

Examining The Irish Agri-Food Industry In An International Perspective: Staying Competitive In A Globalising World

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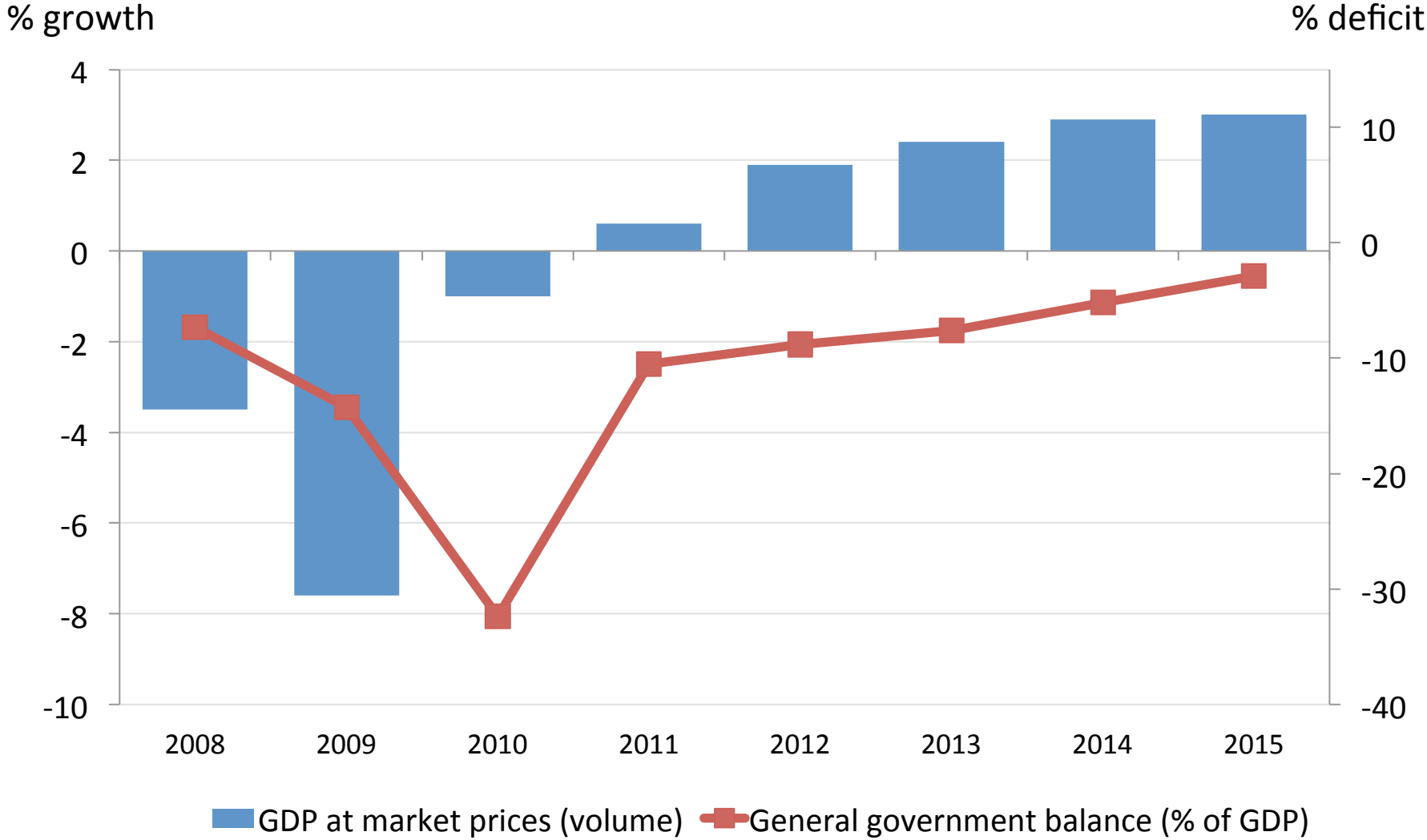
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Future fiscal consolidation and employment creation depend on export-led economic recovery



Source: European Commission, Ireland's Economic Adjustment Programme Review, Spring 2011

Achieving Food Harvest 2020 targets would make a big contribution to recovery

Primary agriculture output value

(2020 over 2007-9)

Poultry ↑ 10%

Beef ↑ 20%

Sheep ↑ 20%

Pigmeat ↑ 50%

Dairy ↑ 50% (volume)

Overall ↑ 30%

Agricultural income ↑ 48%

Think green

Environmental

Environmental credibility
Research and actions

Plan an umbrella 'Brand
Ireland'

Achieve growth

Increase the value of primary output in the agriculture and fisheries sector by €1.5 billion by 2020

Increase value-added output by €3 billion by 2020

Achieve an export target of €12 billion by 2020

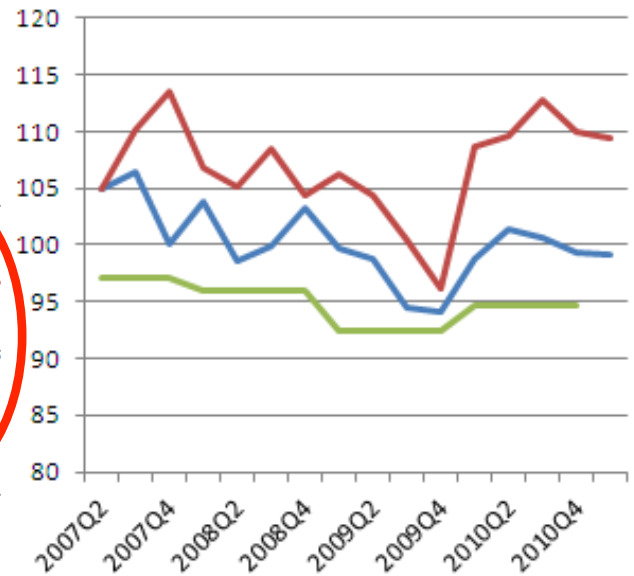
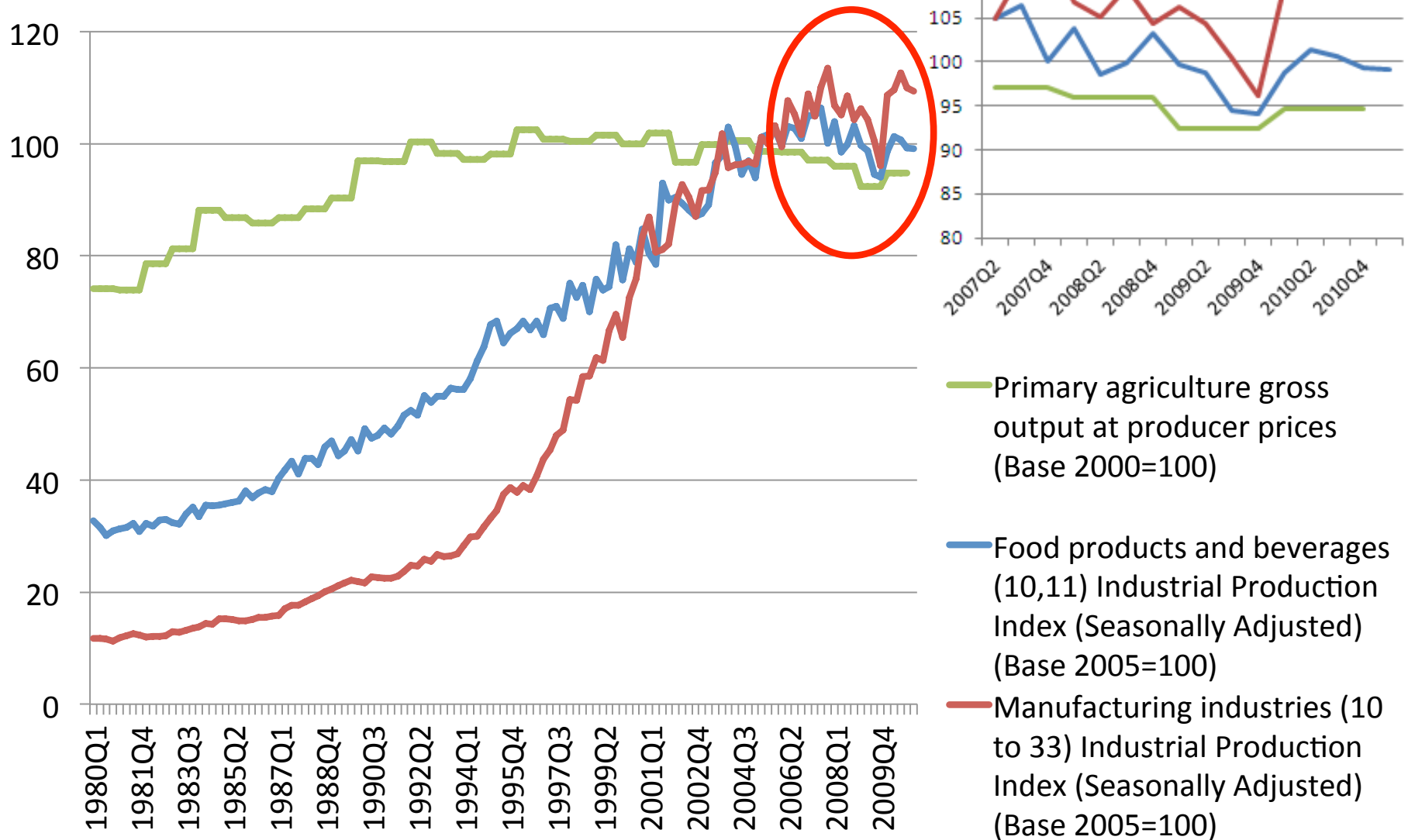
Food and drink manufacturing output
(2020 over 2008)
Overall ↑ 15%

Rationalise and collaborate at industry level

Improve focus on consumer preferences

Review institutional support and regulatory burden

The growth challenge in historical perspective



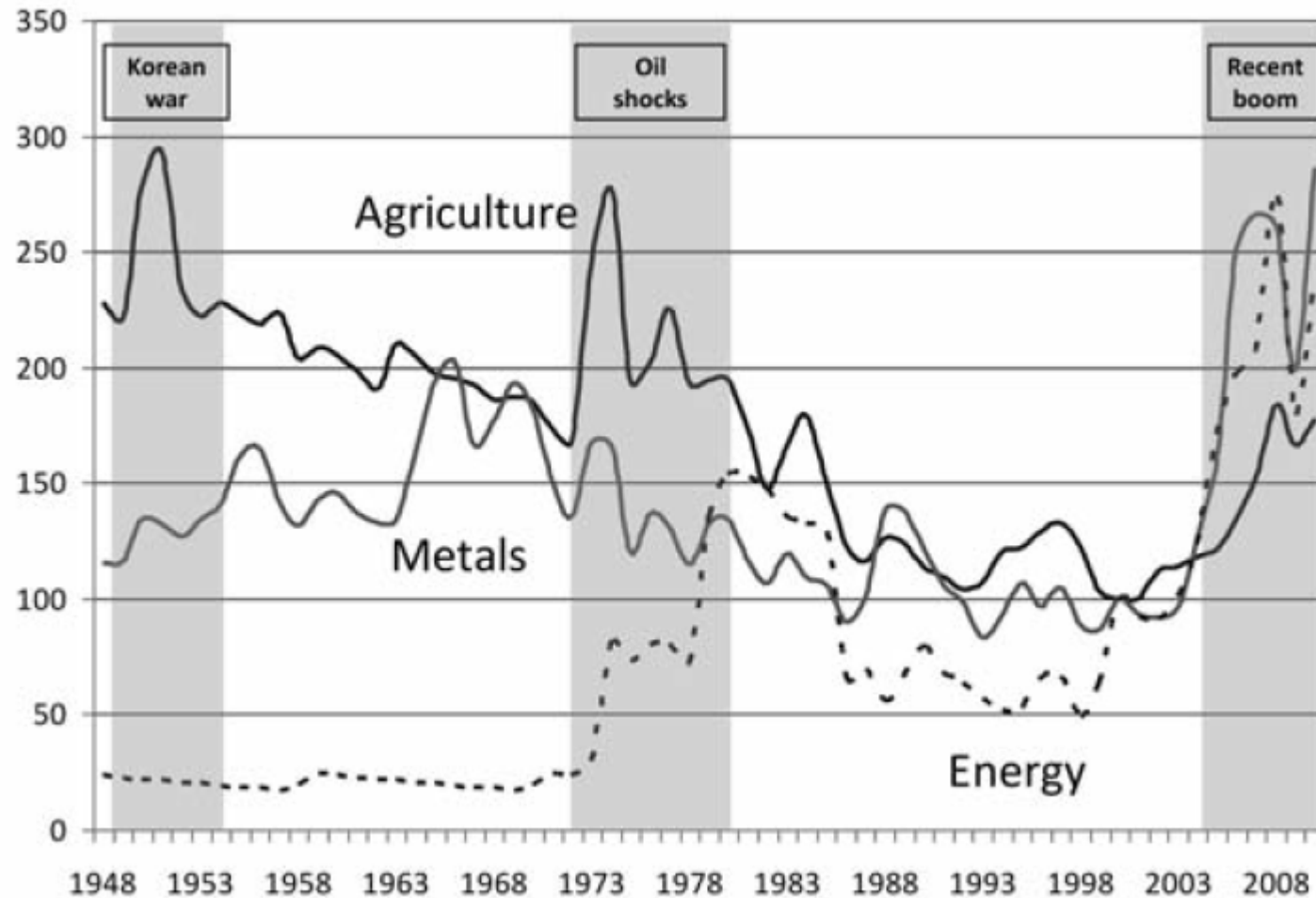
- Primary agriculture gross output at producer prices (Base 2000=100)
- Food products and beverages (10,11) Industrial Production Index (Seasonally Adjusted) (Base 2005=100)
- Manufacturing industries (10 to 33) Industrial Production Index (Seasonally Adjusted) (Base 2005=100)

Global factors affecting competitiveness



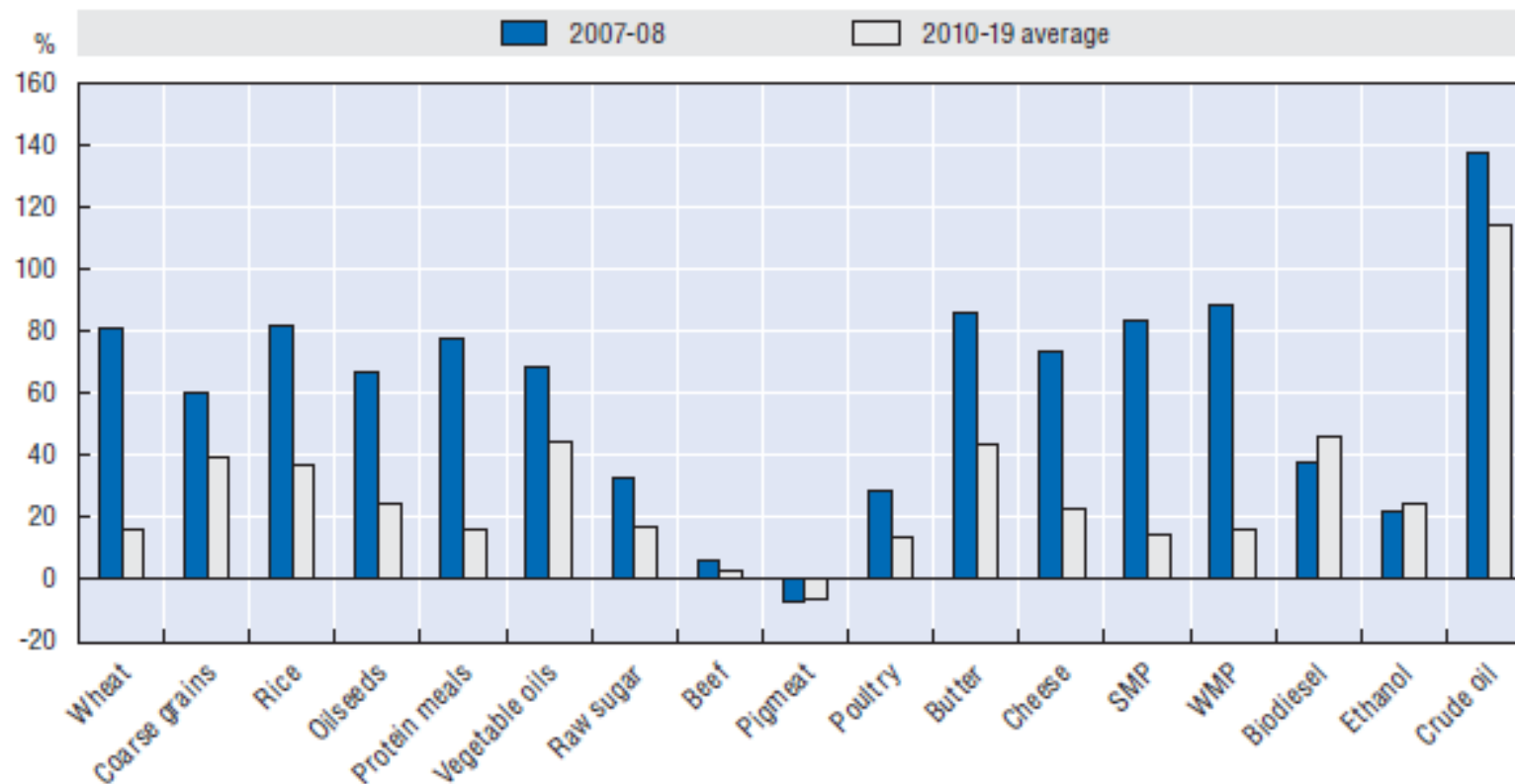
Despite their importance, domestic factors affecting competitiveness – labour costs, productivity, innovation, business costs, credit availability, tax and regulatory burden – are not discussed in this presentation.

Unlike earlier food price spikes, the current boom involved all commodity groups



Source: Baffes and Haniotis, in Aksoy and Hoekman (2010). Indices are in real terms deflated by the US Manufacturing Unit Value index, based on World Bank data.

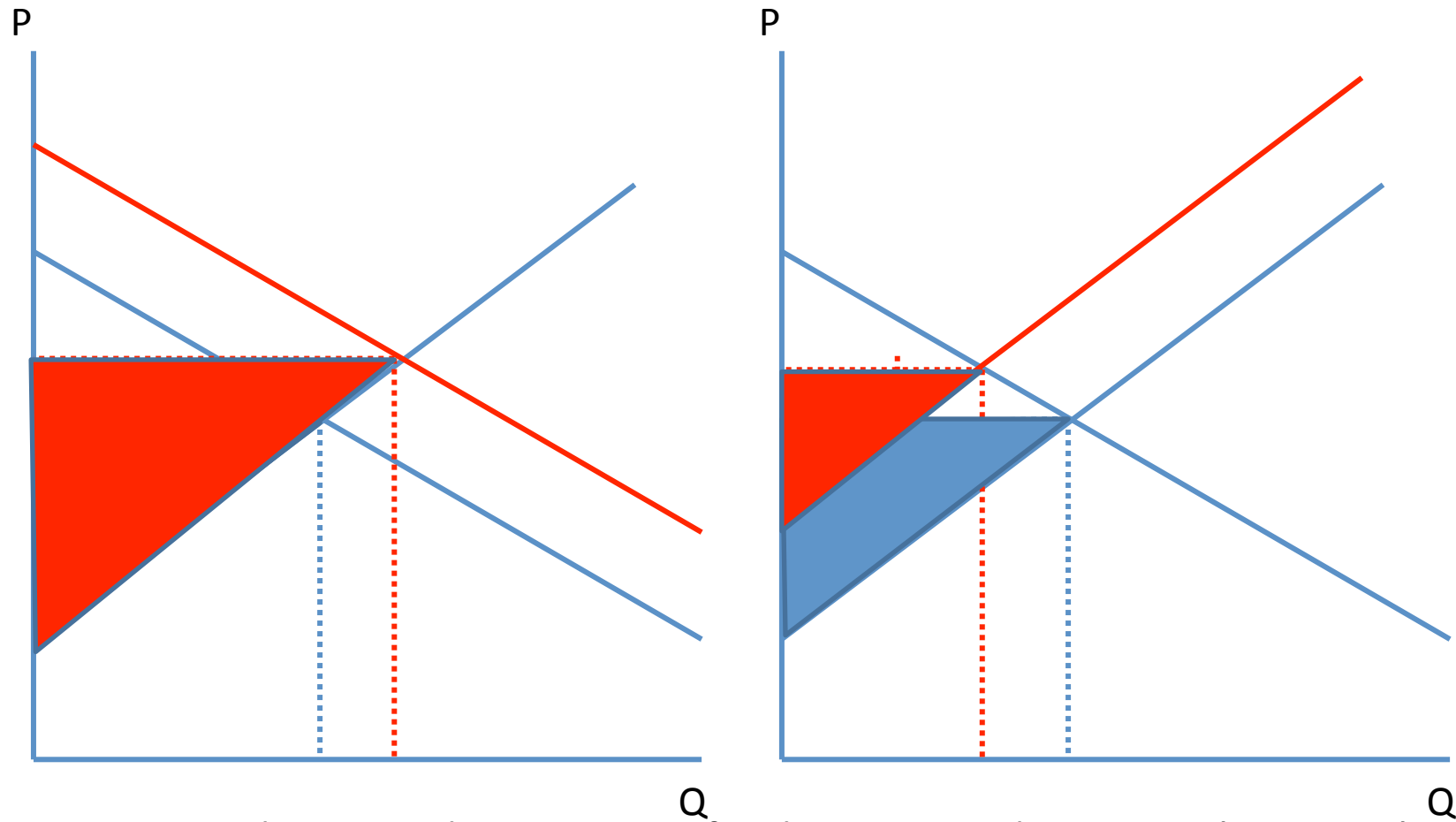
Most commodity prices in real terms expected to remain above last decade's levels



Note: For biodiesel and ethanol the base period is 2001-06. The crude oil projection is an Economic Department exogenous assumption.

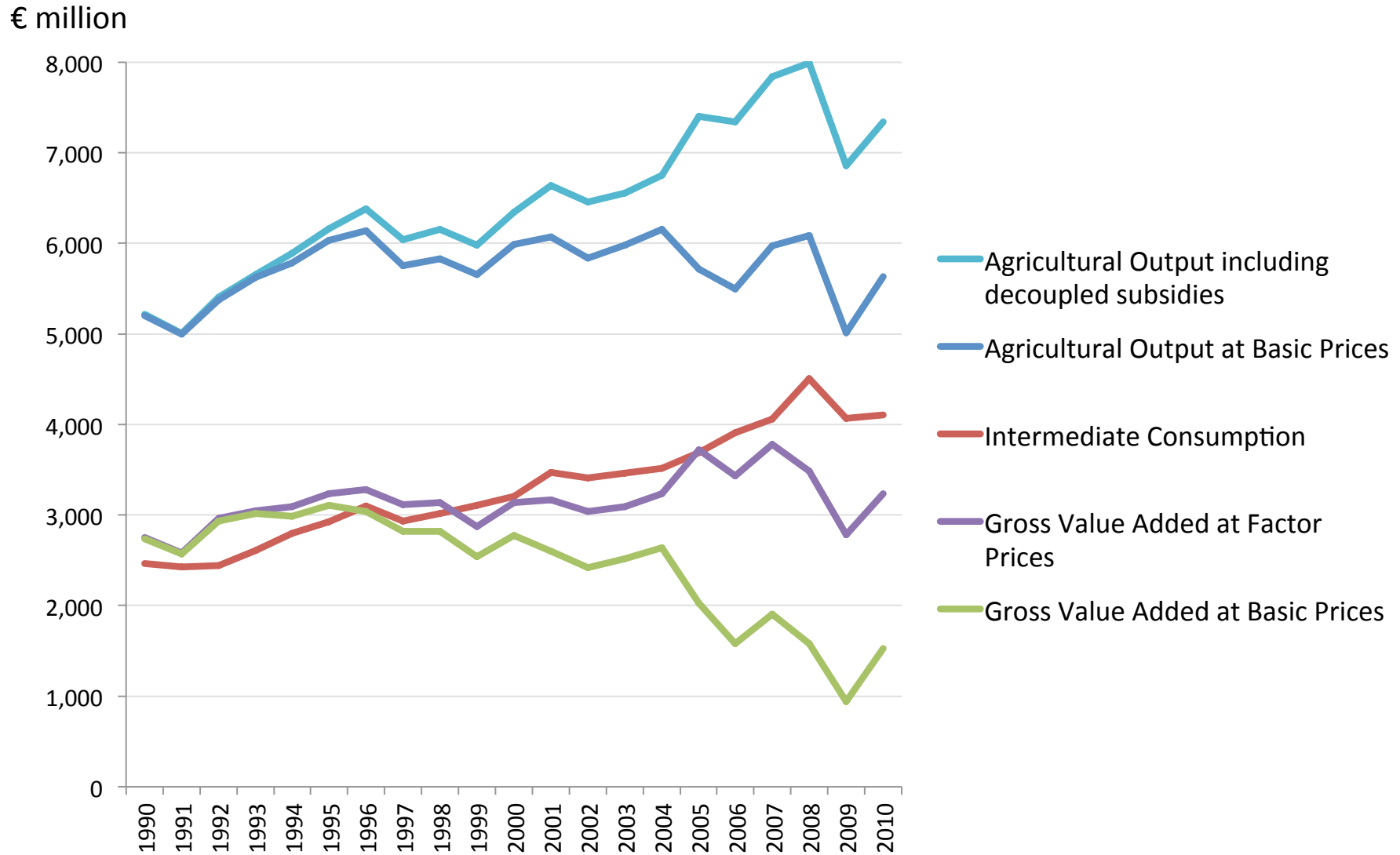
Source: OECD-FAO Agricultural Outlook, 2010
Real prices relative to a baseline of 1997-2006

Higher prices can be due to either demand or cost shifts



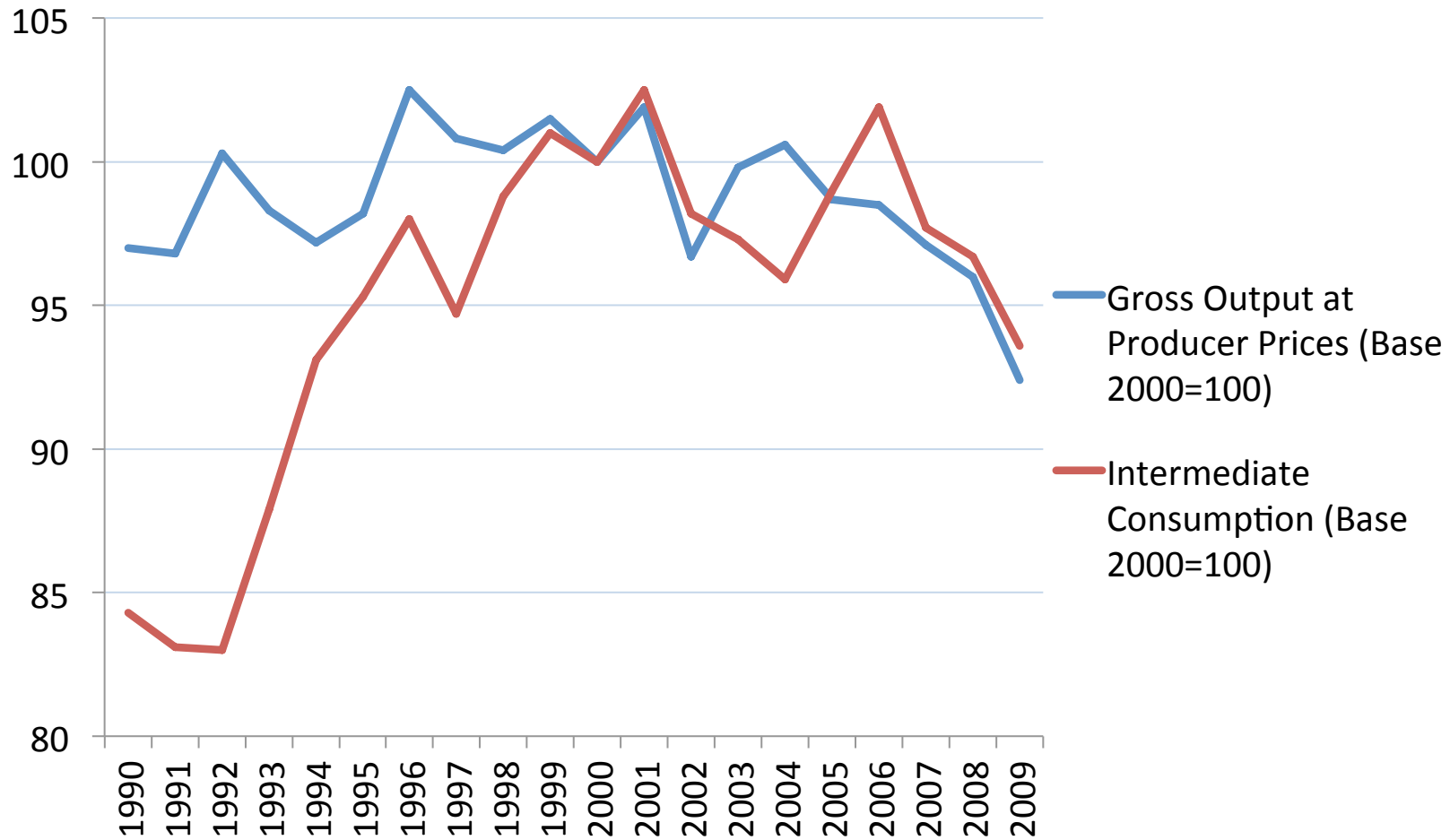
Recent and expected increases in food prices are due as much to supply side drivers as to any surge in demand from emerging markets

Changing structure of agricultural output and income highlights role of input costs and direct payments



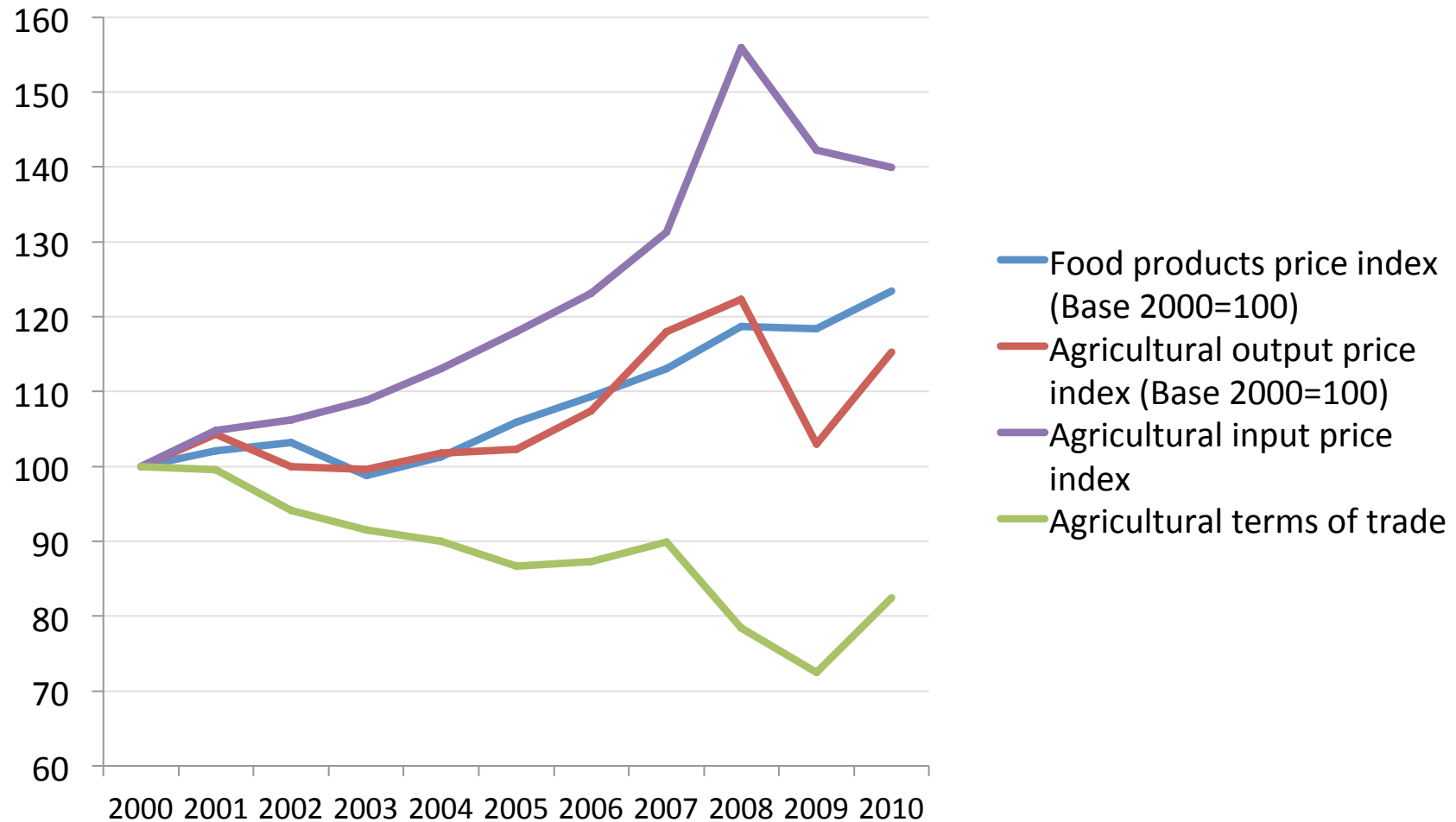
Irish agriculture became more input-intensive during the 1990s..

Base 2000 = 100



..making it more vulnerable to unfavourable cost developments, which despite higher product prices, have led to a decline in agriculture's terms of trade

Base 2000=100



Climate change and competitiveness

World market effects

- Negative productivity shocks in rest of the world will put further upward pressure on world food prices

Consumer preferences

- Awareness of the carbon intensity of livestock production may lead to reduced meat consumption while opening opportunities for relatively low-emission sources

Biofuel policies

- Biofuel mandates add to food demand and further push up world market prices

Ireland's production environment

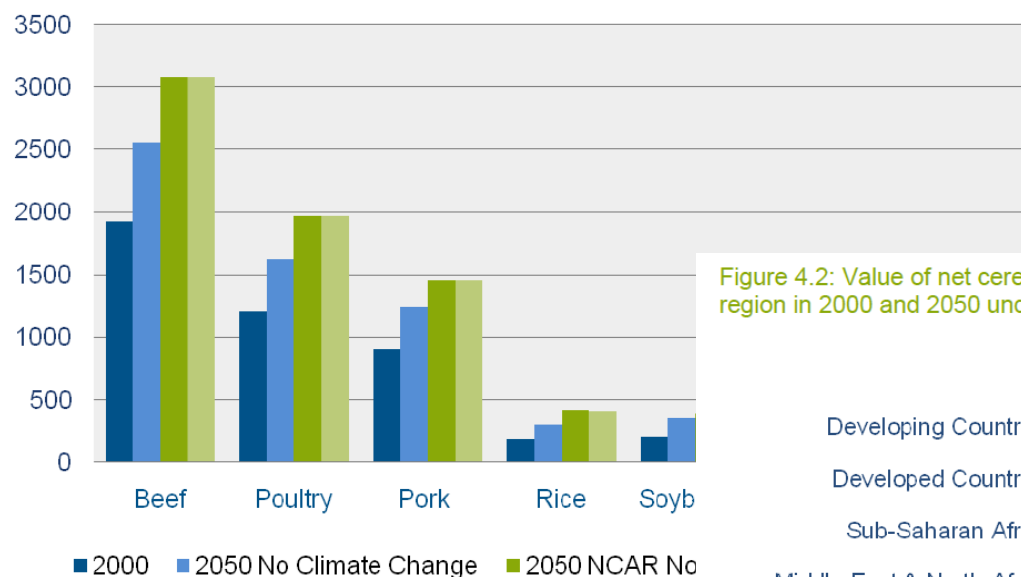
- Changes in temperature, rainfall, wind and water hydrology will alter productivity potential and require enhanced risk management

Mitigation policies

- More stringent emission targets raise fears of loss of competitiveness

World market effects of climate change may be substantial

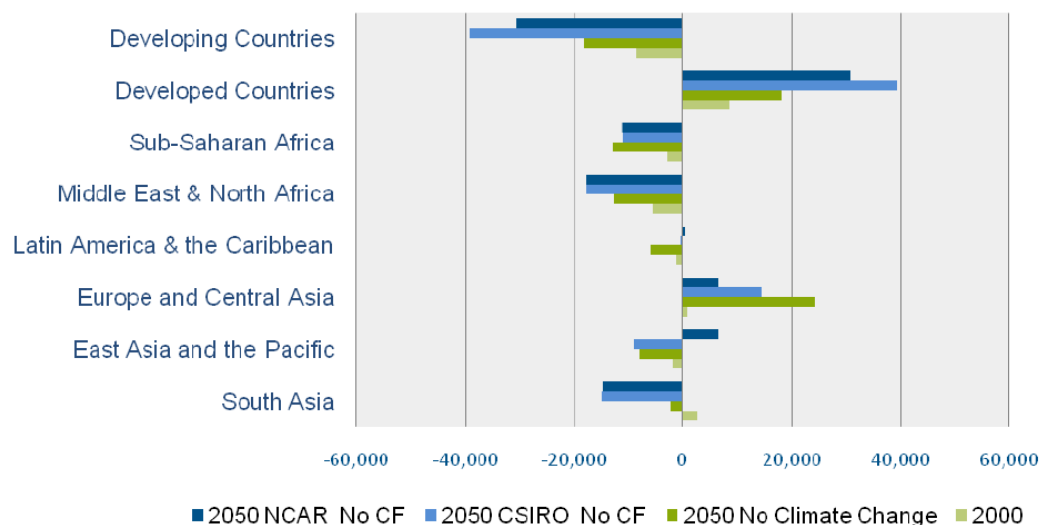
Figure 4.1: World prices of selected crop and livestock products under different scenarios⁵⁹ (constant 2000 US\$/tone)



Developed countries will be the big gainers from a hotter climate

Climate change could lead to doubling of wheat prices and 50% increase in maize prices

Figure 4.2: Value of net cereal trade (rice, wheat, maize, millet, sorghum, and other grains) by region in 2000 and 2050 under different climate scenarios⁶⁰ (million US\$)



Ireland's non-ETS GHG emission targets to 2020

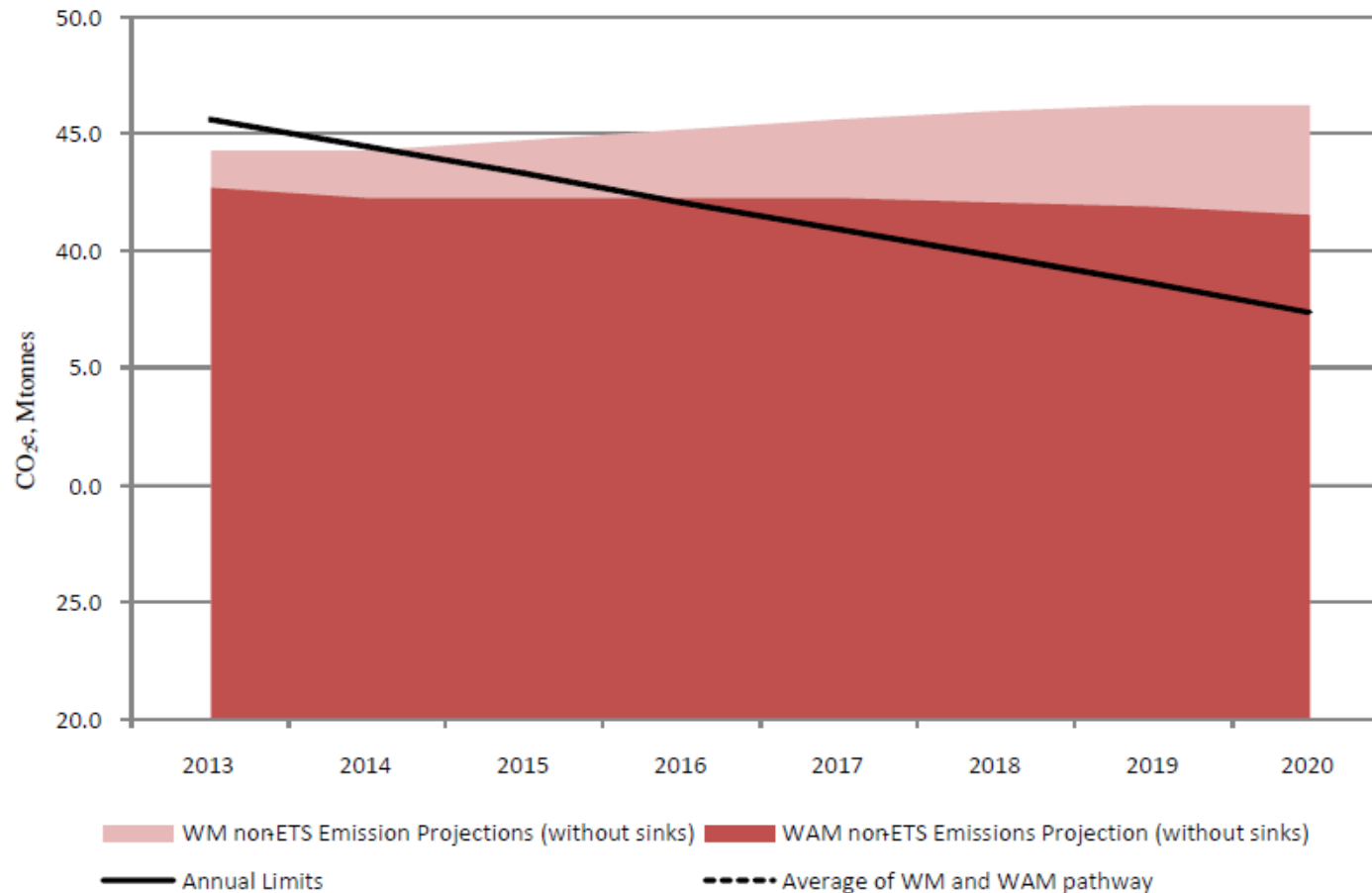


Figure 2. With Measures and With Additional Measures greenhouse gas emissions projections and comparison with the linear reduction pathway required between 2013 and 2020

Source: EPA GHG Projections to 2020, 2011

Designing sensible climate mitigation policies for agriculture

Despite climate leakage concerns, the state has mandatory targets to meet to 2020 (with some flexibility mechanisms in the EU legislation)

National requirement is to ensure that emission reductions are achieved at least cost to the economy, thus no sector can be a priori excluded

Potential trade-off between FH2020 and GHG reduction targets – although many mitigation options simultaneously increase food production and reduce emissions intensity

Designing a mechanism to identify the least cost options (carbon tax does not cover most agricultural emissions) and then incentivising farmers to implement these options is huge challenge

Food industry reductions will be driven more by food chain requirements than by regulatory mechanisms

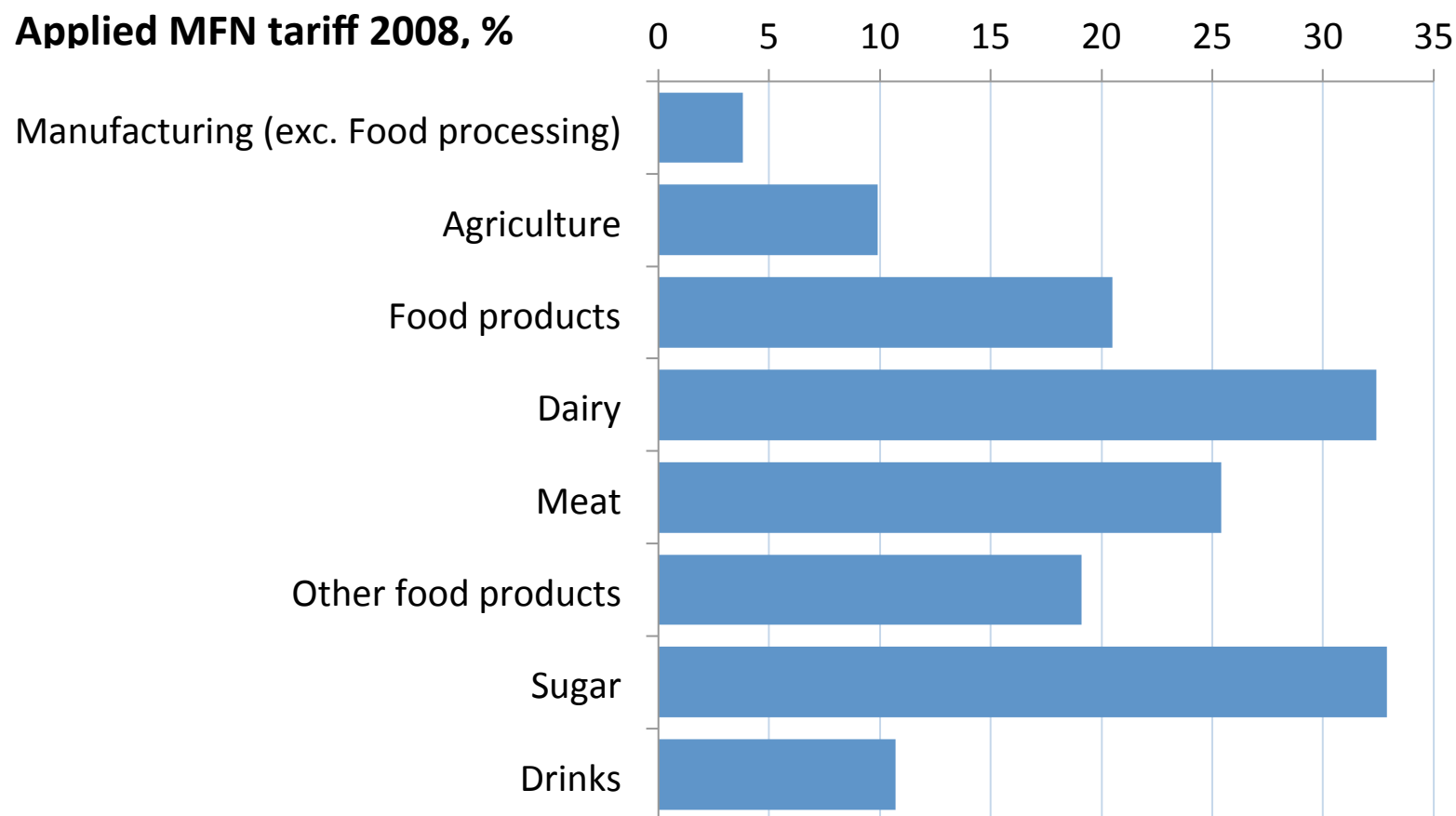
Trade liberalisation and competitiveness



Trade negotiations always raise competitiveness fears for Irish agriculture and food industry



Food production continues to be heavily protected within the EU



Source: WTO, EU Trade Policy Review 2009.

Includes ad valorem equivalent of specific tariffs. Excludes additional duties under Special Safeguard Mechanism

Different modalities of trade liberalisation

Doha Round

- Broad outlines of future disciplines on developed countries including EU agreed
- EU well prepared for domestic support and even export subsidy disciplines
- Implications for Irish agriculture a function of choice and treatment of 'sensitive products'

Doha 'lite'

- Limited agreement on measures affecting developing countries
- Possible inclusion of phasing out of export subsidies
- No easier to find agreement on balance of concessions

WTO litigation

- WTO Members have successfully challenged EU agricultural policy in the past (sugar export subsidies, beef hormones, GM foods, bananas)

Regional trade agreements

- EU now aggressively pursuing RTAs with more competitive economies
- Agriculture rarely a sticking point in these agreements
- From an Irish perspective, the Mercosur FTA is an exception

Global drivers of competitiveness

- main messages

Prices and costs

- While higher global food prices provide a favourable environment to pursue FH2020 targets, stringent control of costs through more efficient input use will be necessary for success.

GHG reductions

- Reducing input intensity would also help to reduce the trade-off between FH2020 and GHG reduction targets

Trade liberalisation

- Doha failure (and higher world market prices) lifts immediate threat to Irish agriculture
- In the longer term, it is more sensible to build the industry on those sectors where we have a competitive advantage at world prices