

# THE IRISH FARMERS' ASSOCIATION

Working  
together for a  
Better Future



**ECONOMIC AND ENVIRONMENTAL  
IMPACT OF CUTS ON**

**AGRICULTURE AND  
THE RURAL ECONOMY**

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## **1. The contribution of Agriculture to the Irish Economy**

The agri-food industry is the largest Irish-owned productive sector, accounting for over 50% of exports from Irish-owned manufacturing. It is an industry with low profit outflow from the country and low import requirements.

Direct employment in the agri-food sector in Ireland at the end of 2008 was 176,300, or 9% of total employment, of which 112,800 was in primary agriculture.

Farming, the food industry and the services industries depending on agriculture provided over 300,000 jobs by the end of 2008. This represents over 20% of jobs outside Dublin.

The Gross Value Added of agriculture and the agri-food sector is €12 billion annually.

Food and drink exports of €8.2 billion in 2008 represent 10% of total manufacturing exports and account for 32% of net foreign earnings for manufacturing industries.

EU transfers to Ireland for the agriculture sector are €1.7 billion annually, providing a vital source of net income for the rural economy.

## **2. Environmental and Social benefit of Farm Schemes**

REPS has contributed hugely to improving the environment and enhancing biodiversity through the creation of new habitats.

Under REPS, 10,000 kilometres of new and rejuvenated hedgerows is being undertaken throughout every townland in Ireland, the largest planting in 200 years in the Irish countryside. Over 1 million native broadleaf trees will be planted

In addition to the general environmental options under the REPS scheme, around 3,000 farmers participate in supplementary measures. These include rare breeds, organic production, riparian water margin zones, linnet, comcrake and orchard measures.

14,000 farmers in REPS have all or parts of their land under Special Areas of Conservation, Special Protection Areas and Natural Heritage Areas environmental designation. These lands are farmed to specific farming prescriptions in order to protect the unique habitats that have been identified under the EU-wide Natura 2000 network of environmental designations.

Over 3,000 kilometres of the network of stonewalls, mainly in the West of Ireland, are being maintained and improved through REPS. A specific measure under REPS 4 is the maintaining of buildings of heritage, which have been designated as having high architectural value.

Farmland in REPS provides a significant carbon sink, absorbing approximately 2.3 Mt CO<sub>2</sub>e

REPS is of huge benefit to the rural economy. It provides employment for farm suppliers of fencing materials and hedging, garden centres, planning consultants and other labour inputs.

The Agricultural Consultants Association estimate that there are 2,640 workers whose livelihood is directly attributable to REPS.

With an average payment of €6,200, REPS is a significant support scheme, particularly in the West of Ireland. In Connaught alone, 34% of farmers (20,500) are in REPS.

### 3. Impact of Proposed Cuts on Agriculture and the Rural Economy

The proposed cuts to farm schemes outlined in the Report of the Special Group on Public Service Numbers and Expenditure Programmes ('Bord Snip') amount to €204 million

The proposed cuts will seriously undermine the positive contribution of agriculture to the rural economy, including a reduction in output for the agri-food sector, an increase in the number of farmers on Farm Assist, a reduction in the number of active farmers and an increase in rural unemployment.

In addition to the economic impact, the proposed cuts will impact on the rural environment and on rural society, with the real prospect of land abandonment, rural desertification and the eroding of rural communities.

The table below provides an estimate of the economic impact of the proposed cuts in REPS, Disadvantaged Areas and Suckler Cow Welfare Schemes.

In summary, the loss of output earnings is estimated at €431 million, while the additional cost to the Exchequer, in the form of Social Welfare payments is €240 million, or €36 million more than the proposed savings.

#### *Summary of Impact of Proposed Cuts on Rural Economy*

Farm Enterprise	Reduction In Herd Numbers	Output Loss (€m)	Increase In Rural Unemployment	Increase In Farm Assist Numbers	Social Welfare Costs (€m)
Beef	20,588	348	6,863	5,147	149
Sheep	5,600	39	1,867	1,400	40
Dairy	1,900	44	633	475	14
Direct Cuts	-	-	2,962		37
<b>Total</b>	<b>28,088</b>	<b>431</b>	<b>12,324</b>	<b>7,022</b>	<b>240</b>

### 4. Short Term - Direct Impact on Jobs in the Rural Economy

The effects of cuts in farm schemes will have a much wider impact than at farm level alone.

For every €1 of farm income earned, more than 70c goes back into the local economy in spending by farmers<sup>1</sup>

Conversely, a reduction in farm income will result in reduced expenditure in the local economy and will have a negative impact on employment in rural areas

The proposed cuts to farm schemes outlined in the Report of the Special Group on Public Service Numbers amount to €204 million. It is estimated that this translates to a cut of €142 million in farm income<sup>2</sup>.

Therefore, the knock-on income loss to the rural economy will be approximately €104 million.

This represents the potential destruction of almost 3,000 jobs at a salary of €35,000<sup>3</sup> per annum

<sup>1</sup> CSO Supply and Use and Input-Output Tables for Ireland 2005, Agriculture Output Multiplier

<sup>2</sup> See Assumptions in Appendix I

<sup>3</sup> Average Industrial Wage

## **5. Long-term – Impact on Agricultural Production**

The main impact of the proposed cuts will not be the short-term direct job losses, but rather the long-term effect on output in the agriculture sector, the consequent job losses in the rural economy and increased Social Welfare requirements.

### **5.1 Livestock Sector**

The livestock sector will be particularly impacted by the proposed cuts, where individual farmers are facing cuts of up to 40% in income, through the proposed cuts in REPS, Suckler Cow payments and Disadvantaged Areas.

This is resulting in a credit crisis for individual farmers, who will have no choice but to reduce stock numbers in order to repay debts and cover family outgoings.

The suckler beef breeding population is currently 1.17 million. The proposed cuts could result in a reduction, over a period of a number of years, of up to 350,000 animals, or 30% of the national herd.

The proposal to terminate the Suckler Cow Scheme will seriously undermine the beef-breeding programme of the Irish Cattle Breeding Federation.

The potential implications for national income and employment are very serious:

- Reduction in output earnings of a minimum of 20%, or €350 million
- Reduction in employment in meat plants, 2,200<sup>4</sup>
- Reduction of approximately 20,000 herds<sup>5</sup>
- Overall increase in unemployment in rural economy of up to 7,000
- Estimated number of farmers going on Farm Assist, 5,100, at a Cost of €64 million

### **5.2 Sheep**

Similar to the livestock sector, the sheep sector will be heavily impacted by the proposed cuts in Disadvantaged Areas Payments and REPS.

In 2008, 75% of all REPS participants were in the drystock and sheep sectors and sheep farming is mainly undertaken in more remote areas of Ireland, highly dependent on the Disadvantaged Areas Payment.

The ewe population is currently 2.1 million. The proposed cuts could result in a reduction, over a period of a number of years, of up to 420,000 animals, or 20% of the national flock.

This would result in a fall in lamb numbers of 504,000.

The potential implications for national income and employment are:

- Reduction in output earnings of €39 million
- Reduction in employment in meat plants of over 200<sup>6</sup>
- Reduction of approximately 5,600 flocks<sup>7</sup>
- Overall increase in unemployment in rural economy of up to 1,900
- Estimated number of farmers going on Farm Assist, 1,400, at an Exchequer Cost of €17 million

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<sup>4</sup> 25% of estimated employment numbers of 11,100 in beef processing

<sup>5</sup> Average suckler herd size is 17

<sup>6</sup> 20% of estimated employment numbers of 1,150 in lamb processing

<sup>7</sup> Average sheep flock size is 75

### 5.3 Dairy

Incomes in the dairy sector have been devastated in 2009 due to a collapse in producer price of 35% from last year's prices. Dairy farmers are producing at below the costs of production.

There are approximately 9,000 dairy farmers in REPS, or slightly below 50% of the total population of 19,000.

The income for REPS Dairy Farmers in 2008 was below the income for non-REPS dairy farmers, indicating that dairy farmers in REPS operate in higher cost, more marginal areas.

Among some of the Dairy Farmers in REPS, an average REPS payment of €6,700 constitutes over one-third of farm income<sup>8</sup>.

It is estimated that 20% of Dairy REPS farmers could exit dairy farming, which would result in a reduction of 10% in the total number of Dairy farmers.

The potential implications for national income and employment are:

- Reduction in employment in dairy processing of over 100<sup>9</sup>
- Reduction in output earnings of 2%, or €44 million
- Reduction in number of dairy herds, 1,900
- Overall increase in unemployment in rural economy of over 600
- Estimated number of farmers going on Farm Assist, 475, at an Exchequer Cost of €5.9 million

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<sup>8</sup> 'Dairy and Other' REPS Farmers, Income of €19,782, REPS payment €6,707

<sup>9</sup> 2% of estimated employment numbers of 5,300 in dairy processing

## Appendix I – Assumptions for Projected Impact of Cuts

- *Due to the spending commitments incurred by farmers participating in both the REPS and Suckler Cow Schemes, it is estimated that net farm income for these schemes is 50% of the payment amount.*
- *Each retired herd corresponds to one farmer*
- *Due to the age-profile of the agriculture sector in Ireland, it is estimated that the reduction in herd numbers results in 50% of the farmers affected retiring from farming, with the remainder continuing in farming, due to a lack of alternative employment.*
- *Of those continuing in farming, it is estimated that half of these will require Farm Assist Support and with the remainder requiring no support*
- *The effect of the reduction in herd numbers on rural employment is estimated as 1/3; i.e. for every 3 herds that retire, one rural job is eliminated*
- *The Output of the Dairy Sector is mainly determined by the product price; although the numbers exiting dairy farming could be up to 10% of the population, it is estimated that output is reduced by only 2%, as remaining farmers increase output. This outcome is dependent on an improved price environment for dairy products.*
- *For Farm Assist and Jobseeker's Allowance, it is assumed that 75% of those qualifying are in receipt of a single payment only, while the remaining 25% also receive payment for a qualified adult (i.e. spouse not earning). This results in an average annual payment of €12,386.*
- *The analysis does not provide an estimate of the potential additional loss to the Exchequer in tax revenue.*