



**Public Consultation on the New National Strategy and
Environmental Framework for Producer Organisations in the
Fruit and Vegetable Sector**

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Introduction

The Irish Farmers' Association (IFA) is the main representative body for farmers in Ireland. IFA welcomes the opportunity to present a submission on the '*New National Strategy and Environmental Framework for Producer Organisations in the Fruit and Vegetable Sector*'.

Background

The EU actively supports the fruit and vegetable sector through its market-management scheme (part of the "common organisation of agricultural markets") which is included in Pillar 1 of the Common Agricultural Policy (CAP). It has four broad goals: a more competitive and market-oriented sector; fewer crisis-related fluctuations in producers' income; greater consumption of fruit and vegetables in the EU; increased use of eco-friendly cultivation and production techniques.

Through its Common Market Organisation Regulations, the EU encourages farmers to set up Producer Organisations (POs) in order to strengthen their position on the market through a stronger bargaining position with the retail sector, as well as through production planning, innovation and crisis prevention, and management measures. Practically all fruit and vegetables are eligible for funding including mushrooms, however, potatoes are excluded. The EU supports farmers in these efforts by providing funding to help them plan their production, innovate and farm in an environmentally-friendly manner.

In order to be eligible for payment of EU supports, a PO must first be recognised by a member state. In this regard, the regime requires national authorities to recognise any group of producers that applies for PO status if they meet the following general requirements as laid down in the EU regulations:

- be voluntary
- contribute to the general aims of the regime
- Prove its utility by the scope and efficiency of the services offered to members.

In the Republic of Ireland, a PO must have at least 5 active producer members and the minimum Value of Marketed Production (VMP) is €2,500,000.

Having successfully gained recognition they can then apply for funding as a PO and will receive support for operational programmes based on a national strategy administered by the individual member state. Under current legislation, a Producer Organisation may claim 50% EU aid on eligible actions in the programme up to a ceiling of 4.1% of their VMP.

According to the latest available figures, there are approximately 1,700 Producer Organisations covering almost 50% of the EU fruit and vegetable production. There are currently two recognised POs operating in the Republic of Ireland. CMP is a large transnational mushroom PO primarily exporting to the UK with a turnover of c. €200m. Quality Green is a protected vegetable PO operating on the domestic market with a turnover of c. €8m.

Overview of Irish Horticulture Sector

Farm Gate Output

According to the DAFM sources, the Irish Horticulture Industry was worth €424m in 2015 with edible crops representing €359m and amenity horticulture €65m respectively of the €424m total.

Of the €359m horticulture food output, mushrooms accounted for €137m with potatoes €76m, field vegetables €67m, protected fruit €40m, protected vegetables €29m and outdoor fruit €10m making up the remainder.

All sectors (apart from mushrooms which export 90% of its production), are generally focused on the domestic market. However, significant quantities of potatoes and vegetables are exported to Northern Ireland while €16m in exports are generated from the amenity horticulture sector.

Employment

According to a recent labour report '*Labour Review of Horticulture in Ireland*' commissioned by Bord Bia, 6,600 people are employed full time in primary production activity in the horticulture sector while a further 11,000 are employed in downstream businesses.

Fresh Produce Grower Numbers

There has been a continual trend in the reduction of the number of Irish fresh produce growers. For example, the number of field vegetable growers fell from 377 in 1999 to 215 in 2009. It is anticipated that the 2015 National Field Vegetable Census will record a further fall and is likely to show a drop of over 50% in the number of commercial growers since 1999. In the mushroom sector, there were over 500 growers in 1990, with this now reduced to below 50 at this stage. A similar scenario exists across all produce lines with most of the production now consolidated among a small number of individual growers.

Location

Most of the horticultural businesses are located in the northeast, east, south and southeast however, there are significant potato, mushroom and nursery stock operations in Donegal and the West of Ireland.

Fresh Produce Market

The Retail Fresh Produce Market was worth €1.29bn in the year ending January 2016 with vegetables accounting for €518m, fruit €604m and potatoes €163m. Fruit and vegetables combined represent 14% of the average grocery shopping basket. The Food Service Market was worth €355m in 2013.

Challenges to the future of the Irish Horticulture Sector

The Irish Horticulture Industry is currently facing many serious issues and challenges which threaten its future viability. The New '*National Strategy and Environmental Framework for Producer Organisations in the Fruit and Vegetable Sector*' will need to consider these issues if it hopes to stabilise and develop the sector. The following are the main challenges facing Irish fruit and vegetable producers and the proposals which IFA believes should be included as part of the new National Strategy. These proposals refer to both the recognition and the operational programmes of POs in Ireland.

1. Retail Market Dominance:

Both in Ireland and at EU level, it is widely recognised and accepted that there is a major imbalance of power in the food supply chain between retailers as price setters at the top of the chain and primary producers as price takers at the bottom. This is particularly problematic in Ireland where the 5 main multiples practically control 90% of the retail market. This imbalance of power in the food supply chain has resulted in a situation where farmers are sometimes compelled to accept unreasonable conditions and prices that do not cover their costs or provide an economic return. Some retailers have resorted to short term tendering as a procurement practice. This completely undermines producers as they have no confidence in programming crops or planning investments.

IFA Proposal:

The overall objective of the National Strategy is to establish the priorities to improve the competitiveness of the fruit and vegetable sector by improving their bargaining position. Therefore, measures within the new strategy should leave no impediment to producers negotiating from a group position etc. However, due to the predominant domestic nature of the fruit and vegetable sector any new measures will need to accommodate input from individual growers in the selling of their produce through a PO. Proposals and recommendations from the recently formed EU Agricultural Markets Task Force (AMTF) should be integrated into the New National Strategy where possible also.

2. Below Cost Selling:

This issue, in the form of extreme discounted promotions, along with general retail price deflation is having a crippling effect on Irish primary producers. Below cost selling has resulted in a drop in the farm gate price of some Irish grown fresh produce lines of 10 to 20% over the past four years. It appears to be unique to the Irish and UK retail sectors and was primarily driven by the German discounters, however, others have now followed due to the failure of the authorities to implement a ban on this practice. Due to a combined fresh market share of almost 30% in fresh produce, the actions of Lidl and Aldi now dictate the direction of the market in this area. The following are some of the negative implications of extreme discounting:

- While promotions have always been a part of retail sale, the timing of the promotions takes no account of current availability as they are often planned months in advance. At these times, sales volumes can increase to a multiple of normal demand and in many cases growers cannot meet the orders and sales are lost to imported produce.
- Such promotions also greatly affect the sales for other competing fresh products (i.e. broccoli and cauliflower), whose highly perishable nature means they cannot be held over until the promotion finishes. This distorts the market for everyone, regardless of whether your product is on promotion or not.
- Below cost selling contributes to food waste and puts smaller producers who supply smaller shops and wholesalers out of business.

IFA Proposal:

Notwithstanding that the relevant authorities should introduce a ban on below cost selling, the formation of POs would somewhat alleviate the impact of some of the issues above. As a group, growers could manage the promotion of individual products better and would benefit as a whole even when their product was not on promotion. It would allow better planning of production and allow greater geographical spread which would reduce the opportunities for importation of product during these promotions.

On some occasions, Producers due to the perishable nature of fresh produce, have had to dump product as a result of these promotions due to excessive imports. Any measures in the new strategy which encompass crisis management need to take issues such as this into account. Depending on the products which are part of the PO, these measures need to be innovative and flexible both in structure and level of compensation to adapt to the many different and complex issues which may arise. A “one size fits all” approach will not work in this case. Outdoor vegetables for example would be at greater risk from a weather event than protected crops. Putting defined and irrelevant maximum levels in place will be worthless to the sector therefore, this measure on crisis management will need serious consideration and deliberation if it is to be of any benefit. Appropriate crisis management tools need to be considered such as mutual funds, harvest insurance etc. which are actually meaningful and applicable. Obviously strict notification and records would need to be adhered to by the PO in order to ensure full transparency.

Measures preventing oversupply in markets should be investigated more thoroughly as this makes more sense than trying to deal with the potential crisis when it occurs. This would be very relevant in the protected crops sector in lines such as mushrooms where you can react in a shorter time frame to anticipated market conditions. Initiatives such as the recent EU Voluntary Milk Reduction Supply Scheme is a prime example of such a measure which could be replicated and tailored for suitable sectors of the Horticulture sector. In some POs, it may suit certain members to reduce production for a period of time and be compensated at a reduced rate for their cooperation much like the milk scheme. As this could be ring-fenced within individual POs, it leaves the implementation and administration of the scheme very simple. From an environmental and sustainable point of view it is obvious that we waste resources in creating oversupply in the market and then compound the issue further by dumping the product. For this reason, this measure would also fit under the umbrella of the Environmental Framework.

3. Labour Cost and availability:

Ireland currently has the second highest minimum wage in the EU and the horticultural industry is now also struggling to source adequate reliable labour. This obviously affects the competitiveness of Irish fresh produce growers where in some enterprises such as mushrooms it represents up to 50% of the costs of production. Due to the continued erosion of margins by retailers, growers have been unable to reinvest to the necessary extent in their business to reduce costs.

IFA Proposal:

New measures in the PO strategy will need to accommodate and encourage the following:

- Lean Management initiatives similar to the current scheme within the mushroom industry which will increase labour efficiency.

- **Research and development and the purchase of machinery etc. which will reduce labour demand.**

4. Energy Costs:

Energy costs are currently at the lower end of the range, however, at any stage this could change. In general, Irish growers pay higher energy prices than some of their European competitors which has left them at a considerable disadvantage over the years.

IFA Proposal:

Where possible, the new PO strategy and Environmental Framework should allow maximum funding for new projects and the upgrade/retrofit of suitable renewable energy technologies. Obviously, this will work in tandem with the renewable heat incentive (RHI) scheme with no overlap in funding.

5. Critical Mass/Succession:

There has been a dramatic reduction in the number of growers in the different fresh produce crops over the past number of years. In many cases, the area of the crop has remained stable but there are only four to five sustainable growers with the necessary area and investment to survive in the medium term. However, in some lines such as peppers and iceberg lettuce there are only 1 to 2 growers still in production. There is also an absence of young people entering the industry which leads to the discussion around succession etc.

IFA Proposal:

POs should create an environment and structure which would offer solutions to these issues of critical mass and succession within the industry. Growers of individual crops due to economies of scale etc. would find support in a PO which encompassed multi-products which would help to ensure the continued production of these threatened crops in Ireland. However, to increase the participation of growers in future POs the new strategy needs to take account of the following:

- **Growers may need to be part of a Producer Group before fully transitioning to a PO. In certain EU regions, transitional support is given to encourage producers to form producer groups (PGs), to cover administration costs and the investments needed to attain recognition as Producer Organisations. This support could be in the form of funding to create discussion groups etc. to encourage greater grower collaboration.**
- **In EU regions where producers haven't formed organisations to any great extent, national governments may provide national funding, over and above the operational fund. In some cases, this may be partially reimbursed by the EU in regions where producers haven't formed organisations to any great extent.**
- **Most growers will initially not trust the PO to market their products as many have close relationships with the domestic retailers, therefore measures within the new strategy will need to allow flexibility on this. Under the new rules, it is proposed to put 75% of their product through the PO and again there needs to be flexibility on this for some initial period at least. One example of this would be where a grower of say two products could form two separate companies and market one product through the PO.**

- **The rules and regulations, and the administration of PO schemes need to be simplified if we are to encourage greater grower involvement in the scheme.**
- **Regarding promotion of fresh produce, it has proven difficult to generate support and monies in certain sectors to run promotional campaigns. POs would be the ideal vehicle to encourage grower groupings to engage with and fund such campaigns.**

6. Competitiveness/Imports:

In general, Irish producers for various reasons beyond their control are unable to produce crops as cheaply as some of their foreign competitors. This competitive disadvantage is further compounded by our inability for various reasons to maximise the funding available through the PO Schemes. For example, the UK has over thirty POs while in Ireland we have only two.

IFA Proposals:

The new strategy must ensure that Irish POs can maximise the full drawdown of available funds. For example, the two Irish POs drew down an average of €2.15m per year between 2015 and 2016 when the potential drawdown was up to €8.5m for each year. With the implications of Brexit etc. for the mushroom industry in particular, we cannot continue to forgo these monies. As stated above, margins across the horticulture businesses are insufficient to allow the necessary reinvestments to remain truly competitive and funding via POs would certainly help to address these issues.

7. Training /Advisory:

This is another area where the fresh produce sector falls short. There is insufficient in-house upskilling and training being undertaken on Irish fresh produce enterprises, while Teagasc and other state bodies are not sufficiently funded to supply a comprehensive horticultural advisory service to growers.

IFA Proposals:

The new strategy should include measures which encourage and facilitate the funding of initiatives which improve upskilling and technical knowledge on Irish farms. The measures should be innovative enough to allow partnerships and the outsourcing of advisory services and training resources also where necessary.

8. Environment / Sustainability / Quality Assurance:

Irish fresh produce growers operate in an industry where the regulatory environment continues to impose greater demands on time and financial resources. This is the case for both statutory laws and guidelines concerning food safety and plant protection products but also so called voluntary schemes such as quality assurance etc. In some cases, Irish producers are at a disadvantage to some countries in the EU due to our higher standards and limited plant protection products.

Supermarket policy is driven by profit margins; therefore, many producers are unable to implement long term sustainability strategies as retailers only plan around short term budget and profit reporting. As a consequence of this, we see soils and other natural resources which require long term planning and investment being neglected for short term gain. It has to become accepted that you cannot have general environmental sustainability without also paying attention to the economic sustainability of the primary producer. The structure

and measures in the Environmental Framework of the New National Strategy on POs can play a key role in considering and addressing these issues.

IFA Proposals:

As in the case of the other proposals above sufficient scope, flexibility and practicality should be provided within the measures of the Environment Framework which offer genuine options for drawdown of funds. Below are some guidelines for inclusion in the measures, some are already catered for but perhaps they could be expanded upon.

- **Funding for actions which improve water quality and food safety issues.**
- **Use of IPM.**
- **Incentives should be provided to promote the use of organic manures such as mushroom compost, to regenerate neglected soils.**

Summation

IFA is very supportive of the principle and objectives of Producer Organisations and believes that in order for the Irish Horticultural Industry to stabilise and thrive we must maximise the positive benefits which this CAP market management scheme provides for the sector. In this regard, IFA welcomes the European Commission's commitment last March to simplify the rules pertaining to POs and increase support for fruit and vegetable producers.

The first priority regarding the *'New National Strategy and Environmental Framework for Producer Organisations in the Fruit Vegetable Sector'* is to ensure that the two existing POs i.e. CMP and Quality Green continue to successfully operate and develop. As referred to earlier in the submission, both of these POs have been unable to maximise the potential benefits which should be available under the scheme.

The administrator of the scheme i.e. the DAFM need to work closely with both Irish POs to design an operational programme that is obviously within the parameters of the scheme rules but which is advantageous to the Irish POs. They must ensure that the full suite of measures from any proposed new scheme will be made available. This is in accordance with Article 57 of the Commission Regulation which allows member states to adopt rules concerning the eligibility of measures, actions or expenditure under operational programmes. Among the many negative consequences of Brexit, CMP now faces serious issues concerning its future operations as a transnational PO in the UK and will require both the EU and DAFM support and advice on this matter.

The more difficult challenge of the new National Strategy will be to encourage Irish fruit and vegetable producers who are not currently part of a PO to either join an existing group or form a new PO.

Unfortunately, whether justified or otherwise there is a lot of scepticism among growers regarding POs in this country. For some, it is based on an individual's own past experiences of being a member of a PO while for others they believe that the procedures for obtaining recognition as a PO and for approval of an Operational Programme are too complex.

Notwithstanding this, IFA is committed to working with all stakeholders and producers to change these perceptions and will encourage producers to engage in the new strategy and investigate the potential of POs for their businesses. However, this will only happen if the administrators of the scheme facilitate increased participation of POs in this country by adopting simpler rules for joining an existing PO or forming new

groupings. As stated earlier, the options regarding formation of initial Producer Groups and using flexible transition arrangements may need to be adopted.