ICMSA

PRESENTATION

TO THE

JOINT COMMITTEE ON AGRICULTURE, FOOD & MARINE

13 September, 2016.

Mr. Chairperson and Members of the Committee, firstly, I wish to thank you for inviting us to address the Committee, which is timely given the current problems in the dairy sector in particular. In my address today, I intend to focus on a number of issues relating to the dairy and beef sectors, namely issues that we believe need to be addressed at this time and what actions are needed at both National and European level to address the current crisis. Given the time available to me, I intend to focus in particular on the short term issues today but would certainly welcome the opportunity to discuss long terms solutions with the Committee at a future date.

The Dairy Sector:

The facts are that dairy farmers have been producing milk below the cost of production for over a year at this stage and while markets have shown improvements in recent weeks with farmer milk prices increasing, dairy farmers are still producing milk below the cost of production and milk price is still 3cpl-5.5cpl below breakeven depending on which Co-op a farmer is supplying. ICMSA is concerned that some people think the crisis is over, it is not and indeed, I believe the crisis will really manifest itself this coming autumn with tax bills from 2015 to be paid and all the normal bills associated with farming coming due. ICMSA firmly believes that lessons need to be learnt from the past twelve months and the key lesson is that the sector cannot ignore the supply/demand dynamic and think that a sit tight policy will work long term. The reality is that the dairy farmer has taken the full hit from the current crisis, taking significant losses and I doubt any of the links further up the supply chain will record a loss in 2016. The solution of passing on the pain to farmers is simply not sustainable and needs to change.

On the milk price outlook, certainly in recent weeks, dairy markets have been showing improvements to the point that dairy farmers in some Co-ops received a one cent per litre increase for July milk. The outlook at present is certainly more optimistic as we move into 2017 but the financial problems remain and are very serious on some farms and will take a sustained period of strong milk prices to recover from.

The Beef Sector:

The problems in the beef sector mirror to some extent those in the dairy sector and quite clearly, beef farmers need to see an immediate action plan for the increased cattle numbers that are expected in 2017. In this regard, announcements regarding the re-opening of markets to Irish beef are welcome but these must translate into increased beef sales to these markets and the Department, Bord Bia and the beef industry have major responsibilities in this regard. In addition, live exports for all categories of livestock are absolutely critical and progress must be made immediately to get increased live exports and in particular for finished cattle up and running. Competition at processor level is also a huge issue for farmers and the genuine concerns of farmers cannot be ignored.

The dairy and beef sectors have been badly served by poor policy decisions. Policy developments throughout the last decade have placed additional and increased financial, economic, and environmental pressures on agricultural production and producers. As with any other tradable commodity, farm produce face the potential for increases and decreases in both their demand and supply and as a result changes in their value on world markets. European policy agreements, such as Agenda 2000 has led to increased volatility in the prices of both milk and beef, the two main outputs of Irish farming and thus led to serious income volatility. Most of the external issues facing the Irish dairy and beef sectors cannot be controlled at the micro level, therefore it is essential that the correct policies are in place to protect the farmer who is essentially a price taker.

The backbone of Irish agriculture is the family farm and this structure has never been under such a threat. The majority of family farms are dependent on strong product prices to ensure a living for their family and these families are playing a huge role in maintaining economic activity in rural areas that are struggling to recover from the recession. It is essential that we protect this family farm structure into the future and lets' be clear, an unregulated global market for food products will not achieve this objective.

In terms of what is required in the short term, ICMSA believes that the Government and in particular, the Minister for Agriculture, Food & Marine need to address the following issues as a matter of priority:

- **Voluntary Milk Reduction Scheme:**

ICMSA very much welcomed the introduction of this scheme but it should have been introduced much earlier in the crisis. Policymakers and the industry chose to ignore the oversupply situation for too long at a very high cost to farmers. The scheme has already delivered for farmers in changing market sentiment and boosting market returns and ICMSA believes the scheme should become a permanent part of the EU toolbox in addressing volatile markets. In the short term, the Minister for Agriculture, Food & Marine must ensure that payments under this scheme are delivered by the end of January 2017 at the very latest.

- **€11m Crisis Fund:**

ICMSA is very clear in its view that the Government should 100 percent match the EU allocation providing a total fund of approximately €22m. This funding should then be used to provide a direct payment to dairy farmers of approximately €1,200 which given the income pressures on dairy farmers, would provide a clearly necessary cash flow boost in late 2016.

- **Management of Intervention Stocks:**

At present, there are 290,000 tonnes of SMP and almost 100,000 tonnes of butter in EU public intervention stores. In the context of a market recovery, the management of the sale of these stocks will be hugely important and it is essential that no sale of these stocks take place until farmer milk price returns to a sustainable level.

- **Beef Market Access and Live Exports:**

The re-opening of beef markets must translate into beef sales and the sale of ground beef to the USA and opening the Chinese markets need to be policy priorities. The opening of the Turkish market for live exports is positive but again, increased live exports are required and Bord Bia and the Department must provide every support possible to live exporters in their efforts to boost the trade. The commitments made to farmers under the Beef Forum agreement in December 2014 also need to be delivered.

- **Competition for Finished Cattle:**

In relation to the ABP/Slaney Meats joint venture, the genuine concerns of farmers simply cannot be ignored. The primary producer of cattle is in an extremely vulnerable position and the competition regulators at EU level simply will have to recognise this and ensure that dominance at processor and indeed retailer level is controlled and regulated to protect both the interests of the primary producer and the consumer.

- **Brexit:**

Brexit presents the Irish Agri-food sector with huge challenges and threats and it is hugely important that the Government takes a very proactive approach in the negotiations and engages with stakeholders at an early stage and on an ongoing basis. The establishment of a Brexit group by the Department of Agriculture, Food & Marine is certainly a step in the right direction but we now need to set out key policies and objectives in relation to the negotiations.

- **Budget 2017:**

Given the income crisis in agriculture and given the challenges facing the Agri-food sector arising from Brexit, it is essential that Budget 2017 introduces measures to improve the competitiveness of the Agri-food sector and in particular supports farmers who will ultimately bear the brunt of any negative impacts. Brexit will increase volatility and thus volatility measures must form part of Budget 2017. ICMSA has made a detailed Pre-Budget Submission and in this presentation, I will focus on one particular measure to address volatility, the Farm Management Deposit Scheme.

The extent of the extreme volatility in milk price in recent years has been clearly documented by Teagasc and other commentators such as the European Milk Market Observatory. In addition, recent 2015 figures from the Central Statistics Office illustrate clearly the extent of the collapse in milk price in recent years and show that the total dairy income for 2015 was down €222 million on 2014 despite a 14 percent increase in milk production. The 2016 situation with regard to milk price is significantly worse and ICMSA believe the Government must develop a workable and straightforward agri-taxation measure that will help farmers to manage the inherent volatility within the sector.

Dairy farm income fluctuates from year to year due to many circumstances outside the control of Irish farmers. External forces such as macroeconomics, weather events, geopolitical matters, commodity markets, feed and oil prices, currency, and disease all combine to cause income volatility. Such external and internal forces compel those involved in the industry to adapt to ever-altering scenarios, however, the Irish agri-taxation system significantly impedes the ability of the sole trader to seize the opportunity to grow and develop their business due to periods of significant farm income volatility. Budget 2017 should provide for the introduction of an income volatility management tool to address the difficulties associated with the low level of after-tax income available for investment and self-funding of farm development.

In this context, ICMSA proposes the introduction of an income volatility management tool. This would allow a farmer to claim a tax deduction for farm management deposits in the income tax year in which they are made and the appropriate amount of the deduction is included in the tax assessable income in the income year the deposit is repaid to the farmer. The deposits scheme complements other risk management strategies available to farmers such as income averaging.

ICMSA believe the Farm Management Deposits model has many merits and most definitely should be used as a template for the introduction of a farm income volatility management tool into the Irish income tax code for farmers based on the following criteria;

- ICMSA believe limits could be placed both on the total amount that could be deposited in a given year and the aggregate amount at any time and suggest a maximum deposit per annum of 30 percent of farm profit and/or a maximum of €10,000. Funds would remain in the Farm Management Deposit account for a maximum period of 5 years. In addition, ICMSA recommend that 12.5 percent tax should apply on a once off basis for the amounts deposited in the farm management account. This would give all the advantages of incorporation without the necessary cost of compliance and uncertainty associated with farm companies;

- Farmers would then be able to avail of these funds in the farm management deposit account to support the farm business in the event of a downturn in farm income and/or for investment in the farming enterprise;

- Where funds are taken from the farm deposit account in the form of income then the normal rate of tax applicable in the year of withdrawal would apply to these withdrawals less a credit for the 12.5 percent tax which was originally paid on the funds when deposited in the farm deposit account in the first instance;

- This tax relief measure could be confined to farmers whose sole or principal income is from farming. Realistic off-farm income thresholds should be set.

- **Feed and Fertiliser:**

  Net margin is the key measure for all farmers and in this regard, fertiliser and feed costs are a major issue for farmers. While fertiliser prices have fallen, there was a significant delay in returning the reduced costs to farmers and a major issue for farmers is the verification of fertiliser and feed quality. ICMSA, earlier this year, called on the Department of Agriculture, Food and

Marine to play a greater role on this matter and this issue needs to be progressed.

- **Power of the Multiple Retailers:**

  The power of the multiple retailers has the power to destroy the family farm structure as we know it. Prices for dairy products at consumer level have fallen by less than 2% while prices at farm level have collapsed. Quite clearly, powerful links further up the chain are taking larger margins at the expense of the primary producer and this is common to all agriculture produce and EU legislation will be required to address this matter. The EU has allowed the multiple retailers to dominate the other players in the supply chain and this has to be addressed immediately.

- **GLAS:**

  The GLAS scheme as currently structured is simply not suitable for intensive farmers including dairy farmers and farmers with small holdings. The scheme must be made relevant to this category of farmers particularly in the context of our climate change commitments.

- **Farmers Charter Commitments on Payments:**

  With the cash flow pressures on farmers, it is absolutely essential that all payments are made within the timeframes agreed under the Farmers Charter. Significant delays in 2015 caused severe hardship for individual farmers and this simply cannot be repeated.

The items ICMSA has presented above represent a number of key issues that need to be addressed at this time. These all relate to farm income and the ability of a family farm to make a realistic income from farming. Farmers margin continues to be eroded by increasing input costs and decreasing output prices and, this Committee, as policymakers should recommend policies that rebalance the market in favour of the primary producer.   I have outlined a series of measures that can be taken in the short term and the next Mid-Term review of CAP provides us with an opportunity to address the long term measures.

I wish to thank the Committee for its time today and I hope you will take on board the issues we have raised and progress these issues as a matter of priority.