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Mary O' Shaughnessy
Department Food Business & Development, Centre for Co-operative Studies
National University of Ireland, Cork, Ireland
mary.oshaughnessy@ucc.ie

"Out with the old and in with the new" An examination of the role of the Early Retirement Scheme in rejuvenating the Irish farm workforce

ABSTRACT

In 1999, the Agri-Food 2010 Committee highlighted a number of weaknesses in Irish agriculture. These included lack of commercial viability because of small farm size, low level of productivity due to poor age structure, low educational level of farmers and lack of land mobility ((DAFRD, 2000). An additional weakness identified by this committee was the poor age structure within Irish farmers. This was described as a "persistent weakness" in Irish agriculture. By the late 1990s, it was estimated that farmers over 65 years of age controlled close to 20% of Irish farmland and approximately 12% of Irish farmers were less than 35 years of age (DAFRD, (2000) CAP Rural Development Plan (2000-2006).

The Early Retirement Scheme (ERS) is one of four structural measures contained in the CAP Rural Development Plan 2000-2006. Its objective is to consolidate farmland and improve agricultural structures by attracting younger, more qualified farmers into farming thus eventually contributing to long-term structural change within Irish agriculture. Accounting for 30% of the overall funding across the four CAP RDP 2000-2006 measures, ERS is complemented by the Installation Aid Scheme (IAS) (a sub-measure designed to encourage young farmers into farming). By December 2002, 1,257 transferors had availed of the ERS compared to a target of 8,300 for the 2000-2006, and 1,424 transferees had participated compared with a 2006 target of 8,200. In addition to this, regional disparities in terms of scheme uptake also were beginning to emerge.

This paper outlines the history of farm based early retirement initiatives from the 1974 Irish Government's New Voluntary Retirement Scheme for Farmers (NVRS) under Directive 72/160/EEC, through to the current measure administered under the CAP Rural Development Plan 2000-2006. The paper explores the role of these schemes in consolidating land and attracting younger more qualified people into farming. It concludes with a discussion of some of the successes and shortcomings of the most recent measure in achieving structural change on Irish farms[1].

[1] Based on the Mid Term Evaluation of the CAP Rural Development Plan (2000-2006) undertaken by AFCon Management Consultants & the Department Food Business & Development, UCC in September 2003. (For a full copy of the MTE see http://www.agriculture.gov.ie)

Introduction

Poor age structure, coupled with low levels of appropriate education of many farmers, has been often cited as a major problem for Irish agricultural development. In 1998, 22% of Irish farmers were over 65 years of age and approximately 12% were under 35 years (Fitzpatrick & Associates, 1999). Attempts to stimulate early retirement amongst older farmers and the transfer of their holdings to younger farmers can be traced back to statutory measures such as the Farm Modernisation Programme, the Irish Government's New Voluntary Retirement Scheme (which implemented Directive 72/160/EEC) in the early 1970s, the subsequent Early Retirement Schemes introduced as part of the McSharry Reforms of the Common Agriculture Policy in the early 1990s and the current ERS implemented in the CAP Rural Development Plan 2000-2006. Recent trends reveal a more positive age structure in Irish agriculture. Thirteen percent of Irish farmers are under 35 years (compared to an EU average of 11%) and 20% of Irish farmers are over 65 years compared to 28% for the EU as a whole (Census of Agriculture, 2002). In line with these trends the objectives of the current ERS objective is to consolidate farmland and improve agricultural structures by attracting younger, more qualified farmers into farming thus eventually contributing to long-term structural change within Irish agriculture. The Early Retirement Scheme (ERS) is one of four structural measures contained in the CAP Rural Development Plan 2000-2006. The measure is complemented by the Installation Aid Scheme (IAS) (a sub-measure designed to encourage young farmers into farming).

This paper outlines the history of Early Retirement Schemes from its initial emergence in the early 1970s through to the scheme currently administered under the CAP Rural Development Plan 2000-2006. It explores the role of this type of initiative in consolidating land and attracting younger more qualified people into farming and concludes with a discussion of some of the successes and shortcomings of the current measure in achieving structural change on Irish farms

Directive 72/160/EEC & the Irish Government's New Voluntary Retirement Scheme (NVRS)

Membership of the European Community in 1973 was of major significance to Irish agriculture. The country's agricultural sector benefited from a Common Agricultural Policy. This provided guaranteed prices to farmers, and to some extent enabled the sector to plan expansion for the first time. Funding from the EEC through price support and guidance schemes served to change the efficiency and outlook of Irish agriculture with an increased emphasis on modern farm methods and technology. One of the directives coming from the EEC at this time was the 1972 Directive 72/160/EEC. This Directive concerned "*measures to encourage the cessation of farming and the re-allocation of agriculture for the purposes of structural improvement*". This Directive was subsequently implemented in 1974 by the Irish government through a scheme known as the New Voluntary retirement Scheme for Farmers. Brady (1989) described the adoption of this Directive as a '*considerable leap forward in structural policy*' with one key objective; to provide farmers with the "*means to enable them to decide on their future, with full knowledge of the consequences, either by increasing production through modernising their farms, or by early retirement from farming or taking up a non-farm occupation*".

The first major reforms of the CAP represented a huge challenge to Irish farmers and to policy makers. Fears existed that reforms would drastically reduce the number of farmers especially in areas of relatively poor land and inadequate rural infrastructure. Responding to the external and internal pressures, the so called MacSharry reforms involved much lower price support levels for some major products (especially cereals, beef and oilseeds), set-aside and quota mechanisms, together with direct payments (arable aid and headage payments for livestock). Most importantly there was also a set of "accompanying measures" incorporating an agri-environmental action programme, an early retirement scheme for farmers and afforestation of agricultural land. Thus there was a fundamental shift away from price guarantees, supported by trade policy, towards lower guaranteed minimum prices, direct payments and rural development measures. The Early Retirement Scheme 1994-1999 represented one of these rural development measures (CAP MTR, 2003)

The Early Retirement Scheme (1994-1999)
The Early Retirement Scheme was introduced in 1994 and concluded in 1999. ERS was viewed as a means of reducing the number of older, less qualified farmers and replacing them with younger, more viable farmers with larger and more economically viable holdings. Its objective was to tackle a persistent structural problem in the Irish agricultural sector[2]. An evaluation of this first scheme concluded that 88% of those participating in the scheme were satisfied with it. Results from a sample (94 people) survey of participants indicated that participation in the scheme had brought forward retirement by, on average, 6 years. Despite this achievement, poor uptake of the scheme was recorded by sheep and cattle farmers and farmers in the northern and western parts of the country. A number of factors were attributed to this:

- the requirement that both transferee and transferor be farming as a main occupation
- the lower incidence of direct heirs
- the enlargement clause for the transferee
- an older age structure, which reduced the relevance of the Scheme to a greater proportion of farmers (Fitzpatrick & Associates, 1999).

This ERS (1994-1999) resulted in the release of 283,800 hectares of land from the national total of 4,341,300 unadjusted hectares of agricultural land. This represented about 7.4% of full and part-time farmers and 6.7% of agricultural land. Almost nine thousand three hundred and eighty (9,380) transferors and 11,000 transferees had participated in the first retirement scheme up to 1999.

[2] Brady (1989) describes the 'considerable leap forward in structures policy' achieved in 1972 with the adoption of the three socio-structural directives on (a) the modernisation of farms, (b) the cessation of farming and the reallocation of land and (c) the provision of socio-economic guidance and vocational training. He suggested that the adoption of these three directives was the culmination of a long debate within the Community that began with the Mansholt proposal of 1968 that recognised that market and price support policy alone could not solve the fundamental problems of agriculture, which in his opinion were the result of structural imbalances.

The Early Retirement Scheme (2000-2006)[3]
A continuations of the Early Retirement Scheme was implemented under the CAP RDP 2000-2006. The CAP RDP 2000-2006 consists of 4 measures financed under the Guarantee Funded CAP Rural Development Programme. The financial allocations are as follows:

Measure	Total Public Allocation (€m)	EU Element (€m)
Rural Environment Protection Scheme	2044.8	1233.1
Compensatory Allowances	1490.7	435.1
Early Retirement	764.6	369.9
Forestry	687.9	350.8
Total	4988.0	2388.9 (47.9%)

In the light of the experience in implementing the preceding ERS, the DAF initially introduced six amendments to the current scheme:

- part-time farmers are permitted to participate in the scheme as transferors and transferees, within economic criteria guidelines.
- the income of the transferor is set at 200 income units (farming and off-farm), with no upper limits when the transferee is a family member.
- upper limit of the off-farm income is set at 100 income units for transferee,
- reduce the maximum age at which the Early Retirement Pension is paid from 70 to 66 years of age,
- initial reduction of the age of transferees from 50 to 45 and it is proposed to further reduce this to 40 years of age by the year 2005.
- implement the requirement that transferees must implement Good Farming Practice.

In 2002, a number of additional amendments to the scheme were introduced. These changes related to the eligibility criteria for farmers in joint ownership of lands being released under the scheme. When the scheme was introduced initially, in the instance of an applicant sharing joint ownership of a farm with a spouse or partner, both of their non-farm incomes had to be taken into account in deciding eligibility. The revised scheme only considers the non-farm income of the applicant only. Additional changes relate to a five-year revocation in leases and the Widows/Widowers Pension. Under current ERS, leases must be for the full duration of the pension period, or for a minimum period of 5 years where the pension period is less than five years. Other changes introduced allowed leases to have a revocation clause after 5 years of pension payment has elapsed. The Widow and Widowers Pension would only be regarded as national retirement pensions (and hence deducted from the Early Retirement Scheme) when the participant reached 66 years of age (Annual Progress Report, 2002).

[3] Given the voluntary nature of the scheme, it is open to all eligible farmers to participate regardless of type of farming provided certain age restrictions and lower minimum farm areas are complied with.

The main objective of the current ERS is land consolidation and the reduction in age of active farmers. Therefore the key indicators of success are numbers participating, land released and the average difference in age between transferor/partner and transferee.

Results from the Mid-Term review of the ERS Measure (2000-2006)
As at December 31st 2002 1,257 retirees had availed of the measure compared to a target for the period 2000-2006 of 8300 (15%). Land released under the measure was approximately 40,000 hectares compared with a target of 265,000 over the life of the programme (15%). The average difference in age between transferor and transferee was 28 years, which is the target for the measure. If this trend in input continues for the 2003-2006 phase than less 50% of the set target will be reached in terms of participation. Uptake on the Early Retirement Measures is below target reflecting uncertainty on the future of farming and unhappiness with various aspects of the measure such as the lack of indexation.

In 2002, the average ERS Pension was €12,750, reflecting an 18.78% rise on the 2000 figure. The 2002 figure has exceeded the 2006 target of €12,717. The average ERS Pension (farm workers) in 2002 was €3,500, reflecting an 11% rise on the 2000 rate. The ERS has proven attractive to farmers about to retire and hand over the business to the next generation. For many less intensive farmers, particularly in dry stock situations, it was really the first time in their lives that they could look forward to a regular income and a fair standard of living. However, the pension is not index linked thus eroding the purchasing power of the pension. Additionally, the reduction in the ERS by amount received in national retirement pension came as a shock to many of those participating, despite having been advised of this at time of application.

Compliance with the non-work requirement of the ERS has been highlighted as a particular negative feature of the ERS. Thirty-post payment compliance inspections were conducted on participants in 2002, representing 10% of scheme participants. One penalty had been imposed by end of 2002. One hundred and thirty applicants were subject to a pre-payment inspection in 2002.

Specialist milk production on merged holdings between 1994-1997 was 23%. The 2006 forecast is 40% but only 12% had been achieved by 31/12/'02. Specialist cattle/mainly rearing on merged holdings was 49% between 1994-1997. In 2002 this figure was recorded at 13%, reflecting a dramatic drop from the 1997 figure and a shortfall of 17% of the 2006 30% forecast. By end of year 2002, specialist cereals had reached 3%, requiring a 2% increase to meet the 2006 target. Specialist cereal, oil seeds and protein crops on merged holdings accounted for 3% in the period 1994-1997. By 2002, this figure had remained at 3%; the 2006 target is 5%.

The ERS measure clearly facilitates part-time farmers as 45% of farmers in ERS have off farm employment as against a 40% target for 2006. The percentage area of land transferred by lease has increased by 18.7% of the 2000 figure and has surpassed the 2006 target. Transferors are demonstrating a desire to retain ownership of their lands rather than selling them. Leasing the land allows more young farmers to participate in the scheme, as it is more affordable to lease land than raising the money for a purchase transaction.

ERS – A strategy to promote education and training among younger farmers
All persons born on or after 1/1/1975 wishing to benefit under ERS scheme most now hold a recognised agricultural qualification e.g. the certificate in farming or other agricultural training. There is an acknowledgment that farm holdings most be innovative to compete and diversification is replacing specialisation. The % of transferees with a certificate in farming or higher equivalent was 50% in the 1994-1997 period, surpassing the 2006 target. By 2002, this figure had risen to 60% reflecting a 10% increase under the present ERS. The increase in the % of transferees with a Certificate in Farming can also be viewed as a result of more successors coming on stream who had the option of attending the Certificate of Farming course which was introduced in 1983. Of the transferees under the current scheme 50% had certificate in farming (or higher) and a further 45% had 180 hours of formal training. The requirements of the measure ensure that transferees meet the objective of having better trained farmers and thus the measure does have some impact in this area.

ERS - A strategy to promote land consolidation on Irish farm structures
The "outputs" of ERS can be measured in terms of the numbers availing of the measure and the amount of land transferred though in the longer term the real measure of the output of ERS is likely to be the increased value to agriculture of having larger holdings and better-trained farmers. In terms of land transferred only 15.31% of the target of 260,000 ha had been transferred as at 31/12/02 and only 15.1% of the target number of transferors had been achieved (1,257 from a target of 8300).

In terms of land consolidation the measure does show some positive impact with an increase of 29.7 hectares in the average size of the holding of the transferee after transfer. The average farm size of transferees merged holding was 61.4 hectares compared to an average national farm size of 31.4 hectares. The measure does seem to be designed to have greater impact in the more intensive and better-developed farming areas where the benefits of larger farm units are more pronounced. There is a much lower uptake in the less intensive areas where the option of part time farming and/or availing of other direct payments may be more attractive to farm owners.

The average pension for the period to 31/12/2002 was €12,750 compared to an average of €10,794 for the period 1994-99. The adequacy of the current pension is a key element in assessing the effectiveness of the ERS and the absence of any indexation has been described as a major weakness in the measure[4]. At national level the low uptake and pronounced regional imbalance in uptake does suggest that the likely impact of the measure at national level will be less than originally envisaged.

Conclusion
The Early Retirement Measure can be described as the one intervention that has the potential for long-term structural impact. The current scheme's objective is to accelerate the consolidation of farmland holdings and address the structural imbalance

[4] It is interesting to note that Cox (1975) wrote the following with regards to the 1974 NVRS, *"Some retiring farmers might become net losers from the scheme because of losses of social welfare benefits"*.

traditionally characteristic of Irish agriculture. This is achieved by providing an income for farmers in the age group 55 years to 65 years who wish to stop farming and encouraging the replacement of these farmers by younger farmers able to improve the economic viability of the remaining agricultural holding and thereby enhancing efficiency and competitiveness.

While less than 1,000 farmers availed of early retirement schemes under previous Department of Agriculture initiatives, such as Farm Modernisation Scheme, the combined total of farmers retiring under ERS 1 (1994-1999) and ERS 2 (2000 – 2006) has passed 11,300 as of 31.12.2002. The average size of the participating young farmer's holding has increased by 16 ha. The other key targets under the measure are being met with the average age of transferors at 59 and the average age of transferees at 31. The measure is complemented by the Installation Aid Scheme, a measure implemented under the Regional Programmes that covers the setting up of young, trained farmers entering farming.

However it should be noted that there is significant variance in the level of uptake on a county-by-county basis with more uptake in the better farming areas in the South and East. It would appear that the design of the measure is more suited to larger farmers with a definite successor than to smaller landholders who may have to identify a potential transferee. Indicator data shows that there were 1,257 transferors under the measure to December 2002 and 1,424 transferees. The number of transferees represents about 15% of the target of 8,200 for the period to 2006. There was no mid-term target for transferees but assuming an even spread in terms of people joining over the life of the programme a figure of around 3,500 would have been reasonable to expect. The actual figure of 1,424 represents about 40% of this notional mid-term target with a consequent loss of potential impact.

There are a number of factors that have caused a slow down in uptake and the regional imbalances, not least the current uncertainty over the future of farming, the perceived inadequacy of the pension available and the lack of indexation. If the overall objective of the measure is achieved then there will be long-term beneficial effects after the completion of the measure. The measure identifies a problem i.e. poor age structure and lack of skills and attempts to rectify the problem by transferring land to younger and better trained farmers. It is fair to assume that the young better-trained farmers will farm in a more modern and economic manner with consequent long-term benefits for agriculture and the food industry. The enlargement of farm sizes as a result of the measure should also contribute to competitiveness

The measure will contribute to long term structural change in farming though some reservations should be noted. In the first instances there is a slow uptake in the BMW region, the region with the highest number of older farmers and lowest education levels and where the need for younger farmers is greater. Secondly, there is no guarantee that younger farmers will remain in farming and thus the benefits may be short-term. Finally, it is difficult to assess the value to agriculture as a whole of having younger and better trained farmers and it may well be that in certain regions and types of farming that the benefits are quite small in the context of the farming environment that will emerge in the aftermath of the current reforms.

It may well be that the benefits of ERS are mainly when it impacts on larger more intensive farms with much less impact for extensive farms. While the rationale for excluding retired farmers from further involvement in farming is understood it is suggested that this issue should be revisited in the light of the loss of skills that could be available to agriculture and the negative impact that overnight departure from farming may have for some retirees. The requirement that retiring farmers should have to give up all farming activities immediately flies in the face of modern thinking on retirement where the impact of sudden exit from a previous way of life for any individual is now being examined. An argument can be made that provided it can be proven that the farmer has retired from managing the farm then he/she should be allowed to do some work on the farm or other farms if he/she so wishes.

While the design of the measure is suitable to meet its objectives the relatively low uptake has lessened the actual impact. This is worrying as it is the only measure in the CAP RDP that actually promotes structural reform in the agricultural sector. The initial attractiveness of the measure has been eroded by inflation; some serious consideration should be given to introducing a mechanism that would index link future pensions. The significant regional disparities in uptake reflect that the measure is more suitable to larger farmers with viable farms and clearly identified successors within the family rather than for smaller scale farmers with no immediate family member willing to enter farming mainly because of viability problems. There is a possibility of deadweight within the measure as farmers who would normally hand over the farm to a successor avail of the measure. While the measure may accelerate the handover decision, in most instances the retirement would eventually take place. More research in this area would be useful in planning future measures.

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