



IFA



Jim Power
economics

Retail Price Compression Threatens the Viability of Irish Horticulture

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EXECUTIVE SUMMARY

- Two of the significant features of the food retail sector have been a trend decline in food's share of total consumer expenditure and significant downward pressure on retail food prices. The price compression in the food retail sector is a massive issue for primary food producers. It has caused significant problems for farmers over a prolonged historical period, and it now poses a significant threat to the viability of primary food production in Ireland.
- Over the past 11 years, CSO data shows that the average retail price of food fell by 9 per cent in real terms. Over the same period, overall consumer prices increased by 13 per cent. Over the past 12 months, food prices increased by just 1.6 per cent while aggregate agricultural input prices increased by 9.2 per cent (CSO). This is completely unsustainable and, without a reversal of this trend, will lead to irreparable harm to the Irish farming sector.
- The price compression is due to significant competition from imports, and the growing concentration and inordinate market power of a small number of very powerful retailers. The growing market share of the two discounters – Aldi and Lidl – has fundamentally impacted on the price that primary producers receive for their produce. Many farmers have been forced out of business and many more will follow, unless strong intervention in the market occurs.
- The analysis contained in this report shows very clearly the intense pressure on primary producers of food in general, but horticultural produce in particular. Retail price compression has forced many producers out of business and many more will be forced out of business if the imbalance in pricing power in the supply chain is not addressed. The viability of horticultural production in Ireland is now under serious threat.
- It is imperative that the position of farmers in the food supply chain is strengthened, as farmers are currently the weakest link in the chain. They are squeezed by rising input costs, and compressed output and retail prices.
- The EU directive on Unfair Trading Practices (UTPs) was adopted in April 2019 and was transposed into Irish law in April 2021. It is now essential to set up a National Food Ombudsman with strong powers that will guarantee farmers a fair share of the retail price. There is a strong need for a significant rebalancing of power in the food supply chain, to deliver a price for primary producers that would ensure their future viability.

The powers given to the National Food Ombudsman should include:

- Full powers of investigation of margins in the various components of the food supply chain. A 'retail charter' should be signed up to by all retailers that would guarantee primary producers a certain margin above the cost of production. If retailers were not willing to sign up to such a charter, then it should become part of the regulatory environment.



- The tendering process must be changed in order to give certainty to primary producers and enable them to deal with the impact of unpredictable seasonality on food production. Retailers should not be allowed put their supply up for tender every year, as this causes unsustainable uncertainty for primary producers. The regulator should have the power to examine tenders to ensure that primary producers are paid a fair price.
- It must have regulatory oversight on labelling to ensure that mislabelling that confuses the provenance of product is not allowed happen.
- A ban on below cost selling must be introduced.
- It is rarely in the best interests of the market to have a considerable level of regulatory intervention, but if market failure occurs, then it is necessary. There is currently market failure in the horticulture sector, and if the issues facing the sector are not addressed, the sector will continue to contract, with considerable loss of rural employment; increased imports of fresh produce; and the potential of the sector to help the country in general and agriculture in particular to reduce emissions will be seriously undermined.
- The price compression experienced by the horticultural sector unfortunately does not appear to be a sector-specific issue. Other farming sectors are suffering similar issues. It is, perhaps more than a coincidence that some of the sectors most under margin pressure currently – pigs, poultry and liquid milk – are also the sectors most dependent on the Irish retail sector as an outlet for their produce.
- The sector is becoming more concentrated and there has been a continual reduction in the number of produce growers over the past two decades. The most recent National Field Vegetable Census, which is now out of date, showed that the number of field vegetable growers fell from 377 in 1999 to 165 in 2014, a reduction of 56 per cent. It is clear from anecdotal evidence that this trend has continued in subsequent years.
- All consumers must be made aware of the importance of locally produced product from the perspectives of promoting rural economic sustainability; rural social sustainability; the environment and the reduction of food waste. A cheap food policy is not a sensible policy to pursue.
- The importance and potential of horticulture is recognised in official policy strategy, but if proper supports are not given to the sector, then the plans will not materialise and a considerable opportunity will be lost for rural Ireland.

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SECTION 1: THE CONTRIBUTION OF THE HORTICULTURE SECTOR

The Irish horticultural industry is an important economic sector in Ireland. The sector encompasses vegetables, fruits, ornamentals, flower bulbs, trees, mushrooms and protected crops. It has a strong regional and rural economic and employment footprint and is a very important part of the rural community and economy.

The sector is labour intensive; is environmentally sustainable; and is a valuable component of farming and agriculture in Ireland. It offers considerable potential for agricultural diversification, but as a sector it is currently facing immense challenges. Unless those challenges are addressed immediately, the sector will continue to contract, which will be bad news for agricultural diversification, the rural and the national economy.

VALUE OF GROSS OUTPUT

The Department of Agriculture, Food and the Marine estimates that the sector was worth €477 million in farm gate value in 2019, which makes it the 4th highest sector in terms of gross agricultural commodity output value. Only, beef, dairy and pigs are larger. Output from the horticulture sector accounts for 6 per cent of gross output from the agricultural sector.

Of the €477 million, Bord Bia data suggest that Food Horticulture accounts for 86 per cent or €410.2 million, and Amenity Horticulture accounted for 14 per cent or €67 million. Table 1 provides the breakdown of the two categories of horticultural output.

Table 1: Breakdown of Gross Output (2019)

SEGMENT	VALUE	%
FOOD HORTICULTURE		
Mushrooms	€119.2 m	24.5%
Potatoes	€111.0 m	22.8%
Field Vegetables	€77.8 m	16.0%
Protected Crops	€91.5 m	18.8%
Outdoor Fruit	€10.7 m	2.2%
(Sub-Total)	(€410.2 m)	84.2%
AMENITY HORTICULTURE		
Nursery Stock	€37.8 m	7.8%
Protected Crops	€19.3 m	4.0%
Christmas Trees	€9.2 m	1.9%
Cut Foliage Outdoor Flowers & Bulbs	€9.4 m	1.9%
Turf Grass	€1.5 m	0.3%
(Sub Total)	(€77.2)	15.8%
Total	€487.4 m	100.0%

Source: Bord Bia (Note: The breakdown published by Bord Bia totals €487.4 m)

Table 2 provides a breakdown of the area of the various categories of vegetables planted. In total, 14,743 hectares are planted for vegetables. Potatoes are the dominant vegetable accounting for 60.1 per cent of the total or 8,864 hectares.

Table 2: Area of Vegetables/Fruit Planted in Hectares (2020)

	HECTARES	% OF TOTAL
Potatoes	8,864	60.1%
Peas	776	5.3%
Carrots	767	5.2%
Kale	628	4.3%
Broccoli	577	3.9%
Cabbage	523	3.5%
Turnips	477	3.2%
Parsnips	354	2.4%
Cauliflowers	288	2.0%
Onions	244	1.7%
Brussel Sprouts	190	1.3%
Strawberries	121	0.8%
Other	934	6.3%
	14,743	100.0%

Source: DAFM

EMPLOYMENT

It is estimated by the Department of Agriculture, Forestry and the Marine that the horticultural sector accounts for 6,600 full-time staff in primary production, with another 11,000 people employed in downstream businesses. This represents a very significant level of employment, and was equivalent to 0.7 per cent of total employment in the economy in 2019. The employment in the sector is spread throughout the countryside and makes a significant contribution to regional economic activity. It is also a significant provider of seasonal and part-time employment.

EXPORTS

Most of the output from the horticulture sector is consumed domestically, with the exception of mushrooms and nursery stock, which is an important export activity. In 2020, exports from the horticulture sector totalled €325 million. Great Britain accounted for €187 million or 57.6 per cent of the total; Northern Ireland accounted for €59 million or 18.2 per cent; and Germany accounted for €24.6 million, or 7.6 per cent of the total. Exports of mushrooms totalled €117 million, and accounted for over 80 per cent of mushroom production.

VALUE OF THE GARDENING / AMENITY MARKET

Bord Bia /Ipsos MRBI survey data suggest that the value of the gardening or amenity market in 2020 was €1.19 billion. This is up from €729 million in 2016, an increase of 63 per cent.¹ There was a surge in consumer demand in 2020 as a result of the Covid-19 pandemic. There is a significant import component to satisfy consumer demand, but domestic production is also very important.

The amenity sector provides considerable employment through garden centres and other elements of the supply chain. As well as making a significant economic contribution, the amenity sector has a very positive social and mental health impact. This was particularly evident after the pandemic was declared in March 2020. The amenity sector also has the advantage of high plant health status within Europe.

Table 3 provides a breakdown of expenditure in the amenity market.

Table 3: Value of the Gardening Market – Amenity Market (2020)

CATEGORY	VALUE	% OF TOTAL
Outdoor & Potted Plants	€251 m	21.1%
Indoor Potted Plants	€37 m	3.1%
Fresh Cut Flowers	€97 m	8.1%
Garden Products	€641 m	53.9%
Landscaping Services	€164 m	13.8%
Total	€1,190 m	100.0%

Source: Ipsos MRBI / Bord Bia, February 2021

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SECTION 2: PRICE COMPRESSION IN THE RETAIL FOOD SECTOR

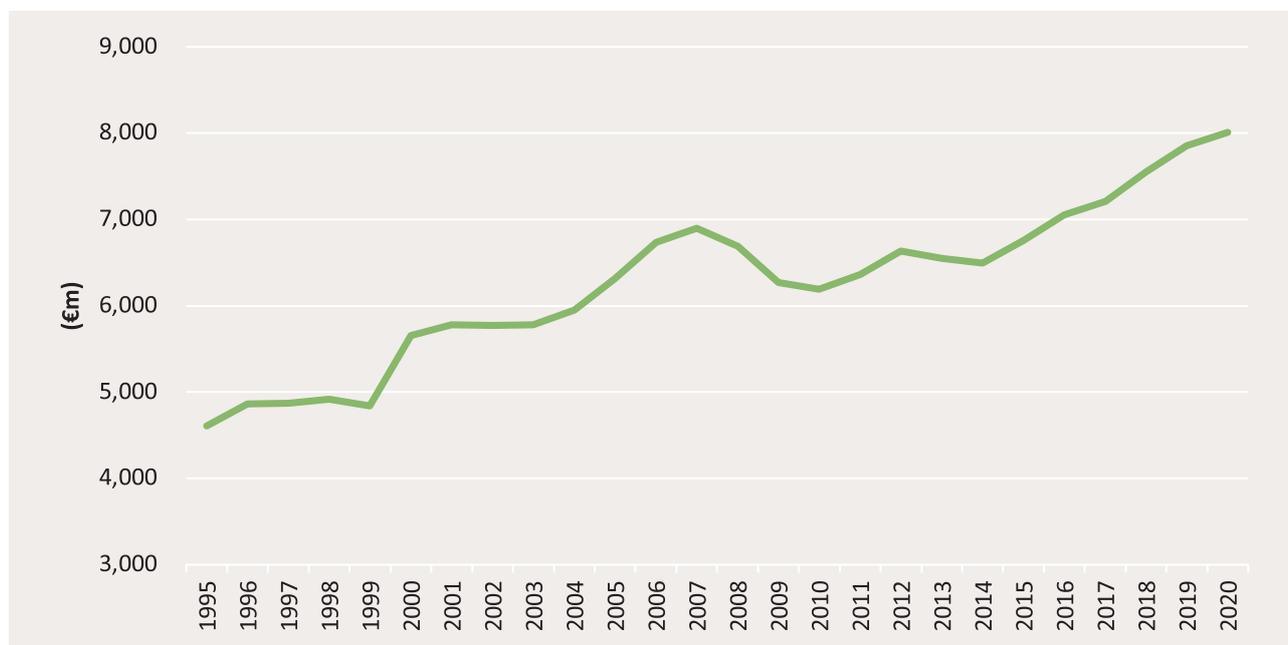
Two of the significant features of the food retail sector have been a trend decline in food's share of total consumer expenditure and significant downward pressure on retail food prices. The price compression in the food retail sector is a massive issue for primary food producers. It has caused significant problems for primary food producers over a prolonged historical period, and it now poses a significant threat to the viability of primary food production in Ireland.

The price compression is due to significant competition from imports, and the growing concentration and inordinate market power of a small number of very powerful retailers. The growing market share of the two discounters – Aldi and Lidl – has fundamentally impacted on the price that primary producers receive for their produce. Many primary producers have been forced out of business and many more will follow, unless strong intervention in the market occurs.

CONSUMER EXPENDITURE ON FOOD

In 2020, Irish consumers spent €8 billion on food, compared to €4.6 billion in 1995. In 1995, average expenditure on food per head of population was €1,280 and this had jumped to €1,609 by 2020.

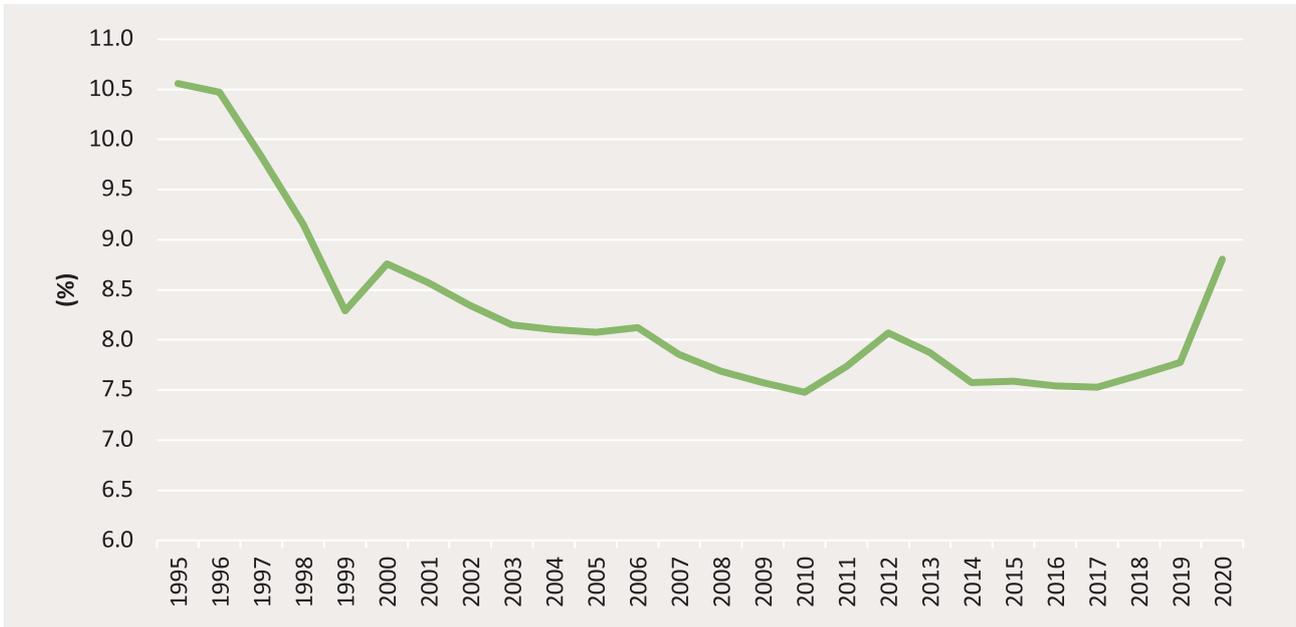
Figure 1: Consumer Expenditure on Food (Constant Market Prices)



Source: CSO PxStat

Expenditure on food as a percentage of household expenditure on goods and services in Ireland has been declining over the years (Figure 2). In 1995, food accounted for 10.6 per cent of household expenditure on goods and services, and had declined to 7.8 per cent by 2019. It increased to 8.8 per cent in 2020 as a result of Covid-19 and the increase in eating at home.

Figure 2: Expenditure on Food as % of Household Expenditure on Goods and Services

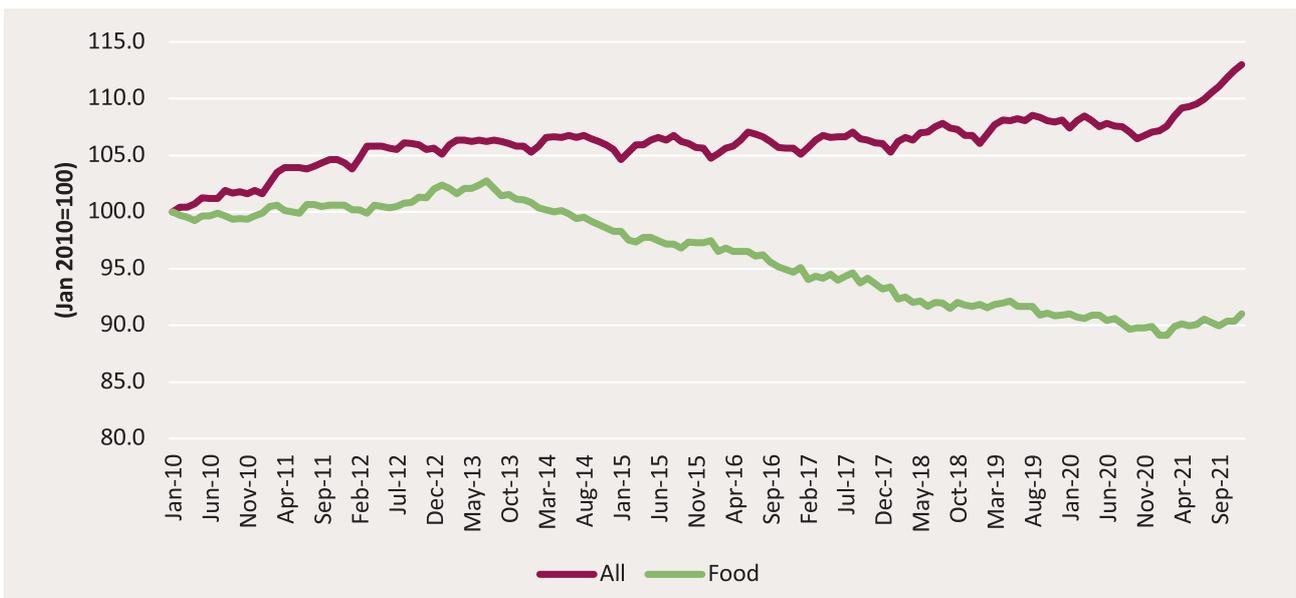


Source: CSO PxStat

PRICE COMPRESSION IN THE RETAIL FOOD SECTOR

Price compression has been a well-established and significant feature of the retail food sector for a number of years. Between January 2010 and December 2021, the average price of food declined by 9 per cent. Over the same period, the average level of overall consumer prices increased by 13 percent.

Figure 3: Price Compression in the Retail Food Sector



Source: CSO PxStat

The price compression in the retail food sector is due to a combination of intense competitive pressures in the sector, particularly driven by the growth in the market share of the discounters; competition from imports; and consumer pressure for cheaper food. Between October 2010 and October 2021, the combined market share of the two discounters, Aldi and Lidl, increased from 9.5 per cent to 25.5 per cent. The growing market presence of the two discounters, which are characterised by relatively low labour intensity, has created a very price competitive environment in the retail grocery sector. This price compression has caused and continues to cause intense problems for primary food producers and threatens their survival.

Table 4: Changing Retail Grocery Landscape – Market Share

OUTLET	MARKET SHARE OCTOBER 2010	MARKET SHARE OCTOBER 2021
Tesco	27.0%	21.4%
Dunnes	22.7%	21.9%
Superquinn	6.5%	-
Supervalu	19.8%	22.3%
Aldi	3.5%	12.8%
Lidl	6.0%	12.7%
Other Outlets	14.5%	8.9%
Total	100.0%	100.0%

NOTE: Supervalu acquired Superquinn in 2011 Source: Worldpanel FMCG

Price compression in the retail grocery sector has significant implications for margins and imposes consistent pressure to manage costs as carefully as possible.

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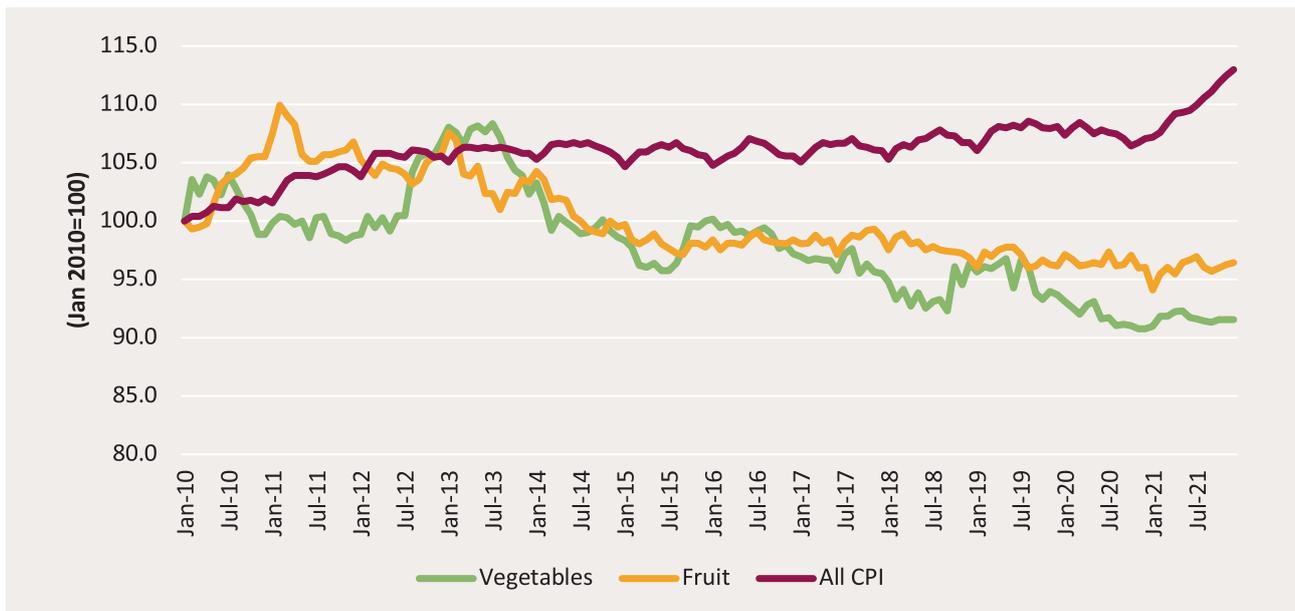


SECTION 3: RETAIL PRICE TRENDS IN HORTICULTURAL SECTOR

It is estimated that Irish consumers spent €1.59 billion on retail fresh produce in 2020. Price compression has also been a significant feature of the retail fruit and vegetable retail market. Between January 2010 and December 2021, the average retail price of vegetables declined by 8.5 per cent and the average retail price of fruit declined by 3.5 per cent. Over the same period, overall average consumer prices increased by 13 per cent.

Some of these horticultural products are imported, but whether they are imported or domestically produced, the competition and price compression at the retail level is very intense and places significant pressure on fruit and vegetable producers in Ireland.

Figure 4: Retail Price Trends Fruit & Vegetables



Source: CSO PxStat

Looking at retail price trends from a longer-term perspective really highlights in vivid fashion the price compression in the horticulture sector and the pressure that this creates for domestic growers. Table 5 summarises the change in the price of a range of products between January 2010 and December 2021, and in the year to December 2021.

Table 5: Change in the Average Retail Price of Categories of Fruit & Vegetables

CATEGORY	% JAN 2010 /DEC 2021	% DEC 2020 / DEC 2021
Overall CPI	+13.0%	+5.5%
Food	-9.0%	+1.3%
Non-Alcoholic Beverages	-1.3%	+4.1%
Fruit	-3.5%	+0.4%
Fresh or Chilled Fruit	-4.5%	+0.2%
Dried Fruit & Nuts	-2.6%	+0.6%
Vegetables	-8.5%	+0.9%
Fresh or Chilled Vegetables (other than Potatoes & Other Tubers)	-7.4%	+1.1%
Frozen Vegetables (other than Potatoes & Other Tubers)	-19.8%	+1.7%
Dried Vegetables, Other Preserved or Processed Vegetables	-12.8%	+3.1%
Potatoes	-13.4%	-4.7%

Source: CSO PxStat

Between January 2010 and December 2021:

- The average price of food declined by 9 per cent.
- The average price on non-alcoholic beverages declined by 1.3 per cent.
- The average retail price of fruit declined by 3.5 per cent.
- The average retail price of fresh or chilled fruit declined by 4.5 per cent.
- The average retail price of dried fruit and nuts declined by 2.6 per cent.
- The average retail price of vegetables declined by 8.5 per cent.
- The average retail price of fresh or chilled vegetables declined by 7.4 per cent.
- The average retail price of frozen vegetables declined by 19.8 per cent.
- The average retail price of dried vegetables declined by 12.8 per cent.
- The average retail price of potatoes declined by 14.6 per cent.
- Overall consumer retail prices increased by 13 per cent.

In the year to December 2021:

- The average price of food increased by 1.3 per cent.
- The average price of non-alcoholic beverages increased by 4.1 per cent.
- The average retail price of fruit increased by 0.4 per cent.
- The average retail price of fresh or chilled fruit increased by 0.2 per cent.
- The average retail price of dried fruit and nuts increased by 0.6 per cent.
- The average retail price of vegetables increased by 0.9 per cent.
- The average retail price of fresh or chilled vegetables increased by 1.1 per cent.
- The average retail price of frozen vegetables increased by 1.7 per cent.

- The average retail price of dried vegetables increased by 3.1 per cent.
- The average retail price of potatoes declined by 4.7 per cent.
- Overall average retail prices increased by 5.5 per cent.

In addition to the intense competition at the retail level, the fruit and vegetable market is subject to significant import competition. In 2020, Ireland imported fruit and vegetables to the value of €1.35 billion. Of these imports, 29.4 per cent or €398 million emanate from Great Britain; 4.5 per cent or €60 million from Northern Ireland; 12.2 per cent or €165 million from the Netherlands; and 11.9 per cent or €161 million from Germany.

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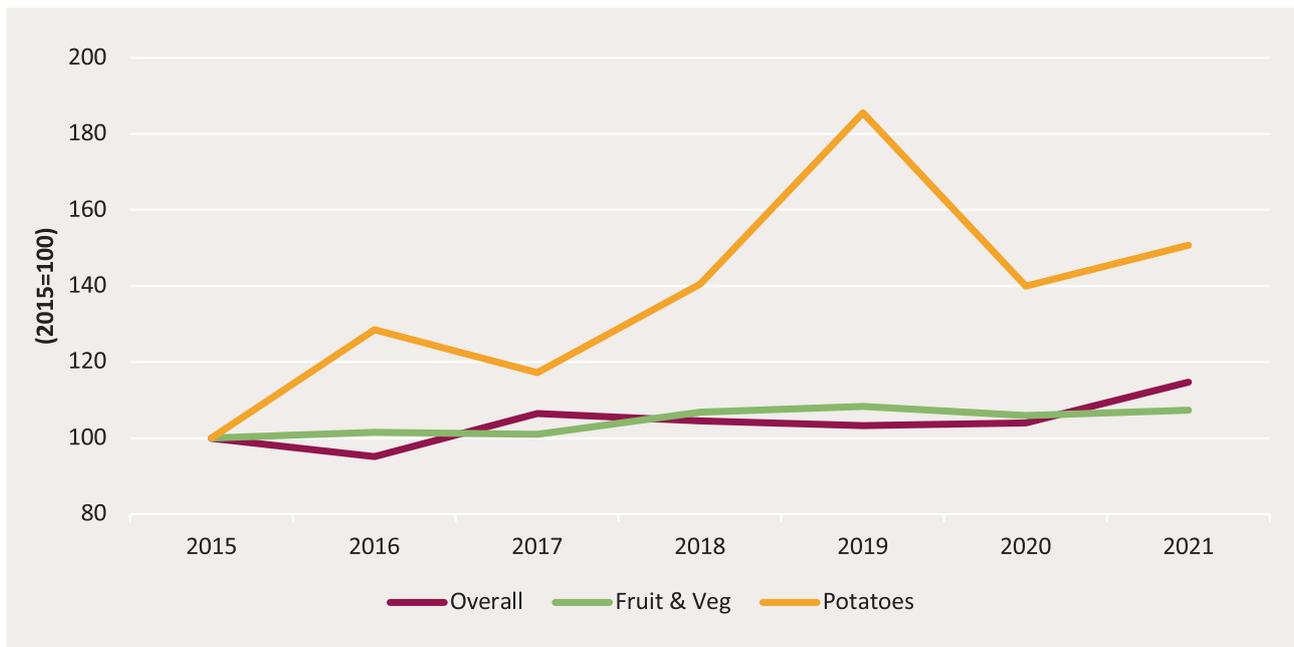
SECTION 4: AGRICULTURAL OUTPUT AND INPUT PRICES

Margins in the horticulture sector have been squeezed significantly over the past couple of years as input price inflation has significantly outpaced output price inflation.

OUTPUT PRICES FOR HORTICULTURE

Between 2015 and 2021 overall agricultural output prices increased by 14.7 per cent. Fruit and vegetable prices increased by 7.3 per cent and potato prices increased by 50.8 per cent. In 2021, overall output prices increased by 10.3 per cent; fruit and vegetable prices increased by 1.3 per cent and potato prices increased by 7.7 per cent (Figure 5).

Figure 5: Horticultural Output Prices (Annual)



Source: CSO PxStat

Figure 6 shows the monthly trend in output prices for overall agricultural produce, for fruit and vegetables, and for potatoes and seeds since the beginning of 2015.

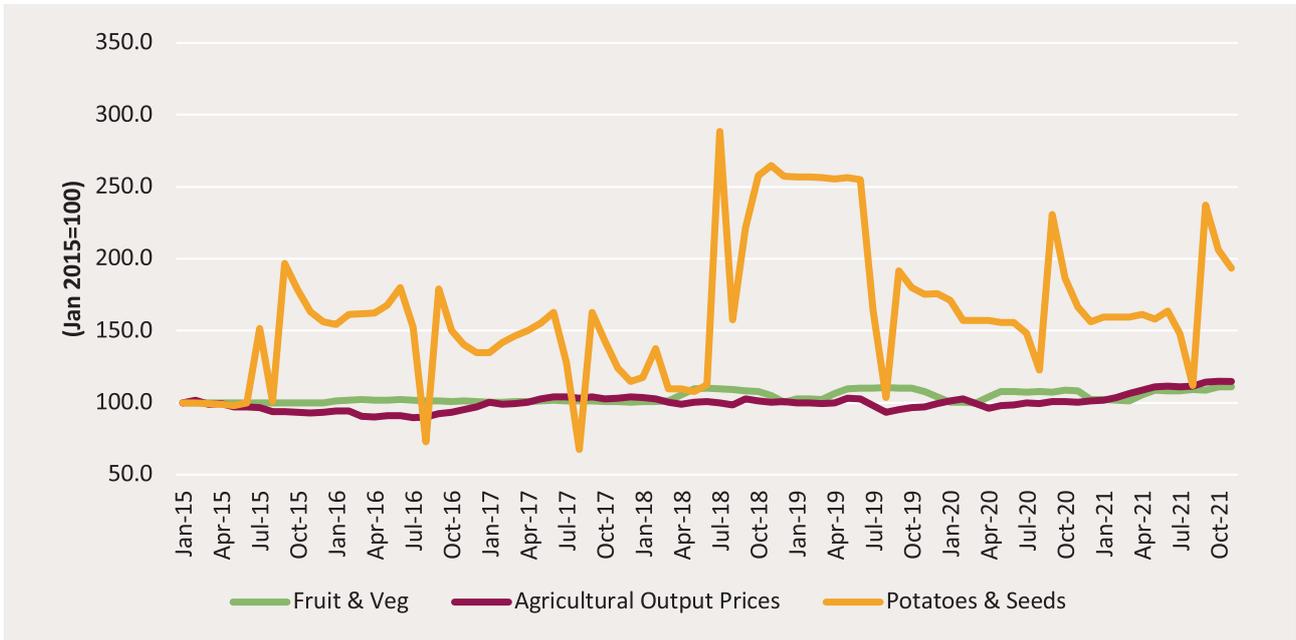
Over the period January 2015 to November 2021:

- Overall agricultural output prices increased by 14.8 per cent.
- The output price for fruit and vegetables increased by 11 per cent.
- The output price for potatoes and seeds increased by 93.3 per cent.

In the year to November 2021:

- Overall agricultural output prices increased by 14.5 per cent.
- The output price for fruit and vegetables increased by 2.6 per cent.
- The output price for potatoes and seeds, which tend to be very volatile from month to month, increased by 16 per cent.

Figure 6: Trends in Horticultural Output Prices (Monthly)



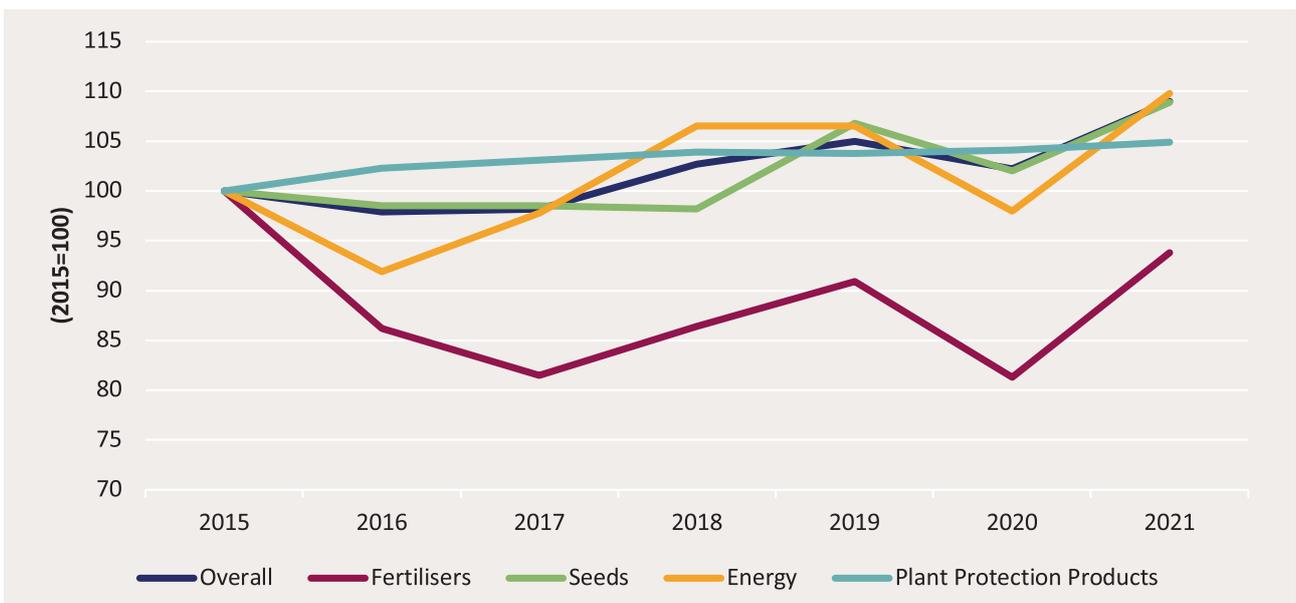
Source: CSO PxStat

INPUT COSTS TO HORTICULTURE

Figure 7 shows the annual trend in input costs for the agricultural sector between 2015 and 2021. It is clear that over the past year there has been a dramatic increase in input costs.

The data contained in Figure 7 and 8 and Table 6 summarise the trends in a number of key inputs to agricultural production. The horticulture sector is exposed to all of these input prices pressures.

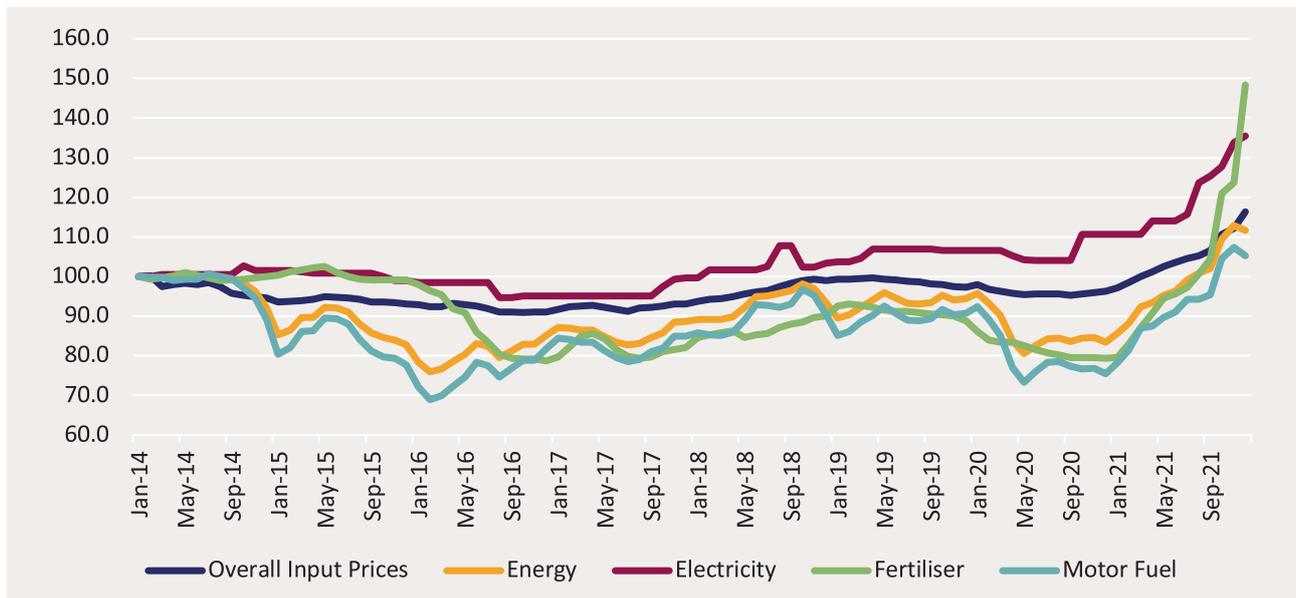
Figure 7: Agricultural Input Costs (Annual)



Source: CSO PxStat

Figure 8 shows the trend in recent years in a selected range of input costs to agricultural production. All input prices have increased significantly since the middle of 2021.

Figure 8: Agricultural Input Costs (Monthly)



Source: CSO PxStat

Table 6 shows a breakdown of the increase in agricultural input prices for a selection of key inputs in the year to December 2021:

- Overall average agricultural input costs increased by 9.2 per cent.
- Seed costs increased by 11.6 per cent.
- Energy costs increased by 33.7 per cent.
- Electricity costs increased by 22.4 per cent.
- Motor fuel costs increased by 39.5 per cent.
- Fertiliser costs increased by 86.9 per cent.

Table 6: Agricultural Input Price Changes

CATEGORY	ANNUAL % CHANGE (DEC 2021 vs 2020)
Overall Agricultural Input Prices	+20.9%
Seeds	+11.6%
Energy	+33.7%
Electricity	+22.4%
Motor Fuel	+39.5%
Fertilisers	+86.9%
Straight Fertilisers	+115.3%
Compound Fertilisers	+78%
PK Fertilisers	+54.5%
NPK Fertilisers	+78.6%

Source: CSO PxStat

Teagasc² prepared an analysis of input costs for the horticulture sector specifically in 2021. It showed that input costs increased significantly for operators in the horticulture sector in 2021, driven by labour costs, packaging, energy, fertiliser, growing media and casing, and crop protection products.

Table 7: Input Costs for Horticultural Producers

SEGMENT	% CHANGE INPUT COSTS 2021
Mushrooms	+10.5%
Nursery Stock	+12.4%
Soft Fruit	+13.6%
Top Fruit	+11.1%
Vegetables	+12.4%
Protected Crops	+17.7%

Source: Teagasc

Teagasc warned 'input costs will in many cases exceed grower margins' and that 'they will be unable to absorb increased costs, without an increase in what they are paid for their produce.'

It is clear that producer margins are being squeezed in an unsustainable manner due to a combination of rapidly rising input costs and very limited pricing power on the output side.



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SECTION 5: ISSUES FACING THE HORTICULTURE SECTOR

The horticulture sector is a very significant component of Irish agricultural activity and national economic activity. It is a labour-intensive sector that has a very broad regional and rural economic and employment footprint. The potential to grow the sector is significant, but the operating environment is challenging at the moment and a number of issues need to be addressed if the sector is to fulfil its officially identified potential.

The sector is becoming more concentrated and there has been a continual reduction in the number of produce growers over the past two decades. The most recent National Field Vegetable Census, which is now out of date, showed that the number of field vegetable growers fell from 377 in 1999 to 165 in 2014, a reduction of 56 per cent. It is clear from anecdotal evidence that this trend has continued in subsequent years. Teagasc estimates that there are 1,000 commercial growers currently in production, but that the top 250 growers and producers supply 85 per cent of the output and are dealing with consolidators and Supermarket Central Distribution Centres (CDCs) directly, and that these supermarket multiples are responsible for over 90 per cent of all fresh produce retail in Ireland. Teagasc also states that similar consolidation has occurred in the nursery stock and ornamentals sector.

FOOD VISION 2030

Food Wise 2025³ set an industry farm gate value target for the horticulture sector of €500 million to deliver 1,000 FTE jobs worth an additional €72.5 million to the rural economy. The Department of Agriculture, Food and the Marine estimates that the horticulture sector was worth €477 million in 2019.

The government approved a new strategy for agriculture: 'Food Vision 2030 – A World Leader in Sustainable Food Systems', which is a new 10-year strategy for the agri-food sector, which was launched in August 2021. The vision is to establish Ireland as a world leader in Sustainable Food Systems over the coming decade.

The strategy has 4 main missions:

- A climate smart, environmentally sustainable agri-food sector.
- Viable and resilient primary producers with enhanced wellbeing.
- Food which is safe, nutritious, and appealing, trusted and valued at home and abroad.
- An innovative, competitive, and resilient sector, driven by technology and talent.

The new strategy recognises the role that horticulture will play in the development of a climate-neutral agri-food system by 2050. For example, it is recommended that horticulture systems should examine the potential for a circular system and production systems that are regenerative.

Horticulture is recognised as a sector with the potential for expansion and the potential to make a valuable contribution to the Missions outlined in the strategy, particularly in realising a climate-neutral sector by 2050. This includes carbon sequestration, enhancing biodiversity such as pollinators, and there is a belief that 'horticultural systems offer many synergies and co-benefits between environmental, economic and social sustainability.' However, the strategy also recognises that the scale required, high start-up costs, labour shortages and retail pressures pose challenges for the sector, but with a significant trade deficit and changing consumer habits, there are opportunities for import substitution.

It is suggested that a strategy should be developed for the sector to set out the road map out to 2030, *'taking advantage of the growing demand for fruit and vegetables, whole-foods and amenity; to increase production and consumption of Irish produce on the domestic market and, where possible, to take advantage of expanding opportunities internationally.'*

It is suggested that the strategy should seek to carry forward the environment and sustainability focus of the Agri-Food 2030 Strategy, particularly around the key themes of emission reduction, restoration of biodiversity and climate neutrality.

Specifically, the strategy should also:

- Formalise specific environmental targets and actions for the sector, encompassing the maximisation of carbon sequestration.
- Continue to address labour issues, including better use of automation technology and development and training opportunities for workers in the sector.
- Promote and enhance collaboration within the sector through the producer organisation structure and with research providers. Given the fall in grower numbers and the increasingly competitive nature of retail markets, growers need to engage in greater collaboration to exploit market opportunities, combat the current structural control of the multiples and to meet the challenges and opportunities posed by the UK exit from the EU.
- Identify market opportunities including focusing on the significant potential for import substitution; working with the health industry to promote the physical and mental health dividends that would accrue from increased consumption of fruit and vegetables; product innovation; small-scale market garden type horticultural enterprises (both organic and conventional), supplying Farmers' Markets, restaurants and other local food initiatives.
- Identify the required areas and resources for further research and development in order to enable innovation, technology adaptation, strategic development, new product development and alternative growing media.⁴

The ambitions for the sector are significant, but the challenges are also very significant at the moment.

COVID-19 PANDEMIC

Covid-19 had a significant impact on the sector in a variety of ways. Routes to market became very challenging as many hospitality businesses and garden centres were closed. The food services sector was subject to very significant levels of restriction and this forced the closure of many businesses. In addition, working from home had a significant impact on workplace canteens and food businesses that relied on daily footfall. For the exporting components such as the mushroom sector, restrictions in the UK created additional problems.

Horticulture is a very labour-intensive sector and sourcing labour during the pandemic was challenging, not least due to international travel restrictions. Even when many of the restrictions were eased, sourcing labour was very challenging and labour costs increased significantly.

It is also the case that Covid-19 has created serious global supply chain difficulties, and this is creating input supply difficulties for Irish horticulture, and significantly higher costs.

Of course, as we move into 2022, the pandemic is still a very real issue and will continue to impact on the sector in relation to labour availability and route to market as new restrictions are being introduced.

BREXIT

For those Irish horticulture businesses who export, the UK is typically the most important market, with mushrooms being the prime example. In the aftermath of the Brexit vote, sterling weakened significantly and levels above 90 pence prove particularly problematical. Sterling has subsequently regained some strength and is not currently an issue for exporters, but they remain subject to the unpredictable vagaries of the currency.

Following the formal exit from the EU by the UK, the conclusion of the EU-UK Trade and Cooperation Agreement is relatively good news for the sector, but the future EU-UK trading relationship remains very uncertain. Furthermore, Brexit has resulted in a significant change to the trading environment between Ireland and the UK, with additional sanitary, phytosanitary and input supply issues affecting the sector.

Brexit affects different components of Irish horticulture.

- For potato growers, since 1st January 2021, EU rules prevent the import of certified seed potatoes from Great Britain. Irish growers had become dependent on the importation of 4,000 tonnes of seed potatoes from Scotland. To replace these imports, the EU market would come into focus. However, this poses plant health and biosecurity threats to Ireland, as under EU plant health legislation, Ireland, Scotland and the North of England were designated as high-health status regions for growing seed potatoes. There is a reluctance to import from the EU, so there is an opportunity for import substitution in Ireland for those Scottish imports.
- The access of Irish mushrooms into the higher end retailers in the UK market has become more difficult as UK mushrooms are viewed as premium products that command a higher price in the higher end of the UK food retail sector.

THE INPUT COST AND OUTPUT PRICE ENVIRONMENT

The cost environment for horticulture businesses at the moment is very challenging. Profit margins are being squeezed in an environment where input cost inflation from inputs such as labour, packaging, fertilisers, energy and electricity is totally outpacing farm gate output price and retail price inflation. Teagasc research⁵ suggests that horticultural operators have seen *'unparalleled increases in costs of key inputs and that considerable volatility remains as primary producers try to forward plan business for 2022 and manage cash flows.'* Teagasc warns that in an environment where cost planning is difficult, risk is increasing very significantly for primary producers.

Table 8: Input Cost Inflation 2021 v 2020 (Source: Teagasc)

	Mushrooms	Nursery Stock	Soft Fruit	Top Fruit	Vegetables	Protected Crops
Labour	8.3%	7.0%	8.0%	9.0%	11.0%	7.0%
Packaging	22.0%	24.0%	20.0%	30.0%	20.0%	26.0%
Fertiliser	0.0%	33.0%	30.0%	40.0%	39.0%	33.0%
*CPP	41.0%	6.0%	15.0%	18.0%	17.0%	7.3%
Energy	31.0%	17.8%	27.6%	20.0%	25.0%	60.0%
Compost/ Casing/Growing Media	6.0%	27.0%	12.0%	0.0%	0.0%	20.0%
Other	14.0%	10.0%	10.0%	10.0%	7.0%	10.0%
% Increase Costs of Production 2020-2021 (weighted)	10.48%	12.40%	13.60%	11.10%	12.40%	17.70%

*Crop Protection Products

Table 8 summarises input price increases for the different components of the horticultural sector in 2021 compared to 2020.

- Weighted average input costs for mushroom producers increased by 10.48 per cent.
- Weighted average inputs costs for nursery stock producers increased by 12.4 per cent.
- Weighted average input costs for soft fruit producers increased by 13.6 per cent.
- Weighted average input costs for top fruit producers increased by 11.1 per cent.
- Weighted average input costs for vegetable producers increased by 12.4 per cent.
- Weighted average input costs for protected crops producers increased by 17.7 per cent.

THE EMPLOYMENT SITUATION

Horticulture is a sector which heavily relies on hired staff, especially at harvest time. The scarcity of hired staff is the biggest challenge facing the horticulture sector at the moment. While there are always staff supply issues at harvest time given the seasonal nature of the industry, the problem is now much more widespread throughout the year. Covid-19 has exacerbated the situation. Farmers are having to pay higher wages to recruit and retain staff, but availability is a bigger issue than cost at the moment. The bespoke seasonal worker scheme for foreign workers must be a priority in 2022 if the sector is to continue or expand.

SUSTAINABILITY

Sustainability in agricultural production is a key pillar of Food Vision 2030. The horticulture industry is engaging in significant investment in infrastructure, equipment and new technology in an effort to enhance the environmental sustainability of production methods. Such investments include renewable energy sources such as biomass and photovoltaics, reducing energy demand through increased insulation, and reducing emissions by switching to cleaner fuels and more efficient boilers. In relation to pest control and plant protection from disease and weeds, the sector is developing and investing in innovative practices. Integrated Pest Management (IPM) strategies are being developed such as the use of mesh covers and natural pest control predators over insecticides; and the use of grafted plants. The sector is also investing in more sustainable forms of packaging.⁶ The investment in sustainability is an added cost to the sector, but is essential and must be recouped in the farm gate price.

PEAT

The difficulty in sourcing peat is now a very significant issue for the horticulture sector. Horticultural peat is readily available in Ireland, but instead of harvesting it, peat is being imported from countries such as Latvia and Scotland. The stockpile of peat is not suitable for mushroom production, as fresh excavate is required. Without the recommencement of domestic peat production, there will have to be an increased emphasis on importing peat, which will just add to costs in an industry where margins are being tightened in a steady manner. This is not a sustainable situation.



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SECTION 6: CONCLUSIONS AND RECOMMENDATIONS

Ireland's climate and emissions reduction strategy includes a commitment to reduce the impact of agriculture and its activities on the environment and climate and to reduce emissions from the sector. Horticulture is one of the most carbon efficient agricultural sectors and expanding it could make a significant contribution towards achieving carbon neutrality by 2050. Food Vision 2030 states that *'given current trends such as increased consumer demand for plant-based foods, dietary recommendations around increasing consumption of fruit and vegetables, increasingly challenging growing environments for horticultural crops in some countries due to climate change, and the need for Irish agriculture to diversify, opportunities exist to expand this important sector and these are likely to intensify over the period to 2030.'*

Food Vision 2030 recognises the role that horticulture will play in the development of a climate-neutral agri-food system by 2050. It is recognised as a sector with the potential for expansion and the potential to make a valuable contribution to the Missions outlined in the strategy, particularly in realising a climate-neutral sector by 2050. However, the strategy also recognises that the scale required, high start-up costs, labour shortages and retail pressures pose challenges for the sector, but with a significant trade deficit and changing consumer habits, there are opportunities for import substitution.

The horticulture sector is under immense pressure from labour shortages; Covid-19 disruptions; peat shortages; the sustainability agenda; the lack of pricing power; and sharply increasing input costs.

It is recommended that a number of policy options need to be explored in order to ensure that the ongoing pressure on producer margins is arrested and the sector can achieve the scale necessary to deliver on its potential. Specifically:

- Domestic peat production will have to re-commence in a sustainable and environmentally friendly manner. The option of importing inferior peat with the associated transport implications is not a sustainable situation.
- Sufficient work permits will have to be issued to satisfy the demand for labour in the sector. The provision of the bespoke seasonal work permit scheme for foreign workers must be a priority in 2022 if the sector is to continue to expand.

ADDRESSING PRICE COMPRESSION IN THE FOOD SUPPLY CHAIN

The analysis contained in this report shows very clearly the intense pressure on primary producers of food in general, but horticultural produce in particular. Retail price compression has forced many producers out of business and many more will be forced out of business if the imbalance in pricing power in the supply chain is not addressed. The viability of horticultural production in Ireland is now under serious threat.

It is imperative that the position of farmers in the food supply chain is strengthened, as farmers are currently the weakest link in the chain. They are squeezed by rising input costs, and compressed output and retail prices.

The EU directive on Unfair Trading Practices (UTPs) was adopted in April 2019 and was transposed into Irish law in April 2021. It is now essential to set up a National Food Ombudsman with strong powers that will guarantee farmers a fair share of the retail price. There is a strong need for a significant rebalancing of power in the food supply chain, to deliver a price for primary producers that would ensure their future viability.

The powers given to the National Food Ombudsman should include:

- It should have full powers of investigation of margins in the various components of the food supply chain. A 'retail charter' should be signed up to by all retailers that would guarantee primary producers a certain margin above the cost of production. If retailers were not willing to sign up to such a charter, then it should become part of the regulatory environment.
- The tendering process must be changed in order to give certainty to primary producers and enable them to deal with the impact of unpredictable seasonality on food production. Retailers should not be allowed put their supply up for tender every year, as this causes unsustainable uncertainty for primary producers. The regulator should have the power to examine tenders to ensure that primary producers are paid a fair price.
- It must have regulatory oversight on labelling to ensure that mislabelling that confuses the provenance of product is not allowed happen.
- A ban on below-cost selling must be introduced.

It is rarely in the best interests of the market to have a considerable level of regulatory intervention, but if market failure occurs, then it is necessary. There is currently market failure in the horticulture sector, and if the issues facing the sector are not addressed, the sector will continue to contract, with considerable loss of rural employment; increased imports of fresh produce; and the potential of the sector to help the country in general and agriculture in particular to reduce emissions will be seriously undermined.

All consumers must be made aware of the importance of locally produced product from the perspectives of promoting rural economic sustainability; rural social sustainability; the environment and the reduction of food waste. A cheap food policy is not a sensible policy to pursue.

The importance and potential of horticulture is recognised in official policy strategy, but if proper supports are not given to the sector, then the plans will not materialise and a considerable opportunity will be lost for rural Ireland.

During the Covid-19 pandemic, there was a realisation in public discourse of the importance of local businesses in general and local food producers in particular. The economic and social cost of a mass exodus from domestic horticultural production would be very significant and very damaging for rural economies and rural society.

Domestic horticultural production is good for the sustainability of the rural economy and for the environment. While imports will always play an important role in the retail horticultural market due to seasonality, it would make sense to place an increased focus on domestic production and take whatever measures are needed to encourage it. The environmental impact of importing produce when there is a domestic alternative cannot be positive.

A recent Eurostat report⁷ showed that 33 per cent of the Irish population consumed 5 portions or more of fruit and vegetables in 2019, which is the highest in the EU. This demonstrates the strong domestic market potential for fruit and vegetables, and policy needs to ensure that as much of this consumption as possible is satisfied from domestic production.

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IFA



Jim Power
economics