

4. NORTHERN IRELAND POLICY CONTEXT

The overarching context for the preparation of this review is the ***Department of Agriculture and Rural Development's Strategic Plan 2006-2011***¹³. This Plan sets out the Department's long-term strategic direction over a period which it anticipated would be particularly challenging for the agri-food industry and the wider rural community. It confirms that sustainable development - "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" will be the key driver of change for the Department over the five year period. The Plan focuses on a number of goals to address key issues and contributes to the achievement of the Department's Vision of Northern Ireland as a thriving and sustainable rural community. Strategic objectives include improving the ability of the industry to be competitive in the market place, strengthening the social and economic infrastructure of rural areas, developing a more sustainable environment and effectively delivering services to customers.

In addition to the main policy driver above, there are a number of other instruments which have a significant bearing on this review:-

- The ***DARD Rural Strategy 2007-2013***¹⁴ provides a broad strategic direction and framework for rural development policy in Northern Ireland. It fits within, and is an integral part of, the broader DARD Strategic Plan 2006-2011. The overall theme of the Rural Strategy is "*diversifying the rural economy, protecting the rural environment and sustaining rural communities*". It is structured around four main aims:
 1. Creating a rural champion;
 2. Improving performance in the marketplace;
 3. Conserving and investing in the rural environment; and
 4. Strengthening the social and economic infrastructure of rural areas.

This review addresses the future role of LFA support in contributing to the achievement of the third and fourth of these aims.

¹³ Department of Agriculture and Rural Development, 2006, ISBN 1 85527 845 6.

¹⁴ Department of Agriculture and Rural Development, 2006, ISBN 1 85527 886 3.

Government plays a key role in promoting the conservation of Northern Ireland's countryside and natural heritage, particularly by helping to maintain an appropriate balance between the need for sustainable and efficient food production and land use and the need to protect and improve the quality of the rural environment.

In Northern Ireland, much of the valued rural landscape is the product of centuries of agricultural activity. This landscape character is an important part of the rural cultural and natural heritage and is a key factor in determining the overall attractiveness of rural areas as places to live, work and enjoy. Sustainable land management will act to conserve and promote habitats and biodiversity. It will also help reduce risks linked to inappropriate or undesirable practices, including under-utilisation, particularly in LFAs, where the economics of commercial farming are more marginal. The Rural Strategy notes that **we need to consider how best to achieve an appropriate balance between (i) the protection of landscape character, habitats and biodiversity, (ii) the need for farm restructuring and modernisation and (iii) the retention of sustainable farming communities.** These are key considerations in this review of LFA support.

- The implementation of the **2003 CAP Reform Agreement** (Council Regulation (EC) 1782/2003)¹⁵ in Northern Ireland marked a radical change in the nature and impact of European agricultural support policy. The centrepiece of the agreement was a decision to decouple support, breaking the link between production and the receipt of direct subsidy. A new SFPS was introduced which replaced the previous coupled schemes. The agreement also provided an unprecedented level of regional discretion in terms of implementation options under the various elements of the reform package. In Northern Ireland, a vertical hybrid model of decoupling was implemented in 2005. This model tried

¹⁵ OJ L 270, 21.10.2003, p. 1–69.

to mimic, under Single Farm Payment (SFP), the previous distribution of subsidies under the coupled schemes.

The 2003 Agreement fundamentally altered the economics of agricultural production. Under the reformed CAP, farmers are able to choose what and how much to produce purely in response to market demands without any impact on the level of subsidy received. The Reform Agreement also requires farmers to observe certain conditions in return for receipt of direct agricultural support. This is known as cross compliance. Under cross compliance, farmers must abide by 19 Statutory Management Requirements (SMR) as listed in Annex III of Council Regulation (EC) 1782/2003 and respect the minimum requirements as defined by Member States at national or regional level for good agricultural and environmental condition (GAEC) according to the framework set out in Annex IV of the same Regulation.

The introduction of the SFPS raised questions and difficulties for the LFACA Scheme, not least because the administration of the latter was built on the arrangements governing the operations of the Suckler Cow Premium Scheme and the Sheep Annual Premium. More fundamentally, the LFACA Scheme was designed in an era of coupled support and in a decoupled environment, it appears at face value to operate as a duplicate of the SFPS within the LFAs. Therefore, questions arise as to **what the LFACA Scheme is delivering for farmers, for taxpayers and for wider society above and beyond what the SFPS is delivering.**

- Agreement was reached on the ***Health Check of the EU's Common Agricultural Policy*** on 20 November 2008. Building on the 2003 Reforms, this agreement aims to improve the market orientation of EU agriculture (so that farmers are freer to respond to market signals) by ending compulsory set-aside in 2009 and further scaling back cereals intervention, completing decoupling in all but a few sectors and ensuring a soft landing for the dairy sector after the end of milk quotas

in 2015. Member States have also been given much greater flexibility in targeting up to 10% of direct support (SFPS monies) towards vulnerable production areas (coupling of up to 3.5% of support will be permitted). There has also been some simplification of the SFPS with the removal of set-aside and national reserve entitlements. In a move towards making the CAP more defensible, in the longer term, the Health Check agreement will allow Member States to consider moving away from the 'historic' SFP model, which is based on what farmers produced from 2000 to 2002, towards a flat rate, area-based payment model. Compulsory modulation rates (modulation is the transfer of funds from SFP to rural development schemes) will be increased from the current rate of 5% and will reach 10% by 2012. In Northern Ireland, voluntary modulation (i.e. applying modulation at a higher rate than that required by the EU) will be reduced in line with the increase in compulsory modulation, meaning that the total amount of money directed towards rural development will remain unchanged. In other Member States, increased modulation will direct more funding towards rural development policy in order to address issues of climate change, water quality, biodiversity and renewable energy.

Some of the options arising from the Health Check agreement could impinge on LFAs, such as **the possibility of changing the model of decoupling, or the possible targeting of support at vulnerable production areas**. The choice made by DARD on these issues will be considered in the ultimate decision on the future of LFA support in Northern Ireland.

- The Northern Ireland Red Meat Industry Task Force was established to develop a 5 to 10 year strategy for the beef and sheep meat industry. The Task Force includes representatives from the Ulster Farmers' Union, Northern Ireland Meat Exporters' Association, DARD, Livestock and Meat Commission, Invest Northern Ireland and the National Beef

Association. The ***Red Meat Task Force Report***¹⁶ published in October 2007 concluded that very poor economics of production in the red meat industry were generating losses of over £200 million per annum. The report noted the very highly fragmented producer base in Northern Ireland - some 20,000 farms engaged in red meat production: over 80% of beef suckler farms have fewer than 30 cows and nearly 80% of beef finishing farms have fewer than 30 head of cattle. The vast majority of producers were using their SFP to cover the costs of loss-making production. In addition, the ability of small producers to improve efficiency further and to benefit from economies of scale was very constrained. The Task Force suggested that many producers were planning to reduce their herds to stem the losses. The Task Force examined a range of possible solutions to the problems the industry faced and agreed the following **five principles** for the industry's future strategy:

1. The current industry is not viable and players who remain in the industry should prioritise market-focused investment towards creating economically viable scale and efficiency and better coordinated supply chains.
2. Dairy-origin beef and upland-lowland (grassland) sheep models show potential for economic viability, with processors playing a key role alongside the participation of government in developing and transitioning to these models.
3. In the absence of a commitment from retailers and manufacturers to a significant movement in farm-gate prices, the Task Force cannot see in general the prospect of an economically viable suckler-origin beef or hill sheep model.
4. **There is no economic case for long-term Government financial support to subsidise suckler-origin beef or hill sheep production; any case for Government support would, therefore, need to be based on wider considerations.**

¹⁶ Northern Ireland Red Meat Industry Task Force: Strategy Review, 2007
<http://www.niredmeattaskforce.co.uk/filestore/documents/publications/07-09-24-red-meat-strategy-report-final-vmike-checked.pdf>.

5. The evidence suggests that current suckler-origin beef and hill sheep producers who wish an economic return would be significantly better off if they used their SFP to facilitate transition towards diversification or exit; those that choose to remain in suckler-origin beef and hill-sheep production should be aware that they are highly unlikely to make an economic return.

The Task Force anticipated (in the absence of any significant market price movement) that there would be a decline in the suckler-based beef herd and hill sheep flock, and the Red Meat Strategy would, therefore, seek to facilitate (through diversification and capability building programmes) the transition of producers who choose to leave the industry. However, the Task Force also expected that a number of what it termed hobby farmers (i.e. part-time, typically sub-scale producers who derive sufficient utility to outweigh less than a full economic return) may choose to stay in the industry.

Principle 4 is directly relevant to this review and is in keeping with the broader European move to decoupled support, i.e. supporting production is no longer a legitimate objective in its own right. The future direction of LFA support must recognise and embrace this principle.

- The importance of taking action to protect and conserve the landscape, wildlife habitats and species is recognised across Government. The ***Northern Ireland Biodiversity Strategy***¹⁷ sets out how Government plans to protect and enhance biodiversity in Northern Ireland over the period to 2016. Since the Northern Ireland Biodiversity Strategy was published, a European target has been set which seeks to halt and reverse the decline of biodiversity by 2010 (“the Göteborg Declaration”). DARD remains committed to facilitating the implementation of the recommendations of the Biodiversity Strategy.

¹⁷ Environment and Heritage Service, Northern Ireland, 2002 <http://www.ni-environment.gov.uk/biodiversity/issues/biostrat.htm>.

Agriculture and forestry can impact significantly on biodiversity and we will take account of our obligations on this issue when taking forward new policies. Agricultural activity in the LFAs clearly has a major contribution to make towards achieving biodiversity goals.

- “***Shaping our Future***”¹⁸ is the regional development strategy which provides a strategic and long-term framework for the future development of Northern Ireland up to 2025. It takes account of key driving forces such as population growth, the increasing number of households, transportation needs, economic changes and the spatial implications of a divided society. The Strategy recognises that policies for physical development have an important bearing on other matters, such as developing a strong, spatially-based economy, a healthy living environment and an inclusive society which tackles inequalities relating to health, education and living standards. The promotion of sustainable development allied to social and economic cohesion is an integral part of the strategy. The Strategy dedicates a chapter to the strategic importance of the rural economy in Northern Ireland. In particular, and of direct relevance to this review, it states that:-
 - Rural Northern Ireland is a diverse area with a distinctive settlement pattern, formed from a rich mosaic of main and small towns, villages and dwellings in the open countryside that is unique within the UK; and
 - The Regional Development Strategy Landscape Character Assessment for all of Northern Ireland illustrates that in many areas, the delicate and high quality rural landscape and the visual amenity of the countryside is compromised or threatened by inappropriate development. These growing pressures present a threat to the open countryside, which is a vital resource for sustaining the rural community.

¹⁸ Department of Regional Development, Northern Ireland, 2005
<http://www.drdni.gov.uk/shapingourfuture.pdf>.

The future nature of LFA support must be considered in the context of how it might best contribute to the development of the countryside and the wider region.

- “**First Steps towards Sustainability**”¹⁹, the sustainable development strategy for Northern Ireland, provides a framework to refocus efforts on building sustainable communities. The Strategy’s guiding principles include living within environmental limits, ensuring a strong, healthy and just society, achieving a sustainable economy, promoting good governance, using science responsibly and promoting opportunity and innovation. Priority areas for action include climate change and energy, sustainable consumption and production, protection of natural resources, environmental enhancement, sustainable communities, governance for sustainable development and learning and communication. In reviewing the support arrangements for LFAs, the strategic objectives noted in the Sustainable Development Strategy need to be considered.

Future challenges

Economic modelling undertaken to inform the Northern Ireland decision on decoupling under the 2003 CAP reform²⁰ suggested that beef cow numbers in Northern Ireland would fall by about 20% as a consequence of breaking the link between production and agricultural support. It also projected that sheep numbers would fall by about 8%. However, it further indicated that the net income of the industry (inclusive of SFP) would improve, i.e. as production across Europe fell in response to decoupling, prices would rise, and for a lower level of activity, incomes would increase. This economic modelling did not attempt to forecast the underlying market influences on which effects of decoupling would be superimposed. Nevertheless, changes since the introduction of decoupling have broadly been in line with expectations.

¹⁹ Department of the Environment, Northern Ireland, May 2006
<http://www.ofmdfmi.gov.uk/sustain-develop.pdf>.

²⁰ Moss, J., McErlean, S., Patton, M. and Zhang, L. (2003) Analysis of the Impact of the June CAP Reform Agreement on Agriculture in Northern Ireland. *Report to DARD from FAPRI-Northern Ireland team*, The Queen’s University of Belfast, October 2003.

What the modelling work did not attempt to address was to predict where within Northern Ireland the greatest reduction in suckler cow and breeding sheep numbers would occur. However, given the distribution of these animal populations, it was reasonable to assume that the LFAs would experience the greatest impact.

The main challenges faced by the agri-food industry and the wider rural economy in the future are likely to arise from:

- (a) A possible WTO agreement on further liberalisation of agricultural support and trade;
- (b) the consequences of changing market structures (including international influences) and evolving consumer tastes and preferences;
- (c) further reform of the CAP, including implementation of the Health Check and changes post 2013;
- (d) balancing the need to create a competitive agri-food industry with the need to respond positively to wider societal concerns relating to environmental stewardship in particular and animal welfare; and
- (e) creating sufficient jobs, wealth and rural community capacity to retain and to enhance social, economic and environmental sustainability.

The ability of farmers within the LFAs to respond to some of these challenges may well be constrained by the more limited opportunities to adjust production techniques and enterprises as a consequence of the natural disadvantages that exist. **The level of agricultural activity in LFAs, therefore, will be closely tied to the fortunes of the beef and sheep enterprises.**

