



## Farmers in a deregulated dairy regime: Insights from Ireland's New Entrants Scheme



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### ABSTRACT

While the impending review of the European Union (EU) Common Agricultural Policy (CAP) is set to have an impact on all farming sectors across Europe, particularly transformative change is sought by policies relating to dairy farmers. EU milk quota abolition in 2015 will fundamentally revise the terms of dairy production, transitioning from policies of subsidy and protection to a scenario where farmers will produce milk on the open market. Dairy quota abolition essentially represents an economic but also socio-cultural disruption for a sizeable cohort of farmers, requiring adaptation to more market-driven production strategies. Agricultural policy-makers in EU member states are demonstrably preparing for this imminent change and dairy farmers are considering and strategising their responses at farm-level. Our focus in this paper is the interplay between quota abolition and farm-level decision-making in the pre-abolition period. Drawing from a broader mixed-methodological and multi-disciplinary research project, this paper uses qualitative narrative analysis to identify the key determinants arising in dairy farmers' decision-making processes. How are farmers currently strategising their responses to dairy quota deregulation? Using the qualitative Biographic Narrative Interpretive Method (BNIM), we examine the range of factors determining how a particular group of dairy farmers are strategising their positions on the impending open dairy market. Our analysis highlights how, in the advent of a deregulated dairy production regime, dairy farmers are carefully deliberating their responses at farm level, drawing from policy and market related information, their own personal speculations, and conventional wisdom shared with other members of the farming community. We find that the dairy farmers are influenced not only by motivations to increase productivity and scale but by a tenacious approach to farm sustainability and resilience that is informed by past experiences of farming and seeks to preserve and promote socio-cultural farming values. The paper is of particular interest to policy makers and academics interested in the interchange between policy and farmer behaviour, particularly in the context of current CAP reform.

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### Introduction

The European Union's (EU) agricultural policy, known as the Common Agricultural Policy (CAP), exists to ensure that food production remains economically and environmentally viable (EU, 2012). The CAP originally introduced milk quotas in 1984 to restrict milk supply and this policy action, together with production subsidies paid to farmers, resulted in stable milk prices within the EU

(Whetstone, 1999). Prior to the introduction of milk quotas, Irish milk production was broadly comparable to production in other EU member states, demonstrating growth by approximately 7% per annum as a result of gradual increases in herd sizes and improved farm management (CSO, 2011). The introduction of quotas curtailed this expansion and restricted major changes in the industry. While Irish milk production has remained relatively stagnant since 1985, milk production in other countries, for example New Zealand where deregulation has already taken place, has increased by 62% between 1983 and 2003 (Dillon et al., 2005).

It is now generally accepted that while milk quotas protected and supported milk production in less competitive dairy regions, they have had a constraining effect on potentially more entrepreneurial or productive farmers (IPTS, 2009). Arguably, quotas have restricted the entry of new younger dairy farmers and

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assisted the viability of smaller scale farms that may not have survived economically in the absence of market protection (Dillon et al., 2005). The CAP Health Check review in 2008 resulted in a policy decision to abolish milk quotas by 2015, with a view to introducing a free market environment for milk production across Europe (IPTS, 2009). Major change in Europe's dairy industry is imminent with the abolition of dairy quotas in 2015 and the change expected will be far-reaching. Grassland, utilised by Irish dairy farmers, covers almost 20% of all land in Europe and 75% in Ireland, the highest in Europe (Eurostat, 2011). Reform of the CAP has crucial implications not only for food producers but inevitably for consumers, who are increasingly behaving as 'food citizens', aware of the economic and environmental implications of agricultural policy governing food production (Eurobarometer, 2013).

In preparing for imminent dairy quota deregulation, one of the most critical aspects of ongoing CAP reform, the Irish government developed a scheme to allocate 0.25% of the annual 1% anticipated increase in milk quota between 2009 and 2015 on a permanent basis to new entrants to dairying. Called the New Entrants Scheme (NES), its main objective was to pave the way for transformation of dairy farming and it allows new dairy farmers to enter the dairy industry and establish new enterprises for the first time in nearly thirty years. As concluded in a broader mixed-methodological study to which this paper contributes, the majority of NES have some previous experience in dairy farming – whether through family farming, peer-to-peer experiences or their own work experiences – and are situated in geographical areas, as well as farming communities, that are already involved in, often intensive, dairy farming (McDonald et al., 2013a). While the NES represent a relatively small group of 230 farmers, their characteristics, circumstances and perspectives on their future farming careers give valuable insights to the factors at farm-level that are likely to influence how the dairy industry will take shape into the future (McDonald et al., 2013a).

While the group of NES have differentiated characteristics by comparison to the farming population generally, namely that they are a particularly 'motivated' group that has a young age profile (McDonald et al., 2013a), the circumstances and experiences of the NES as farmers who are preparing to enter a dairy industry post-EU milk quotas in 2015 are nonetheless parallel to the circumstances and likely experiences of Irish dairy producers who will face the same policy scenario. Dairy farms are identified as the most profitable farm enterprises in Ireland and also represent the youngest cohort of farmers (Hennessy et al., 2011), in this sense the group of NES are largely typical of the general population not of farmers but of dairy farmers specifically. In the absence of the protection provided by the quota system, new and existing dairy farmers will arguably have to become increasingly strategic and more 'motivated' in responding to markets. The NES as a case-study represent farmers who are not just considering developing their enterprises to prepare for impending quota abolition, but who are currently and actively engaged in preparation since 2009. The NES provided a valuable case-study prior to quota abolition to gain insights into the key factors that influence farm-level decision-making processes and attitudes post-2015. Of particular interest to the policy-making field is identifying the primary motivational factors influencing the farmers' actions and rationale and this is the focus of the current paper.

Drawing from a broader multi-disciplinary research project, this paper identifies the key behavioural motivations in the decision-making processes of new dairy farmers driving change in their production and management decisions in the context of impending quota deregulation. As an introduction to the analysis of these data, we present a description of the NES and the case-study (McDonald et al., 2013a). The qualitative analysis is then presented, themed according to the influence of agricultural policy and market

oriented factors on the NES' strategies; influences determining NES' behaviour as 'entrepreneurs'; and how the perceptions and actions of the NES interplay with the objectives of the NES and quota abolition generally. Evidence is presented that sheds light on likely responses at farm-level to dairy quota deregulation, of particular interest to policy makers and other actors in the agricultural industry who seek to motivate and encourage change among farmers.

## Theory and methodology

A detailed analysis of the personal characteristics, intentions and expectations of the 230 NES has been previously reported by McDonald et al. (2013a), using data derived from the five-year business plans and detailed application forms which were submitted by the NES to the Irish Department of Agriculture, Food and the Marine (DAFM). The average new entrant applicant is 36 years of age (ranging from 21 to 62 years) and McDonald et al. (2013a) concluded that the participating NES represent a young and educated<sup>1</sup> group of individuals relative to the general farming population who are strategically using the NES to enter the Irish dairy industry and prepare for imminent quota abolition. There is a regional bias in terms of the location of the new dairy farms, as they are mainly establishing in southern regions where intensive milk production is already established. The NES are mostly male (97%), with 3 female participants. This article focuses solely on male participants, with female participants providing the focus of a separate analysis.

The literature identifies factors determining the success of dairy farms, including factors at a broad sectoral level. The main sectoral factors effecting the future of young dairy enterprises, of which at least a sizable cohort of farmers are likely to be aware, are identified as policy or legislation, market developments and natural conditions dictating production (Schoon and te Grotenhuis, 2000). The immediate policy issues confronting the social group that is the focus of the current paper, NE dairy farmers, is the definite phasing out of milk quotas, and the likely reduction in subsidy support for young farmers. While in general, much of the literature finds that agricultural policy can be a prominent influential factor on the future plans of farmers (Lien and Hardaker, 2001; Ahearn et al., 2006; Hennessy and Rehman, 2006), there is much debate about the factors that cause different reactions among farmers in the context of specific policy measures.

Stanford-Billington and Cannon (2010) observed that farms with good financial performance are not particularly responsive to agricultural policies and do not tend to allow changing policies at the EU or national levels to solely dictate their farm-level business strategies. Rather, responsiveness on the part of farmers can be framed by a prioritisation of effective strategic planning to achieve competitive advantage and security. Such strategic planning is described as including forward-thinking and adaptation to change as required in the context of not only policy but market conditions (Grant and MacNamara, 1996). The uptake of contemporary farm management technologies is a critical aspect of such adaptation<sup>2</sup> and factors elucidating farmers' uptake of technologies relate to the information that is available to farmers, the

<sup>1</sup> As the 180-hour Agricultural Cert is a minimum prerequisite for Irish dairy farmers to join the scheme, all applicants have attained this minimal formal agricultural education. In addition to this minimum requirement, a further 72% of applicants have completed a 2-year Advanced Agricultural Certificate in agriculture, while a further 21% have achieved a Bachelors degree level qualification. Fifty-eight percent of new dairy entrants are originating from beef enterprises, with 22% of all new entrants planning to become exclusively dairy farmers within 5 years.

<sup>2</sup> The attainment and application of new management technologies will be essential in developing more efficient, low cost production systems for the Irish dairy industry in the future (Dillon et al., 2006) and recent research has highlighted the potential for technologies such as pasture measurement and budgeting (O'Donovan

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