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Address to the Oxford Farming Conference 5 January 2011

“Steering Irish agriculture through the economic downturn”

Good morning Ladies and Gentlemen. Thank you for inviting me to speak at this conference today. I would like to congratulate the organisers; the conference now in its 65th year, predates both the Common Agriculture Policy and I.

I would like to speak today about steering Irish agriculture through the economic downturn and to present to you some of my views on the upcoming reform of the EU Common Agricultural Policy.

The agri-food industry is Ireland’s largest indigenous industry. It is hugely important to the Irish economy and to our rural society and there are notable social, economic and environmental inter-dependencies that stretch the length and breadth of the country. Collectively the industry is responsible for some 150,000 jobs and has an annual output of around €24 billion with a huge export orientation running into several billions.

In common with trends in all EU Member States, farm numbers in Ireland have declined over recent decades. But Ireland still uses over 60% of its land area for agriculture and a further 11% for forestry. There are still an estimated 128,000 farms in Ireland and 380,000 Irish people living on them. Almost 80% of the agricultural land is devoted to pasture, hay and silage, which shows the importance of beef and dairy production in the Irish farming system. Combined, they account for 88,000 of the total farm numbers and for close to 60% of total agricultural output every year.

However, production is not the only task for Ireland’s farmers. With the country opting for full decoupling in 2005, farmers were free to produce according to the requirements of the market. They also recognised their responsibilities as guardians of the countryside and environment, and this has been reinforced significantly through the implementation of cross compliance conditions in the single payment scheme. The role of farming in the stewardship of the natural landscape has been far more visible over the last decade and will provide a

sound platform for the continued economic, environmental and social sustainability of rural Ireland.

The rural environment has historically been at the heart of perceptions of Ireland. The country has always been associated with the colour green, which represents our unspoilt agricultural landscape, which in turn is the fruit of our temperate climate. Our main agri-environment schemes (the Rural Environment Protection Scheme and its successor, the Agri-Environmental Options Scheme) have further strengthened the sustainability credentials of Irish agriculture, and have targeted the provision of additional environmental public goods. When combined with the country's extensive, low-input and grass-based production systems, and our relatively small scale family farm structure, this ensures that the country remains truly "green" in the more modern sense of the word.

You will all be aware of the economic difficulties currently being experienced by Ireland. In that regard, the continued development of our agri-food sector is central to our plan for economic recovery. This sector has performed particularly well in the face of the economic downturn in terms of export returns and, while 2009 was a disappointing and difficult year for the sector, it has shown a remarkable turnaround in the year just passed. The immediate outlook for the agri-food sector is now improving. Recent Advance Estimates of Input, Output & Income for 2010, compiled by Ireland's Central Statistics Office, show a €737m million increase in farm output compared to 2009, which represents a 16% increase year-on-year. Most striking was the 88% increase in the value of cereals output, reflecting growing demand and relatively limited supply worldwide. I must point out that this increase cannot simply be explained by the fact that 2009 was an extremely harsh year for tillage farmers and that 2010 could only get better. The 2010 figures were actually the second highest in the last fifteen years, a very encouraging performance. Beef, sheepmeat and pigmeat also recorded very welcome increases in value and a recovery in milk prices led to its output value growing by 38.8%. This higher value came from a 7% expansion in milk output that contributed to a 6% jump in overall agricultural output.

In the middle of last year, I published Food Harvest 2020, which is an ambitious but realistic strategy for smart, green growth in the Irish agri-food sector over the next ten years. The Food Harvest 2020 report was developed as a cohesive roadmap for the industry to build capacity, adapt to challenge and grow in the context of emerging opportunities in the years to come. Food Harvest 2020 is not solely an Irish Government initiative. It was developed in collaboration with the Irish agri-food sector and its delivery will be driven by that sector. It is based on the premise of smart, green growth;

- smart in the sense of embracing innovation and new technologies,
- green in the sense of clearly demonstrating and capitalising on Ireland's environmental credentials and
- growth in the sense of efficient and environmentally sustainable production that delivers significant economic growth and allows the sector to pay a key part in Ireland's economic recovery.

The Food Harvest 2020 Committee concluded that Ireland can grow its primary output by one-third and our value added and exports by around 40%. This ambition is driven partly by the expected growth in global food markets and partly by Ireland's strategic advantages as a food and drinks producer. The intention is that future policy will focus on areas where competitive advantage can be achieved. Our vision is that the sector will become more innovative by investing in research, providing what the consumer wants, applying lean manufacturing techniques and ensuring that we have the scale at every level to maximise our cost competitiveness. We will also focus on environmental sustainability while continuing to support and develop primary production.

Our Food Harvest strategy will play a huge part in our national economic recovery and to that effect it has been incorporated in our national recovery plan announced last November. In that connection, the CAP will be a key instrument underpinning the ambitions of our strategy. The negotiations on the future CAP are therefore of enormous importance for Ireland.

When the CAP was designed in the late 1950s and early 1960s the focus was on production volume, in order to meet Europe's food supplies, and on ensuring farmers had sufficient rewards to remain in active production. The fundamental aims of the CAP, recently reaffirmed by all Member States in the Lisbon Treaty, have not altered over the years. Nevertheless, as time has moved on we have successfully shaped and adapted our common agricultural policy to meet the circumstances and needs of the times. We are far more conscious these days of the need to promote competitiveness and to foster sustainability in all dimensions, that is to say economically, environmentally and socially. However I firmly believe we should not be tempted to remove ourselves too far from the original aims of the CAP as designed by the founding fathers of the then European Economic Community.

For the future, we need a well balanced system of agricultural policy in the EU. We have a challenge to make agriculture more sustainable and focus on its contribution to supplying the food needs of the world. We have to steer the CAP to keep it facing squarely towards unfolding challenges – like the need to

sharpen our farm sector's competitive edge, to make environmental care and long-term sustainability a central plank of policy, and to respond to the international food crisis.

In a nutshell, my view is that the future CAP must aspire to the twin objectives of competitiveness and sustainability. Now, more than ever, we need to focus on ensuring security of supply of safe, high quality and sustainably produced food - at reasonable prices for our consumers, and with reasonable returns to our farmers and processors. In order to achieve this we will require a strong and adequately resourced CAP.

The current round of CAP reform discussions should be seen in the broader context of the EU Budget Review, the next Multi-annual Financial Framework and the EU 2020 strategy with its emphasis on smart, sustainable and inclusive growth.

The EU Budget Review, presented recently by the EU Commission, acknowledges the contribution of the CAP to a wide variety of EU objectives including cohesion, climate change, environmental protection, biodiversity, health, competitiveness and food security. It follows therefore that we must devote sufficient resources to this policy. It is in all our interests to maintain the CAP budget at a sufficiently high level, as at present, so that it can continue to contribute to the objectives I have just mentioned.

The relevance and importance of the CAP are also reflected in the EU2020 strategy. It contributes to all three priorities of that strategy of smart, green and inclusive growth. Its importance has also been acknowledged in the conclusions by the Heads of State and Government at the European Council in spring of last year.

Let us remind ourselves of some pertinent facts:

- The primary agricultural sector covers over 40% of the EU landmass (or almost 80% if forestry is included).
- Primary agriculture alone contributes 1.9% to gross value added in the Union and 5.6% to employment.
- The sector is an essential platform for the EU food and drinks sector, which is the largest manufacturing sector in the EU, representing some 9% of industrial value added and over 10% of industrial employment.

In essence, the agriculture and food production sector is hugely important in the context of Europe's economic and industrial recovery. A modern, productive EU agriculture and food sector contributes to security of food supply, both within and beyond Europe. Moreover, it is a sector in which global demand is guaranteed to increase. It supports green growth, ensures appropriate land management and contributes to social inclusion in rural areas. It ensures the sustainable use of natural resources and supports climate change mitigation. It provides stable employment opportunities, requiring high skill levels and qualifications and greater levels of R&D and innovation as part of smart growth.

On the basis of consultations with Member States and stakeholders and a public debate, followed by a Commission conference on the CAP in July of last year, the Commission presented its communication on the future of the CAP in November last. I agree with the Communication that "the CAP should remain a strong common policy, structured around its two pillars". However I would caution that, to be meaningful, this will require appropriate resources and this must be reflected in the new financial framework.

I welcome the three main objectives that are identified in the Communication: viable food production, sustainable management of natural resources and balanced rural development. I also welcome its commitment to the continuation of decoupled direct payments, the retention and enhancement of market management measures and the further development of the current rural development themes.

I believe it is essential that we underpin the income of our family farms with direct payments and appropriate market support measures. Decoupled direct payments are the most efficient mechanism to support farm income, and to offer some degree of protection from short term volatility in market prices, while allowing the farmer to respond to market signals over the medium to long term.

As we saw in 2009, it is necessary to supplement this with well targeted market support measures where exceptional market conditions warrant it.

I would emphasise that this support for the incomes of our family farmers is entirely compatible with a desire to encourage sustainability and the production

of public goods. Certainly it is true in Ireland, and I am sure elsewhere, that our family farm structure, which is focused particularly on extensive livestock production, is critical for the maintenance of our rural landscape and natural biodiversity, and for the production of other public goods.

I would strongly endorse the focus on competitiveness in the communication from the Commission. I am particularly concerned that this should take practical expression in pillar 2 measures to support on-farm investment and to improve and adapt farm structures.

With growing global demand for food and the ending of milk quotas, our agri-food sector faces new opportunities for growth. But these opportunities will only be fully realised if our farms become as competitive as possible and this will require considerable adaptation and structural change. It is important that we should actively support our farmers through this process.

I have on many occasions spoken of weaknesses in the food supply chain. Food security rests not only on competitive, viable food production and distribution systems but also on a reasonable balance of influence between the various players in the supply chain. These players vary greatly in economic significance. In considering future CAP policy, we need to be prepared to put in place mechanisms to ensure that the supply chain is not distorted by, for example, unacceptable practices at retail level which could have long term consequences for producers. We also need to recognise the importance to our economies of continued access to quality agricultural raw materials.

The communication makes brief reference to the distribution of funds between member states under pillar 1 and pillar 2, a matter that we are all naturally concerned about. My primary aim is to secure a direct payments system that provides our fair share of funding and that supports the viability of Irish farming. I daresay that my objective is probably shared by 26 other Ministers in the Agriculture Council, in respect of their own Member State. The fact of the matter is, I believe, that the distribution issue requires realism on the part of all Member States. We must look realistically at how the funds are currently distributed in both pillars, and recognise that conditions and costs of living vary greatly from one member state to another. We need to deal with this issue directly at a political level. I would be sceptical about the idea of seeking to

determine a comprehensive set of objective criteria to resolve the issue. I would not be confident of finding a combination of such criteria that will command the support of the Council – we all have our own favourite “objective” criteria. In my view, we should look at the current average payments in pillar 1 and 2, per hectare of eligible area, and negotiate from there.

The issue of payment models, that is the distribution of funds between farmers within each member state, is an entirely separate matter. I favour allowing Member States considerable flexibility in this area, as is currently the case. The agro-ecological and social conditions of farming vary hugely within the Union, as does public perception of the role of agriculture in the economy. We should not, therefore, impose a “one size fits all” payment model on all Member States.

With regard to the proposed “greening” of the direct payment, I am particularly concerned that we should not underplay or undervalue the substantial environmental public good already being delivered through the cross compliance requirements. I welcome the commitment in the communication to simplification, but think that we must bear that issue in mind when discussing any further “greening” of the single payment. Within these parameters, I am, of course, prepared to engage in the debate.

I view this communication as a first step in what will be a lengthy process of negotiations. Over the coming months, we will discuss the communication in greater detail with a view to agreeing conclusions on the general orientation of policy for the CAP after 2013, before the legislative proposals, due next July, are framed.

To summarise, my vision for the future CAP is grounded on competitiveness and sustainability. That means continued decoupled income support for our farmers, underpinned by measures to stabilise the market and supplemented by mechanisms that encourage and increase competitiveness and innovation and that allow farmers to produce in a sustainable manner with due respect to the environment. In this context, and looking to the CAP of the future, my aim is to make sure that it:

1. Supports farm incomes and addresses the issue of price and income volatility, while avoiding market distortions

2. Encourages competitiveness and innovation through appropriate measures, including support for farm investment, and
3. Promotes sustainability, in all its dimensions, and rewards farmers for the public goods they produce.

By doing this we will ensure that the CAP delivers a secure supply of quality food to our consumers and decent incomes to our farmers, while protecting and enhancing the natural environment.