Consultation on National Minimum Wage for the Low Pay Commission to inform the Commission on selection of appropriate 2021 rate.

IFA submission to the Low Pay Commission
March 2020

Introduction and overview

The Irish Farmers' Association (IFA) is the largest farmer representative group in Ireland, with 72,000 members throughout the country, it is the recognised voice of Irish farmers in Europe and internationally. The Association promotes the ongoing development and competitiveness of Irish agriculture and the food industry.

Farmers are part of the SME sector and make a substantial contribution to rural Ireland, agriculture is our largest indigenous sector. It generates a significant positive effect in rural areas. The larger economic return, when compared to other sectors based on the multiplier, is primarily due to sourcing locally, with a low import requirement per unit of output and a lower share of international ownership and repatriation of profits when compared to other sectors.

The agri-food sector has strong linkages up and down the supply chain, from production to consumption. It reflects 7.8% of GNI at €14.8 billion and represents 21% of all industry turnover[1]. In terms of employment 174,400 are directly employed (7.9%) in the agri-food sector while it is estimated the sector supports approximately 300,000 jobs indirectly.

Continued investment uncertainty and pressure on competitiveness, remain significant challenges for the sector. These ongoing challenges are coupled with extreme wet weather, again this spring, which have placed significant pressure on farmers, coupled with the ongoing issues related to the future UK trade relationship.

The IFA welcomes the consultation of the Low Pay Commission on the National Minimum Wage for the selection of an appropriate rate for 2021.

In terms of agriculture, certain sectors such as horticulture, pigs and poultry are particularly labour intensive, consequently labour is a key input cost. Since 2015 the Irish minimum wage has risen from €8.65 to €10.10, which represents an increase of 16.8%. In addition, other pay rates in the sector have

[1] DAFM Fact Sheet Irish Agri-Food Sector August 2018
https://www.agriculture.gov.ie/media/migration/publications/2018/August2018Factsheet160818.pdf

moved pro rata to maintain a pay differential between entry level and more skilled/experienced workers This is having a serious negative effect on the viability of these labour-intensive businesses.

Brexit / exchange rate

The exchange rate volatility and uncertainty surrounding Brexit and its political process continues to pose a serious challenge for Irish agriculture. Ongoing weakness of sterling against the euro impacts negatively on the competitiveness of the agri-food sector given the importance of UK trade.

As a small open economy, the importance of trade is reflected in our level of exports. The majority of what we produce is exported. The UK is our number one export destination for our food with over 90% of mushrooms, 50% of beef and 22% of dairy destined for the UK market. Irish products must be competitive in international markets.

The more labour-intensive sectors in agriculture are seriously affected by the impact of exchange rate volatility and ongoing uncertainty. The pig industry in 2019 exported a total of 250,000 tonnes valued at €950m. The UK remains very important with 96,000 tonnes exported in 2019 and 48,000 tonnes going to continental Europe. International markets such as China and other south eastern Asian countries have increased their imports, with Ireland exporting 110,000 tonnes of pigmeat in 2019.

The value of Irish poultry exports in 2019 reached €305m and the volume of birds processed reached a record high of 106m birds, an all-time record for production. The poultry sector is hugely exposed to the UK market with 71% of the export figure destined for the UK market, valued at €218m in 2019. For edible horticulture, this is higher at 90% of exports going to the UK, valued at €105m in 2019.

IFA proposes that due to the ongoing uncertainty arising from Brexit and future relationship on trade the Commission does not make any recommendations on further changes to the National Minimum Wage.

Input costs

The horticulture, pigs, poultry sectors are particularly labour-intensive. Labour, for example, accounts for 45% of input costs in the horticulture sector. Wage increases have a serious impact on the economic sustainability of sectors that are currently under significant pressure.

Collectively these sectors employ approximately 19,600 people in rural areas: horticulture 6,600[2], pigs 7,000[3] and poultry 6,000[4]. In horticulture alone, a review of the labour status of the sector by Bord Bia in 2017 suggests staff at farm gate level add a further €11,000 in value added and downstream activities. Farm-gate horticultural employment is estimated to be worth €165m annually to the Irish economy, in the context of farm gate output valued at €424m. Labour accounts for a large proportion of the costs in pigs, poultry and horticulture, and is having a serious impact on the viability of their business and also their dependence on UK market.

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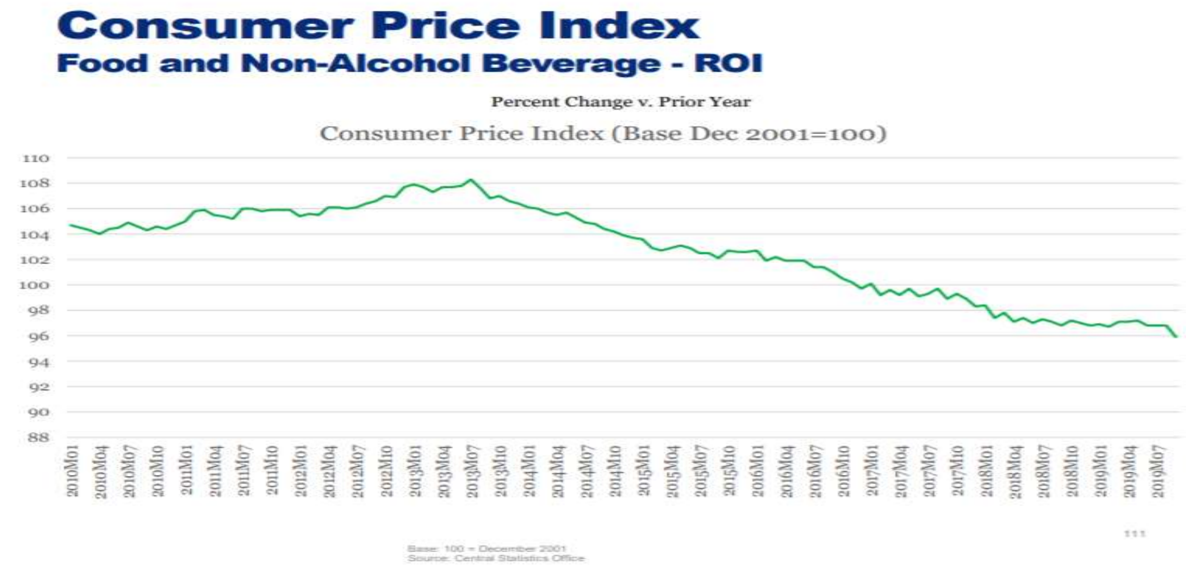
[2] https://www.bordbia.ie/corporate/press/2016/pages/poultryandeggconferenceanalysesgrowthopportunities.aspx
[3] https://www.agriculture.gov.ie/media/migration/farmingsectors/pigs/REPORTPIGINDUSTSTAKEHOLDERGROUP290116.pdf
[4] https://www.oireachtas.ie/en/debates/question/2018-10-11/163/

The dominance of the main retailers allows them to exert their power over producers. This is reflected in practices such as below cost selling and unsustainable discounting, which Irish producers see as misleading consumers and which has put significant downward pressure on farmgate price. Irish producers are trying to operate in an environment of uncertainty where input costs have risen in the past year with no price increases for their outputs.

Following the increase of the minimum wage to €10.10 this February, the IFA had meetings with all the major retailers in order to secure a farm gate price increase to cover this cost. However, despite continued pressure we have been unable to secure any farm gate price increases.

The graph below from the CPI illustrates the decline in the price of food in recent years. Due to this deflationary price pressure, it is very difficult for growers to make sustainable margins in order to pay higher wages to attract and retain suitable workers.

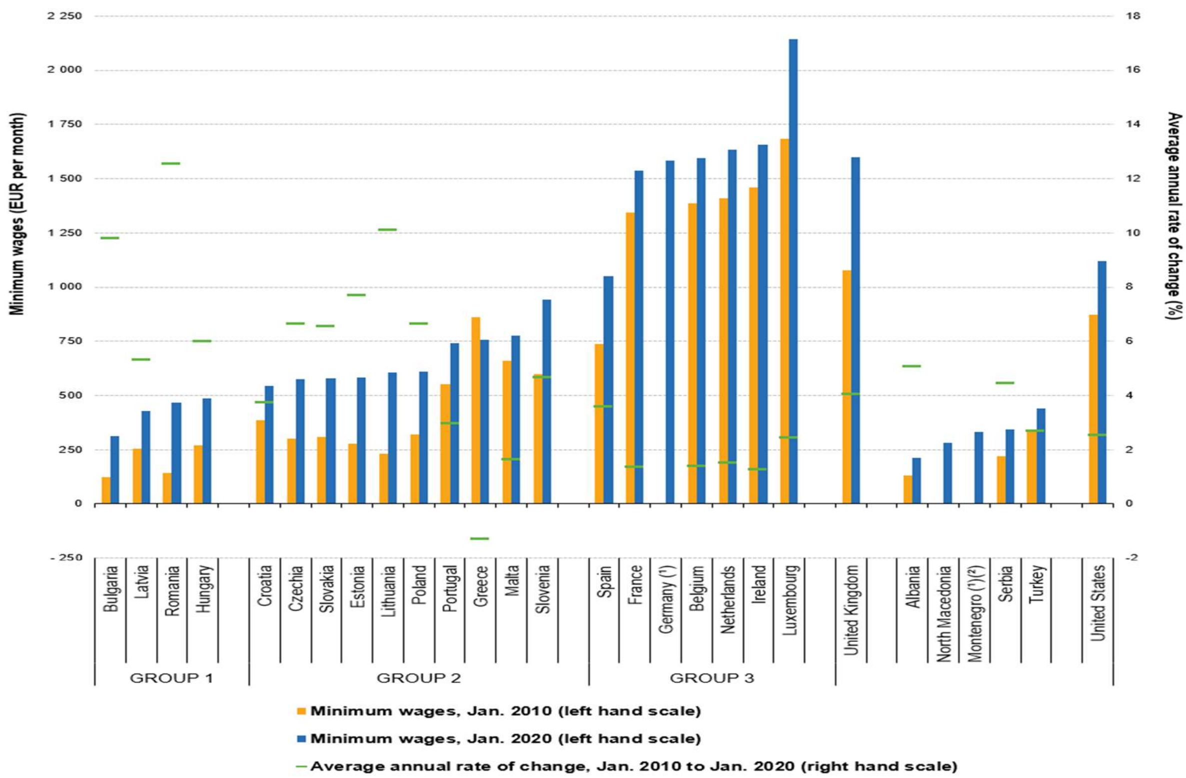


IFA proposes that the commission considers the negative impact of any further increases in the minimum wage, particularly on the labour-intensive sectors of Irish agriculture.

Competitiveness

Agricultural exports are particularity exposed to events outside of their control, such as weather conditions or geopolitical issues. These have a fundamentally damaging effect on global supply and demand and consequently commodity prices. Irish producers are highly exposed due to our level of exports. Input costs, including labour, are higher than in most EU countries. In January 2020 Eurostat data indicates that Ireland has the second highest minimum wages (per month) after Luxembourg.

Minimum wages, January 2010 and January 2020
(EUR per month and %)



Note: Denmark, Italy, Cyprus, Austria, Finland and Sweden: no national minimum wage.
(¹) January 2010 and average annual rate of change not available.
(²) July 2018 instead of January 2020.
Source: Eurostat (online data code: earn_mw_cur)

eurostat

This is very evident in the UK market where our mushroom producers compete against Polish mushrooms for market share. The monthly minimum wage in Ireland is three times that of the monthly minimum wage in Poland. In a sector, where labour accounts for 45% of total input costs, this represents a significant disadvantage to Irish producers. In the domestic market, our vegetable and fruit producers compete against imports from the UK and Spain in particular. The minimum wage in these countries is significantly lower than in Ireland, which again illustrates our disadvantage in relation to competitiveness on input costs across the single market.

IFA proposes that the commission considers the negative impact of any further increases in the minimum wage on the viability of labour-intensive sectors, taking into consideration how input cost differential on labour between Member States affects the competitiveness of Irish product.