Decoupling: Irish farmers Attitudes and Planning Intentions[1]

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Background context

Cattle production is the primary land use for agriculture in Ireland. About 90% of farms have cattle and they may be farmed alone or in combination with other farm enterprises. Therefore the economics, and in recent years the related administrative complexities, of cattle farming permeate nearly all farms and most other farm enterprises in Ireland. Consequently, almost all of the farmers in Ireland are familiar with the operational aspects of the coupled Direct Payments (DPs). They were therefore approaching decoupling from a reasonably informed perspective.

Following CAP reform in 1992 and the switch-over to the DP income supports, the economics of cattle production in Ireland became increasingly dependent on the value of the animal-based DPs, Dunne 1996, 1998b, 2003, 2004, Dunne and Shanahan 1999. This dependency became increasingly apparent following the BSE crisis in 1996 when EU beef prices declined sharply. This resulted in a corresponding reduction in the enterprise market-based margins, cattle enterprise margin excluding the value of the DPs. For cattle production in Ireland, this began to expose a number of the inherent weaknesses in the animal-based DP system with its related compliance criteria.

As the years progressed, the market based gross margin continued to decline and became almost negligible, particularly finishing of beef animals involved in high winter-feeding costs, Dunne 2003, 2004. In normal circumstances, such farmers would quit cattle production since the sale value of the animals did not cover their direct costs, never mind make a contribution to overhead costs, Dunne and Shanahan 1999. However, under the animal-based DPs, the operational problems facing such cattle farmers in Ireland were not that simple.

In essence, many of the farmers were maintaining cattle numbers primarily to get access to the animal-based DPs. For such farmers the DPs had not only become the income but were also the actual gross margin and possibly not even that much in some instances. In the latter situation the cattle were in fact becoming a rather expensive "premium harvester" as many farmers were not even able to retain the full value of the DPs as a margin, Dunne 2004. Furthermore, the evolving economics of cattle farming and their increasingly complex administrative requirements began to permeate directly and indirectly into nearly all farms and farm enterprises in Ireland. For a more comprehensive discussion of this and related topics and possible solutions see Dunne 1996, 1997, 1998b, 2000a,b,c, Dunne *et al* 1999b, Dunne and O'Connell 1998, 2000a,b, 2002a,b, 2003.

As a consequence, studies were undertaken to develop and recommend more suitable systems for administering the DPs. The outcome was proposals suggesting that the DPs should be decoupled from the animals and converted to a combination of area and household type payments administered at the whole farm level, Dunne and O'Connell 1998, 2000a,b 2002a,b.

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[1] Paper presented at the European Association of Animal Production (EAAP) annual meeting in Uppsala, Sweden , 5-8 June 2005

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Mid Term Review

In July 2002, the EU Commission published a report entitled a "Mid-Term Review of the Common Agricultural Policy" (MTR), CEC, 2002. Against expectations, this report proposed decoupling direct payments from animals and a shift to a single income payment per farm for all the relevant land-using enterprises. According to the proposals:

> Farms under this scheme will have complete farming flexibility increasing market orientation, but payments will be conditional on compliance with statutory environmental, food safety, and animal health and welfare standards (Cross compliance), (CEC, 2002).

Among the many other issues, the MTR proposed the decoupling of all commodity-based DPs and their conversion into area based DP payment rights for the future. This subsequently become known as the Single Farm Payment (SFP). The justification and the compliance criteria for the SFP contained in the Mid-Term Review were almost identical to the policy framework developed and published earlier by Dunne and O'Connell (1998, 2000a,b, 2002a,b). The major difference between the two proposals was in the details on how the DPs were to be administered to the farmers. The Commission's proposal depended exclusively on an area-based payment related to historical land use. In contrast, the earlier proposal favoured a combination of a payment per farmer/household and a reduced payment per hectare on current land use. The premise for including a farmer/household component was to reduce the capitalisation of part of the value of the DPs into assets which would then increase future production costs, Dunne and O'Connell 1998; 2000a,b; 2002a,b.

After months of negotiations, the MTR proposals formed the basis of the Mid Term Review (MTR) agreement for the CAP in 2003. This agreement provided member states with the option of either full or partial decoupling of the animal-based DPs. Following intensive debate in the autumn of 2003, Ireland opted for full-decoupling post 2004 based on the average of the payments drawn down by the individual farmers in the reference period of 2000, 2001 and 2002.

For Irish farmers, the introduction of the SFP was a radical departure from the existing commodity based DP farm income support system. Unlike the commodity based DPs, the decoupled SFP entitlements are administered using a whole farm concept. This provided farmers with potential choices, within certain broad limits, to change the enterprise mix, methods and intensity of farming, farm revenue composition and flexibility to adjust production systems and costs. This freedom of choice appeared to provide new horizons for Irish cattle farmers who for over a decade were described as farming within an economic and administrative straight-jacket, Dunne 1998b.

Survey of farmers attitudes and intentions

Since the introduction of the SFP is a fundamental departure from traditional methods of farm income support, there is very little quantitative or qualitative information available to provide a guide on farmers' attitudes and their likely production adjustments in response to this type of payment. To address this issue a questionnaire was developed and a farm level survey was undertaken in relation to farmer's attitudes to decoupling and their farming intentions post full decoupling. This was administered in the 2003 Autumn Survey of the 1,200 farms in the Teagasc, National Farm Survey (NFS), Connolly *et al* 2004a. The responses to these questions were analysed for each of the NFS farming system classification for 800 plus farms that were also in the 2002 survey. A similar survey was also undertaken in the autumn of 2004. The main findings from these surveys are summarised as follows under a number of headings.

Attitude to decoupling :

In the 2003 survey, a very high percentage of the farmers, at 85%, responded in favour of full decoupling while 11% preferred partial decoupling. This ratio was consistent across farming systems. Since the Irish decision to opt for full decoupling was made during the period of the field survey and it may have influenced the scale of the result in favour of decoupling.

Single Farm Payment entitlements

In the 2004 survey farmers were asked about the value of their Single Farm Payment (SFP) entitlements. At the time of the survey, the Department of Agriculture and Food had not yet informed all of the farmers on the value of their specific SFP entitlements, but the survey obtained responses from a total of 664 farms.

The mean value per hectare of entitlements for the different farming systems is presented in Table 1. As expected, farms with the commodity products that have been subjected to the greatest degree of switch-over to direct payments, tillage and cattle farmers, secured the largest average value of SFP entitlements per hectare. The average values for the Less Favoured Areas (LFA) are lower for most of the farming systems. But the differences between LFA and non-LFA are modest.

Presented in the lower section of Table 1 is the average gross margin per hectare of utilised agricultural area (UAA) for each farming system as derived from the Teagasc, National Farm Survey for 2003, Connolly *et al* 2004. When the value of the SFP entitlement is compared with the corresponding farming system gross margin, the high dependency of the economics of the cattle and tillage systems on the value of the SFP entitlements becomes apparent.

Table 1: Single Farm Payment entitlements and Farming System Gross Margins

	Farming system						
	Dairying	Dairying & other	Cattle Rearing	Cattle & other	Sheep	Tillage	All
Region	SFP entitlements €/hectare						
Less Favoured Areas (LFA)	146	229	242	354	211	366	246
Non LFA	141	252	281	367	194	374	266
All (SFP entitlements)	143	237	249	358	207	372	254
Gross margin (GM) per hectare UAA	1385	973	563	606	594	888	821
Entitlement/GM %	10.3	24.4	44.2	59.1	34.8	41.9	30.9

Farm incomes post decoupling

In both the 2003 and the 2004 surveys, farmers were asked how they thought their incomes would change over a 5 year period after full decoupling. The main findings are summarised in Table 2.

In the 2003 survey 10% of all farmers expressed the view that their incomes would increase post decoupling, but this varied from a low of 6% for farms specialising in dairying to 15% for tillage. In 2004 slightly more farmers expected an increase in income, but the percentage of tillage farmers had declined from 15% to 9% while the mainly dairying had increased from 6% to 13%.

Table 2: Farmers' views on the impact of decoupling on farm incomes

	2003	2004
	% of farmers	
Increase	10	12
Decrease	41	24
No change	41	40
Don't know	8	24

In the 2003 survey, 41% of all farmers expected their incomes would decrease, ranging from a high of 72% for farms specialising in dairying to 29% for "cattle other". In contrast, the 2004 survey results show that the proportion of farmers expecting a decrease in income had declined from 41% to 24%. The 2004 figure, ranging from 39% for tillage farmers to approximately 20% for farmers involved cattle and sheep. It is noteworthy that between 2003 and 2004, the percentage of dairy farmers expecting a decrease had declined from 72 to 30%

In the 2003 survey, 41% of all farmers expressed the view that there would be no change in their income. This varied from 17% for farmers specialising in dairying to 56% for farmers involved in the tillage system. The 2004 survey produced a similar overall result, but the percentage of dairy farmers had increased from 17% to 38% while the tillage farmers had declined from 56% to 21%.

The small upward adjustment in the 2004 results in the income increase category plus the substantial shift from expecting a decrease in income into the don't know category would indicate an added overall confidence in relation to incomes. Within farming however, there has been a decrease in confidence among tillage farmers but an added confidence among dairy farmers. In 2004, cattle prices increased by over 10%, Dunne 2004. This may at least partly explain the added confidence in relation to future incomes by both cattle and dairy farmers.

When the 2004 survey data was further broken down into LFA and non-LFA regions, the differences were modest. The main differences were that a lower percentage of dairy farmers in the LFA expected incomes to be maintained or improved. Also, a higher percentage of LFA framers were registering as don't know.

Area farmed post decoupling

In the 2003 survey, farmers were asked if they planned to change their land area farmed once decoupling was implemented. The response was that 88% of the farmers did not plan to change the area farmed. Of the remainder, 8% expressed the intention to decrease the area farmed, and 3% expected to increase. While the differences between farming systems were small, tillage and dairy specialists were more likely to increase, while non-specialist dairy and cattle rearing were most likely to decrease.

Trading entitlements

In the 2004 survey, farmers were asked about their plans to use their entitlements within the next five years. Almost all of the farmers (96%) planned to use all of their entitlements. This was consistent across farming systems for both LFA and non-LFA regions. The lowest percentage of use was 85% and this was for the "cattle other" farming system in the non-LFA region.

Only 1% of the farmers planned to sell entitlements within the next five years. Most of the farmers that expressed an interest in selling entitlements were either cattle or tillage farmers in the non-LFA region.

An interest in purchasing entitlements was expressed by 4% of the farmers. Over half of these were in the non-LFA region, and were mainly farmers with a dairy or tillage enterprise.

An interest in leasing-in entitlements was expressed by 2% of the farmers. Most of these farmers were in the LFA region and were predominantly involved in cattle rearing or had a dairying enterprise.

The overall findings in relation to the use and trading of entitlements in 2004 confirm the results obtained in a similar survey in 2003.

Purchased inputs post decoupling

Farmers were asked if they planned to change the level of purchased inputs of fertilisers and concentrate feeds. The responses are shown in Table 3

Table 3: Farmers' views on purchased inputs

	2003	2004
	% of farmers	
Increase	3	4
Decrease	41	30
No change	54	60
Don't know	2	6

Over half of the farmers in 2003 did not anticipate a change in their purchases of inputs and this view strengthened to 60% in 2004.

For the farms intending to change, the differences between the farming systems were modest. Farms with a dairy enterprise were more likely to increase purchased inputs while those with cattle sheep and tillage had a higher tendency to decrease. When the data for 2004 was broken down into LFA and non-LFA regions, the differences were insignificant.

Attitudes to REPS

The decoupling of animal-based payments would provide for greater flexibility in farming enterprise choice and for farming methods. Also, under the SFP system, it is possible for farmers to reduce stocking density without a corresponding loss of revenue from the DPs. Therefore, it could be easier for farmers in the future to adjust their farming activities to enable them to qualify for the agri-environment scheme, REPS. In Ireland, REPS operates as a whole-farm scheme similar to the new SFP approach.

In the 2004 survey, farmers were also asked about their plans in relation to REPS. Just over 40%, equivalent to about 45,000 farms were already in REPS. When evaluated by farming system, the percentage varies from a low of 25% of the dairy farmers to a high of 67% for sheep farmers. While some of the existing farms in REPS do not plan to join the revised REPS programme (REPS III), a further 20% of farmers aspire to enrolling in REPS for the first time.

If these plans are realised, then, the number of farms in which the dairy enterprise predominates that will be in REPS will have almost doubled. In contrast, the number of farms in which the cattle enterprise predominates that plan to be in REPS will have increased by almost 70%.

However, over 50% and 40% of farms which are classified as predominately dairying and cattle respectively will remain outside REPS.

On farms where sheep is the main enterprise, over 60% are already in REPS and intend to continue and a further 14% plan to join for the first time. Less than 40% of tillage farmers are in REPS and intend to remain within the scheme, a further 15% plan to join for the first time.

Cattle enterprise post decoupling

Apart from tillage, farms with cattle enterprises were the main recipients of commodity-based DPs, (see table 1 above). Also, market based margins in cattle production has been small and declining, Dunne 2003, 2004. Therefore the future internal economics of the enterprise could be particularly vulnerable post decoupling. For these reasons it seemed appropriate to further investigate the plans of farmers involved in cattle farming, either as a single enterprise or in combination with other farm enterprises. A series of questions in relation to cattle farming activities was included in the 2003 survey. The main findings can be summarised as follows.

Only 4% of farmers with cattle intended to exit the cattle enterprise and this was highest at 17% for farms involved in the mainly dairying system. In contrast, 21% expressed the intention to change their cattle production system, but 38% of those in mainly dairying intend to change their cattle system.

Most of the farmers that have cattle, 67%, did <u>not</u> intend to change the quality of their cattle. But, 30% planned to improve the quality of their stock and this was highest at 38% for farmers involved in the “dairying + other” system and lowest at 25% for farmers in mainly dairying.

With regard to livestock numbers, 48% of the farms do not intend changing the number of Livestock Units (LUs), but this percentage varies from 32% for mainly dairy farms to a high of 60% for the “mainly sheep” system. In contrast, 8% of farmers intend to increase the number of LUs. The increase is largest at 11% and 12% respectively on farms involved in “dairy + other” and “cattle + other” systems. A further, 36% of the farmers intend reducing their LUs, but this varies from 51% on mainly dairy farms to 28% for the “cattle + other” system.

In addition to the direction of change, farmers were asked to indicate the scale of the change in their plans for livestock numbers post decoupling. The average percentage increase for all the farmers that plan to expand their LUs was 28%, but this increase varied from a high of 54% on mainly dairy and 47% on “mainly sheep” farms to a low of approximately 20% for dairy & other and tillage farms. In contrast, the average percentage decrease for all the farmers intending to reduce their LUs was 32%, but there was only small variation between the individual farming systems. When the increases and reductions were considered, the aggregated result was that the intended LU reductions on the farms that plan to decrease exceeds the increase in LUs for those that plan to expand LUs, by a ratio of 5:1

Finally, the economic realisation of individual farmers’ plans, especially in relation to livestock numbers, is interwoven with the changes being implemented by both their neighbours and counterparts in other enterprises. For example, future developments on many cattle farms are particularly dependent on the decisions made by the owners of dairy and suckler cows and by the supply of land for renting. In the 2004 survey, farmer’s plans for 2005 for cow numbers were for no change for dairy cows and a reduction of 3% in the number of suckler cows compared to 2004. The plans for 2007 were to increase the number of dairy cows by 5% but reduce the number of suckler cows by 2%, Connolly *et al* 2004. If these plans for the breeding herd prevail, they would indicate that the changes in cattle numbers in Ireland over the next few years will be small unless there is a radical change in the number of young animals exported.

Concluding comments

The vast majority of Irish farmers were in favour of full decoupling of the animal-based DPs. Almost all of the farmers plan to use their SFP entitlements, and very few farmers intend to change the area they farm following the introduction of the SFP. About 30% of the farmers intend to reduce their purchased inputs but most farmers do not have plans to change. Irish farmers are becoming increasingly interested in joining REPS, a further 20% of farms plan to join REPS for the first time. The immediate plans for adjusting cow numbers are very modest, so the total cattle herd is likely to remain stable for the next few years. But, within this, individual farmers may also adjust cattle numbers. Finally, these findings in relation to farmers' intentions should be interpreted indicative rather than absolute because the policy situation and the level of farmer's familiarity with the new policy were evolving during the survey period.

Acknowledgements

The authors would like to thank the farmers who voluntary participate in the NFS for their willingness to share their views and planning intentions. Thanks also to our colleagues in the NFS for collecting and processing the data and the various Teagasc staff who contributed ideas and questions for the survey.

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