 year basis to monitor and report on:

- Nitrates concentrations within their water;
- Eutrophication (the process where water bodies receive excess nutrients that stimulate excessive plant growth e.g. algal blooms); and
- Assessment of Action Programme impact.

4. Significant EU policy impacts on Agriculture – national level

Assessing the impact of EU agricultural policy on both North and South is critical in seeking to understand the challenges and issues that the overall industry faces. There follows a brief examination of the major impacts in both jurisdictions.

4.1 Northern Ireland

EU Policy could be characterised as having impacted on agriculture in Northern Ireland through both support and direct payment to farmers, and through the introduction of regulation.

In common with the rest of the EU the Common Agricultural Policy (CAP) has greatly shaped and influenced the agricultural industry in Northern Ireland. Since the UK's entry to the then European Economic Community in 1973 farmers in Northern have benefitted from the provisions of the CAP.

As mentioned previously, support to farmers under the CAP is delivered in a two pillar approach following the Agenda 2000 reforms, namely rural development and support for production. Support for production is currently delivered through the form of the aforementioned Single Farm Payment scheme. According to figures provided by Defra there were a total of **39,080** SFP beneficiaries within Northern Ireland in 2009 who received payments which totalled **£301,825,754.21**[14].

The actual calculation of the Single Farm Payment is done in a different way in Northern Ireland when compared to other parts of the UK as revealed in table 5 below.

[14] 2009 CAP beneficiaries Northern Ireland, CAP Payments Search, Defra website

	SFP calculation method	What this means
Northern Ireland	Static Vertical Hybrid Model	Payment is based upon each farm's average annual payments for the reference period of 2000-2002 plus a flat rate regional rate. Relative weightings for the historic rate and regional rate remain the same through time.
England	Flat Rate Model (implementation delayed until 2012)	Until adoption in 2012 uses a sliding scale where an ever reducing part of the payment will consist of an historic component. Additionally, England has been divided into 3 regions, broadly corresponding to moorland, hill land and lowland with a different flat rate component paid in each.
Scotland	Historic Model	Payment is based upon each farm's average annual payments for the reference period of 2000-2002.
Wales	Historic Model	Payment is based upon each farm's average annual payments for the reference period of 2000-2002.

Table 5: Single Farm Payment calculation models – UK [15]

Rural Development measures that have emerged from EU policy have also directly supported farmers and farm families. Whilst there have been and are too many such measures to list individually, one still stands out in terms of overall significance. In relation to Less Favoured Areas (LFAs), DARD currently funds its Less Favoured Areas Compensatory Allowance (LFACA) scheme through rural development funding. This scheme supports beef, sheep, deer and goat producers farming within LFAs in Northern Ireland to the tune of £22million per annum[16]. The payments are in recognition of both the difficulties of farming within these areas and the role that these farmers play in maintaining the viability of the community and landscape.

The introduction of the EU's Nitrates Directive, a key piece of EU legislation, has also had a significant impact upon farmers in Northern Ireland. As mentioned earlier in this paper Northern Ireland has high stocking levels per hectare of cattle and pigs which produce significant amounts of nitrate rich slurry. The wet climate here also means that run off from agricultural land into watercourses poses a significant problem when trying to control and reduce nitrate levels within water. In response to the EU Nitrates Directive in 1991 two key pieces of legislation were enacted within Northern Ireland. The Protection of Water Against Agricultural Nitrate Pollution Regulations (Northern

[15] Tax Bulletin Special, HMRC website, June 2005
[16] Gildernew announces LFACA payment targets for 2009, DARD Press Release, 16th December 2008.

Ireland) 1996[17], and the Action Programme for Nitrate Vulnerable Zones Regulations (Northern Ireland) 1999[18] led to the designation of 7 Nitrate Vulnerable Zones within Northern Ireland by 2003.

A key component of the Nitrates Directive was the need for national governments to monitor the potential for eutrophication of watercourses. In circumstances where eutrophication had occurred or was likely to occur and agricultural nitrates are a key causal factor, the government must either designate land running into these watercourses as Nitrate Vulnerable Zones and implement Action Plans, or adopt an Action Plan across the entire territory. A joint scientific report commissioned by the Department of the Environment and DARD and carried out in 2002[19] sought to establish the environmental aspects and impacts of the Nitrates Directive in Northern Ireland. This report concluded that the majority of rivers and lakes in Northern Ireland were being enriched by agriculture derived nitrates and that as a result there was a risk of eutrophication. In the light of these findings and following a period of consultation DARD and the DOE moved to declare Northern Ireland's 'Total Territory' as a Nitrate Vulnerable Zone. This declaration was formally endorsed in the Protection of Water Against Agricultural Nitrate Pollution Regulations (Northern Ireland)[20] which came into force on the 29th October 2004.

Since the 1st of January 2007 the Nitrates Action Programme Regulations[21] have been in operation across Northern Ireland. These regulations set out detailed requirements to prevent water pollution by nitrates from a range of agricultural sources. The regulations cover issues such as when fertilisers can be spread, storage requirements for animal manures and also set out the types of records that will need to be kept by farmers to prove their compliance with the regulations. In seeking to meet these regulations, which are also critical to famers receiving their Single Farm Payment as part of cross compliance, the Ulster Farmers Union estimated that farmers in Northern Ireland have had to bear costs of £240 million, with the average expenditure per farm equating to £50,000[22].

Farmers here have also been able to avail of derogation in relation to regulations derived from the Nitrates Directive. In simple terms this means that farmers who farm grazing livestock have been allowed to farm above the predetermined 170 kg Nitrogen/hectare/year limit for livestock manure proving they can meet certain conditions.

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[17] Protection of Water Against Agricultural Nitrate Pollution Regulations (Northern Ireland), 1996
[18] Action Programme for Nitrate Vulnerable Zones (Northern Ireland), 1999
[19] Report on the environmental aspects of the Nitrates Directive In Northern Ireland, DOE-DARD Scientific Working Group, 7th August 2002.
[20] The Protection of water Against Agricultural Nitrate Pollution Regulations (Northern Ireland), 2004
[21] The Nitrates Action Programme Regulations (Northern Ireland, 2006
[22] Review of the Northern Ireland Nitrates Action Programme, Initial Views of the Ulster Farmers Union, November 2009

4.2 Ireland

The main element of direct payment to farmers is via the Single Farm Payment (SFP). The SFP is currently calculated on the historic model whereby payment is based upon each farms average annual payment for the reference period 2000-2002. Other elements of direct aid include the Rural Environment Protection Scheme (REPS), compensatory allowances for Disadvantaged Areas and disease compensation payments. Total direct payments to farmers were €1,347.60 million in 2009 and of this the SFP was worth €1,299.5 million (DAFF 2010a[23]). The average direct payments in 2009 were €17,109 per farm compared to €17,467 in 2008 (NFS 2010). There were 139,031 recipients of total farm payments (total payments also include for afforestation grants, expenditure of investment, premia and installation aid) in the calendar year of 2009 (DAFF 2010b[24]).

In Ireland, the Nitrates Directive is transposed through a number of Regulations. The European Communities (Good Agricultural Practice for Protection of Water) Regulations, 2009 (S.I. No. 101 of 2009) (common known as the Nitrates Regulations) replaced all previous regulations.

Like Northern Ireland, Ireland did not designate Nitrate Vulnerable Zones, instead choosing to give the same level of protection to the total territory and apply a national Nitrates Action Plan (NAP). The 2009 Nitrates Regulations gives effect to Ireland's 1st NAP.

The EU Commission granted Ireland a derogation on the 22 October 2007, which allowed land spreading rates of up to 250kg N/ha/year under specific circumstances. The 2009 Nitrates Regulations provide the legal basis for the operation of this derogation. As in Northern Ireland, some intensive grassland farmers are eligible for this derogation. If eligible farmers intend to exceed the 170kgN/ha/year limit they must submit a fertilizer plan to DAFF and also apply for a derogation. The applicant must also keep fertilizer records and conduct soil tests every four years.

Draft European Communities (Good Agricultural Practice for Protection of Waters) Regulations, 2010 have now been developed for the purpose of giving statutory effect to Ireland's 2nd NAP which will run to December 2013. Prepared jointly by the Department of the Environment, Heritage and Local Government (DEHLG) and the DAFF, the draft Regulations incorporate any revisions proposed to the NAP (DEHLG 201025). Compliance with the Nitrates Regulations has been supported by significant public expenditures under the Farm Waste Management Scheme. Studies such as, the EPA review of the Nitrates Regulations and the Teagasc operated Agricultural Mini-Catchment Programme, are due to be completed from 2012. These will indicate the effectiveness of those agricultural measures in reducing pollution of water by nitrates and phosphates from agricultural

[23] DAFF, 2010a. Factsheet on Irish Agriculture – August 2010

[24] DAFF, 2010b. Annual review and outlook for agriculture, fisheries and food 2009/2010

[25] Department of the Environment, Heritage and Local Government (DEHLG) 2010. *Nitrates Directive* [online]. Available at: http://www.environ.ie/en/Environment/Water/WaterQuality/NitratesDirective/ [accessed on 24.09.2010]

sources. As the results of these studies are not yet available, the revisions to the 2^{nd} NAP proposed in the 2010 draft Nitrates Regulations are minimal (DAFF 2010c).

Local authorities, under the general supervision of the EPA, are the responsible public authority for the enforcement of the Nitrates Regulations and there is cross reporting of breaches between local authorities and DAFF. Direct payments are subject to cross compliance with the Nitrates Directive and farmers who do not have a derogation and exceed the 170kgN/ha limit may have penalties imposed on their SFP.

5. Common Challenges facing Agriculture North and South

Whilst there are differences between the agricultural industries in the North and in the South there are nonetheless many common issues and challenges within the context of increased trade liberalisation, increased competition, climatic implications, future price volatility on world markets and the generally poor global economic position. In terms of specifics the following challenges are presented as areas in need of attention.

5.1 Ensuring that pending CAP reform does not adversely affect farming – protecting the Single Farm Payment.

The ongoing process of significant reform of the Common Agricultural Policy (CAP) is now gathering pace with the EC Agriculture Commissioner Dacian Ciolis aiming to publish his initial proposals in December 2010. A primary concern for farmers regarding these reforms is how they will impact on the Single Farm Payment system.

Within both jurisdictions there is an acknowledgement that the SFP and the income it provides has been critical to the viability and survival of many farm businesses.

What is challenging is that there appears to be a general feeling amongst some policy makers that if the Single Farm Payment continues post CAP reform, and this is by no means a given, that it will be based upon a flat rate calculation.

The move to a flat rate has the potential to seriously affect the viability of many of Northern Ireland’s farms given their small size and the marginal production capacity of 70% of the land due to its Less Favoured Area (LFA) designation. A major concern would be the adoption of a Northern Ireland or even EU wide flat rate which failed to take account of the localised variations in landscape and production capacity. The adoption of a flat rate would potentially lead to a reduction in farm income that could well contribute to the abandonment of significant portions of land and the death of many marginal farm businesses, which would also adversely impact on the viability of rural communities in general.

Within Ireland many farmers argue that the adoption of a flat rate SFP will negatively affect farm income and there are concerns that such a move could significantly reduce the overall CAP funding to the Republic of Ireland.

Finally, CAP reform should be viewed in the context of upcoming negotiations on the EU's Financial Perspectives post 2013 and competing demands for funding under the EU budget. The CAP, as the single largest item of expenditure under the EU budget, will be in competition with other emerging priorities linked to the implementation of the Europe 2020 Strategy on Growth and Jobs. This could lead to a re-examination of the way in which the CAP in its entirety is financed.

5.2 Supporting agriculture and communities within Less Favoured Areas.

As mentioned previously, 70% of Northern Ireland's agricultural land is designated as Less Favoured. In conjunction with the Single Farm Payment (SFP) the current Less Favoured Areas Compensatory Allowance (LFACA) scheme is critical to the survival of farms and communities within these areas of LFA. The LFACA is currently funded out of the rural development budget within Northern Ireland and there are challenges around how this scheme can continue to run or be further enhanced given the current lack of clarity in relation to CAP reform. If CAP reform results in an increase in rural development budgets then the future of the scheme might be secure, but once again this is by no means certain, as no matter how you look at it, the LFACA scheme, whilst supporting environmental protection, is also an indirect form of support for agricultural production and as such further decoupling could jeopardise its future. There also needs to be a recognition that the scheme and the support that it offers might have to be enhanced further if the SFP system moves to a flat rate calculation as this would see a major reduction in farm income for LFA farmers an increased reliance upon schemes such as the LFACA for farm income and survival.

In addition any moves to review the designation of existing LFAs within Northern Ireland which might lead to a reduction in the amount of LFA agricultural land would have an adverse effect on farmers who would no longer be eligible for schemes such as the LFACA.

Almost 75% of Ireland's total land area is designated as disadvantaged. From an economic perspective, the DACAS is particularly significant, contributing to the support of in excess of 100,000 Irish farm families, whose ability to farm is restricted by the physical environment, in particular, the impact of the prevailing climatic conditions in Ireland.

5.3 Meeting the obligations of the EU Nitrates Directive – present and future.

The financial cost to farmers of meeting the obligations within the Nitrates Directive have been huge over the last few years. Whilst much of the capital expenditure required to meet the regulations such as the construction of slurry storage tanks has now occurred, farmers are now facing the challenge of meeting the ongoing regulations linked to the directive. Given for example the climatic conditions in Ireland, north and south and the resultant restrictions on when, how, and where animal slurries can be spread it is not hard to see that farmers are far from out of the woods in meeting their obligations.

The enforcement of the current regulations by the Northern Ireland Environment Agency also presents challenges particularly in relation to cross compliance inspections linked to Single Farm Payments as breaches of the regulations can happen unintentionally but have a major impact on farm income.

There are also future challenges in the form of potentially enhanced nitrate regulations with higher benchmarks which would increase both costs and the pressures on farmers. A key area here for example is Northern Ireland's current derogation status in relation to the spreading of grazed livestock manure. A loss of this status or a reduction in the derogation level would adversely affect the many livestock farmers in Northern Ireland. In such circumstances sectors such as dairy and beef and poultry could face limits on the stock levels they maintain at a time when the potential loss of direct support for production and opening up of the markets for commodities is encouraging the creation of large scale, intensive and highly competitive farm units. Such moves would undoubtedly disadvantage these farmers and may well put some out of business.

There are concerns among Irish farming bodies with regard to the draft 2010 Nitrates Regulations and the proposed revisions to the 2nd NAP. These include concerns over failing to extend the provisions regarding the importation of slurry from pig and poultry units. Under the existing Nitrates Regulations, farmers importing slurry from pig and poultry units can ignore the phosphorous content when calculating fertiliser usage. The Irish Farmers Association (IFA) has warned that ending these provisions would have serious implications for the pig and poultry sectors, as well as for intensive beef and dairy units. The IFA estimates that failure to extend these provisions would add €30 million per year in haulage costs to the pig and poultry sectors (The Irish Times, 16.08.2010[26]). The IFA and the Irish Creamery Milk Suppliers Association (ICMSA) have also expressed concerns over the length of the closed season for land spreading (currently 15th October to 12th, 15th or 31st January depending on the region of the country) and have recommended that the closed season be shortened and weather and soil conditions taken into consideration.

5.4 Food and fuel security – are these an EU and national government priority?

Wide ranging fluctuations in the price of fuel and food over recent years have seen the themes of food and fuel security feature prominently in the minds of policy makers. Whilst prices seem to have stabilised over the last year, largely due to the onset of the worldwide economic downturn, there is a recognition that the issues of food and fuel security are not going to go away, and if anything are likely to return to prominence over the coming years.

[26] The Irish Times, 16th August 2010. *Farmers warn of job losses if Nitrates Directive is changed* [online]. Available at: http://www.irishtimes.com/newspaper/ireland/2010/0816/1224276886761.html [accessed on 24.09.2010]

The question remains as to whether the EU and national governments are committed to meeting the challenges of food and fuel security. Whilst the EU has historically been largely self sufficient in many food stuffs largely due to the production levels achieved through the CAP, this situation has been changing as CAP reform increasingly focuses on environmental stewardship rather than production. The situation in relation to energy crops is also interesting as the growth of these products is still at a relatively low scale within the EU. If EU and national policy begins to focus on meeting these challenges it will be farmers who will be integral to solutions but there needs to be clarity in terms of how farmers can be supported to meet the challenge.

Against the background of concerns about security of food supply, the Irish government view is that it is important to maintain a strong agricultural production base in the European Union in the future to take account of the challenges ahead in meeting increased demands for food. Any reduction in food production in the EU would be taken up elsewhere where less efficient production systems exist and would result in a heavier carbon footprint. To achieve these objectives, there is a continuing need for an active and appropriately resourced European agricultural policy. That policy needs to recognise the role that a cohesive agriculture & rural development policy can play in addressing future energy needs, addressing environmental concerns and providing a secure and sustainable food supply in Europe (DAFF 2009[27])

5.5 The Diversification Challenge - numbers, options, locations and skills

A key component of the rural development measures that have emerged over the last 15-20 years, and which have now become an integral part of EU agriculture policy, are the moves to encourage farmers to diversify. In both theory, and practice, farm diversification stacks up and there are many notable examples both North and South where farm businesses have been complemented by developing initiatives such as crèches, on farm small scale food processing and machinery rings to name but a few. Whilst these successes are rightly trumpeted there is an ongoing challenge around the level and type of diversification that can be undertaken by many farmers. The fundamental truth is that there are only so many things to actually diversify to depending on farm size, location, farm family interest/skills and the proximity to other similar diversified businesses. If diversification is to be a viable option for more famers these challenges need to be addressed.

5.6 Farm and Farmer Succession - supporting older farmers and the younger generations

[27] Department of Agriculture, Fisheries and Food (DAFF), 2009. *Briefing material for Oireachtas research paper on CAP post 2013, 1st July 2009*. Dublin: DAFF

As revealed by the references to the EU farm structure survey within this report, the average age of farmers both North and South is increasing and this upward trend looks set to continue. The implications of having many farmers aged in their late 50s and early 60s are not to be underestimated. Whilst it is undoubtedly encouraging that people are remaining economically active up to, and in all likelihood beyond, the conventional retirement ages of 60 or 65 it needs to be understood that farming is a physically and increasingly mentally demanding business. The challenge here is effectively summarised as addressing two distinct issues. Firstly supporting those farmers who are older and ageing to either continue to farm or explore ways to leave the industry whilst securing an income. Secondly the challenge of attracting the younger generations and introducing new ideas to agriculture is critical to the long term viability and success of the industry and this issue needs to be addressed urgently.

5.7 Striking the balance between environmental protection/habitat protection and a living working countryside

Accommodating the often competing requirements of both environmental regulation/protection and agricultural production continues to be a major challenge in terms of rural policy. The Nitrates Directive is a good example of how environmental regulation can undoubtedly improve the quality of the environment but it should be acknowledged that this improvement has come at considerable and ongoing cost to farmers. In effect the relationship between the environmental and agricultural lobbies can sometimes be conflictual. There is real need to reach a point where both lobbies can relate to each other in a way that ensures a win win situation for rural communities.

5.8 Securing a fair market price for agricultural products

The difference in price between food at the farm gate and food in supermarkets continues to be a challenge. The small profit margins which many farmers are working to call into question the viability of many farm businesses in the long term. This situation is even more acute given the potential for increasing volatility in the price of key agricultural inputs such as fuel and fertilisers. The power of large supermarkets to play farmers off against each other in the pursuit of best value for the supermarket and a guaranteed supply contract for the farmer is having an undoubted adverse impact on the agricultural industry.

The situation in relation to a fair price for products is also further compounded by the importation of foods which as a result of reduced regulation in areas such as animal welfare is produced at a far lower price than local producers can achieve.

In both of these instances local farmers need support, possibly in the form of further regulation of supermarket pricing and imported food standards, if the local industry is to be able to survive into the long term as one of our most important industries.

5.9 Minimising the negative impacts of the abolition of the milk quota system in 2015 – maximising the potential opportunities

The abolition of the milk quota in 2015 will mean that the market will dictate both the price and demand for milk and any milk derived products. This approach is generally welcomed by those farmers and parts of the EU which are well equipped to benefit from the change. For the most part the change will reward those farmers who operate large scale intensive dairy units, whilst the small dairy farmer is likely to suffer.

The impacts of the changes on the dairy sector in Northern Ireland will need to be properly assessed and addressed. Whilst there are many farmers who are of sufficient size to benefit from the abolition of quotas there are still many dairy farms located within LFAs which have limited potential to increase either their productivity or efficiency given both the nature of their land and the fact that their modest income may not enable them to invest the capital required to be competitive. The 'big is best' mentality fostered by the abolition of milk quotas is also likely to run into difficulties in the face of both the current and any future regulations to emerge from the Nitrates Directive. Larger more intensive dairy units will produce more animal slurries which need to be disposed of.

The abolition of milk quotas will also impact the dairy industry in Ireland. Other future policies which will also impact on milk prices include the removal of certain market support measures and the further liberalisation of agricultural commodities if agreement is reached under the WTO Doha Development Agenda. Impacts from these policies include greater exposure to world market conditions which have lower prices for milk and greater price volatility.

However, according to the DAFF, Ireland is considered one of only six EU Member States with the capacity to significantly increase milk production in the approach to and aftermath of milk quota abolition. In addition, the recently published DAFF report, *2020 Food Harvest* indicates that the abolition of milk quotas and growing global markets could offer economic opportunities if Ireland's dairy sector can address structural challenges within the industry and meet the competitive challenges of the international marketplace (DAFF 2010c[28]).

5.10 Minimising the impact of government cuts on the agricultural industry

The world economic downturn and the rising national debt in both the UK and Ireland have led the Governments in Westminster and Dublin to propose and implement an ongoing radical overhaul of the public finances. The principle of cuts in public expenditure is now well established within each jurisdiction and is weighing heavily on government departments actively engaged in the process of setting budgets. Cuts to individual departmental budgets of up to 40% have impacted and are impacting on the delivery of services by both governments. DAFF and DARD have not been and will not

[28] DAFF, 2010c. 2020 Food Harvest – a vision for Irish agri-food and fisheries 2020

be immune to these pressures and it is within this context that there may be a need to ensure that front line support services to farmers and farm businesses are secured.