

## DELIVERABLE 8.2

# "Development of socio-economic and agricultural structures in selected rural regions in Ireland after EU accession"

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## Abstract

This study focuses on the socio-economic and agricultural structural changes in rural Ireland following accession to the European Economic Community in 1973. The research involves a comprehensive descriptive analysis (of key socio-economic indicators and agricultural and rural development conditions) based on documentary and secondary statistical sources and telephone interviews/consultations with key actors (such as relevant government and public sector officials, key interest groups, and academic/policy experts in the field). The study focuses on the identification of key features of Irish agricultural and rural transformation following accession at the national level and in the Border, Midlands and West region. It also examines the directions/trends of Irish rural changes focusing on the socio-economic and agricultural structural conditions since EU accession and draws conclusions on the successful/unsuccessful measures for managing rural and agricultural changes in Ireland since EU membership.

## Executive Summary

### Introduction: Economic Change in Ireland

Ireland has a population of almost 4.25 million, 1.7 million of whom live in the greater Dublin area. (Some 1.75 million people live in Northern Ireland, which is on the island of Ireland but is part of the United Kingdom). Ireland was part of the United Kingdom of Great Britain and Ireland from 1801 until 1922, and became the Republic of Ireland in 1949.

Rural socio-economic changes in Ireland have to be understood in the context of wider changes in the Irish economy. Ireland's economy has experienced a spectacular transformation since the 1990s as it has moved from one of Europe's poorest Member States to one of the most affluent. It is due to move from being a net recipient to a net contributor of the EU budget during the 2007-13 financial perspective period. Ireland experienced large-scale out-migration in the 1950s and the 1980s, but since the 1990s it has experienced significant in-migration. Since the 1940s, the two largest political parties, Fianna Fáil and Fine Gael, have dominated Irish politics and government.

Following significant out-migration from Ireland in the 1950s, the new Fianna Fáil government abandoned Ireland's previous protectionist policies in the early 1960s and introduced a programme of economic reform. Central to this programme was to attract inward investment from the United States and other EU member states (e.g. Germany). Between 1960 and 1973, Ireland achieved rates of economic growth averaging 4.4% per year, and by 1970 there were over 350 foreign companies investing in Ireland. New industrial estates were constructed in most Irish towns. Manufacturing's share of total exports grew from 19% in 1959 to 35% in 1971.

Ireland joined the European Union (then the European Economic Community - EEC) in January 1973 (together with the United Kingdom and Denmark) as part of the first major

accession. Prior to joining the EEC, the Irish economy was still heavily dependent upon trade with the UK, which accounted for more than 85% of Irish exports.

Accession was seen by many as a means of increasingly opening Ireland's economy and overcoming the economic dependence on the UK. Although growth averaged 4% a year between 1974 and 1985, this was accompanied by relatively high rates of inflation and unemployment and Ireland was particularly hit by the oil crises of 1973 and 1979. Free trade with continental Europe highlighted how sections of Irish industry were uncompetitive, and high unemployment and industrial restructuring fuelled a further wave of emigration which reached 50,000 people per year in the early 1980s and particularly featured young people leaving.

From 1987, economic trends began to improve and the economy boomed from the mid-1990s onwards. Between 1995 and 2000, real GDP increased by three-quarters, with average annual growth rates of almost 10%, compared with only 2.8% for the EU15. The boom was primarily as a result of high levels on inward investment in high-tech industries and in services, and as a result of favourable (corporate) tax rates. Rates of employment increased significantly, and unemployment dropped. In 2005, labour productivity, measured as GDP per person employed, was the second highest in the EU27.

In 1991, Gross Value Added (GVA) per capita in Ireland was 76% of the European average. This rose to 99% by 1995, 132% by 2000 and 142% by 2004. It is this relatively high rate of economic growth, compared with other European countries, that has led to Ireland being labelled the 'Celtic Tiger'.

### Agriculture and Rural Development in Ireland

Some 4.4 million hectares (64%) of Ireland's land area are agricultural land, while a further 650,000 hectares (9.4%) is forestry. There are currently 135,000 holdings with an average size of 32.3 ha, which is twice the average for the EU25 and more than 50% higher than the average for the EU15. The main sectors are beef and dairying, and 90% of land is used for crops to support the livestock sector. Beef cattle accounted for more than 40% of gross agricultural output in 1973, but this has shrunk, especially since the early 1990s and now accounts for 28%.

In the 1950s, more than half of the Irish workforce was involved in agriculture. By the time of accession, agriculture still employed a quarter of the workforce and accounted for 16% of GDP. Because of the growth of other sectors, first manufacturing and then services, agriculture's relative contribution to the economy has declined. In 1989, it still accounted for around 10% of GDP. However, by 2005, agriculture accounted for less than 2% of GDP and employed 6.4% of the workforce, although this proportion is still significantly higher than the average for both the EU15 (3.8%) and even the EU27 (5%).

Farmers benefited immediately from joining the Common Agricultural Policy (CAP). Prices were higher and so output rose. Nominally, farm incomes doubled between 1973 and 1978. However, the onset of milk quotas and further rounds of CAP reform since the mid-1980s brought economic challenges and helped drive structural change in Irish farming.

There has been significant structural change in the Irish livestock industry since accession. The number of cattle holdings has almost halved from 230,100 in 1973 to 122,600 in 2005. At the same time, average herd size has increased from 28 to 61. The average dairy herd size has increased more than four-fold from 10 to 45 cows and milk yields per cow increased from 2,600 litres per cow in 1973 to 4,600 in 2002. The contribution of sheep to gross agricultural output has remained relatively steady at just under 4%, while the contribution of pigs has gradually declined from 10% to 6%.

Structural change has been a constant feature of Irish agriculture since accession, but has accelerated notably since the mid-1980s. For example, the total number of farms fell by just 3.4% between 1975 and 1985, but then by 39.7% between 1985 and 2005. Perhaps unsurprisingly, decline has been most marked in the smallest size categories of farms. Farms of less than hectares 30 ha made up 63% of all farms in 1975, but less than 44% in 2005. Within this category, the farms of less than 5 ha dropped from 15% of all farms in 1975 to less than 7% in 2005.

Farm labour is mainly provided by family members (who account for more than 94% of total labour work on Irish farms). Recent years have seen a growth in the proportion of farm households with off-farm income, which rose from 31% in 1993 to 58% in 2006. Off-farm employment is more important among smaller farms, and in the beef and sheep sectors rather than dairying. For Irish agriculture as a whole, farming activities made up 70% of total farm household income in 1973, but this had declined to just a third by 2004.

Common Agricultural Policy support payments have become an increasingly important component of farm household incomes over time in Ireland. Between 1973 and 1979, subsidies averaged only 5% of aggregate farm income, but the proportion had risen to 15% by 1985 and 23% by 1990. Following the MacSharry reforms to the CAP in 1992 and the introduction of direct payments, subsidies were equivalent to 98% of total family farm income by 2006.

Successive CAP reforms have also affected socio-economic changes in rural areas. For example, the introduction of the sheepmeat regime in the early 1980s stimulated growth in the number of farms with sheep enterprises and led to a doubling of sheep numbers over a short period. In contrast, the introduction of milk quotas in 1984 caused considerable hardship in the important dairying sector and led to a 22% decline in the number of dairy cows and a halving of the number of enterprises involved in dairying.

Rural areas in Ireland are often defined as those areas outside the four main urban centres (Dublin, Cork, Limerick and Galway). The total rural population in Ireland has grown from 1.42 million in 1971 to 1.67 million in 2006. However, because of the even greater growth in the urban population, the *proportion* of the Irish population living in rural areas has declined from 47.8% in 1971 to 39.3% in 2006.

Local rural economies are diversifying away from agriculture. For example, between 1991 and 1996, for every job lost from agriculture, 4.5 new jobs were created in other sectors.

Ireland is one of the least forested country of the EU27, with only 9.4% of the land area forested. However, the 1996 Strategic Plan for the Development of Forestry commits to increasing the forested area by two and a half fold by 2030.

Rural tourism is significant to the local economies of rural areas in Ireland. The Ireland Rural Development Programme (2007-13) explains that 63% of total national tourism revenue was earned by areas outside Dublin and the Mid-East. However, tourism revenues are lowest in the economically weakest rural areas.

### Policy Measures to Manage Socio-Economic Change in Rural Areas

National rural development schemes in Ireland in the 1960s aimed at economic diversification and improving rural economic well-being, including the Local Government (Planning and Development) Act of 1963. However, the approach was highly focussed on agriculture and supporting the farming population.

Following accession, Ireland has made extensive use of European measures to support structural change in agriculture and foster wider rural development. These include the adoption of several of the early 'agricultural structures' measures in the CAP, including farm modernisation schemes, early retirement and vocational training supports.

In 1986, the Farm Modernisation Scheme, established in 1974, was replaced by the Farm Improvement Programme which aimed to improve farm productivity and competitiveness through capital investment. All full-time farmers were eligible and it has been estimated that over 70% of eligible farmers have participated in the scheme.

Ireland has been a significant recipient of support through the EU's regional development and cohesion policies. Indeed, the development of EU regional policy was stimulated by the accession of first Ireland and subsequently Greece, Spain and Portugal. Between 1975 and 1986, Ireland received almost €1 billion of funding through the European Regional Development Fund.

With the significant expansion and integration of the Structural Funds in 1988, the entire territory of Ireland became an Objective 1 area and some €4.2 billion were allocated to stimulate economic development between 1989 and 1993. The four priorities of the 1989-93 Programme were: agriculture, fisheries, rural development and tourism sectors; industry and services; measures to offset peripherality; and human resources. An Operational Programme for Rural Development established a number of pilot programmes to operationalise the concept of area-based integrated rural development. Initially, 12 rural areas participated, although the programme was extended nationwide in 1991. The second round of Structural Funds (1994-1999) brought another €5.8 billion for Ireland. The country remained under Objective 1, until 2000, when (given the country's economic performance) has been designated as two NUTS II regions: the Border, Midland and Western (BMW) region (which retained the Objective 1 status until the end of 2006); and the Southern and Eastern (S&E) region (qualified for transitional Objective 1 funding to 2005). The total EU Structural Funds allocated to Ireland under the National Development Plan/Community Support Framework 2000-2006 amounted for €3.2 billion.

The MacSharry reforms to the CAP in 1992 brought significant changes to rural and agricultural policy in Ireland. The direct payments introduced under the reform became an increasingly important component of farming incomes, rising from 30% in 1992 to 41% in 1994 and 60% in 1996.

Ireland introduced the Rural Environment Protection Scheme in 1994 to implement the CAP's new agri-environment accompanying measures. Between 1994 and 2006, more than €2.1 billion have been paid through the scheme. In the second programming period, the number of farmers participating has increased from 45,500 (1994-99) to 59,000 (in 2006), covering approximately a third of the farmed land. The scheme is popular with farmers, and the Irish government has prepared an expanded scheme (REPS 4) which will transfer a further €3 billion in the 2007-13 programming period.

Ireland has also implemented the early retirement and establishing young farmers measures in the CAP. An Early Retirement Scheme was introduced in 1994 which assisted 10,300 older farmers with exiting the industry and helped transfer some 283,000 ha of land (6.4% of the total agricultural area). The impact was less than originally forecast, but was geographically distinctive with higher participation in the South West region of Ireland where commercially larger farms predominate.

The period since the early 1990s has seen the steady expansion of the LEADER programme in Ireland. The LEADER I programme (1991 to 1994) involved 16 pilot areas in Ireland and focussed on rural employment and community involvement in local development. The participating areas covered almost 30% of the rural population and some £34 million of national and European money was allocated. A second programme, LEADER II, ran from 1995 to 1999 and involved 34 local area groups from across rural Ireland, with almost €100 million spent supporting 9,600 projects. LEADER +, which ran from 2000 to 2006 supported 35 Local Action Groups. The total amount spent for the Leader+ Programme is estimated at €75 million of which more than half (€49m) from the EU. For 2007-2013, Leader/Rural Economy Sub-Programme will benefit of €564.4 million (public and private funds) for promoting quality of life and the diversification of the rural economy.

The Agenda 2000 reforms of 1999 prompted the Irish Government to produce a new strategy for agriculture and rural development in Ireland, delivered through the National Development Programme (NDP) of 2000 to 2006. The programme comprised 7 Operational Programmes, four of which were national in scope, and three were geographically targeted. The financing of the NDP totalled €57 billion in total. The European contribution was proportionately smaller than in previous programming periods, but amount to €3.8 billion from the Structural and Cohesion Funds and €2.2 billion from the CAP's Rural Development Regulation.

To complement the National Development Programme, a National Spatial Strategy was produced in 2002. It establishes five broad types of rural areas in Ireland:

Areas that are strong - mainly in the South and East where agriculture will remain strong, presently over 30% of the labour force is engaged in primary agriculture, but where pressure for development is high and some rural settlements are under stress. Many of



these settlements are peri-urban in nature and have the highest population densities in this area type of over 40 persons/ km<sup>2</sup>.

Areas that are changing - including many parts of the Midlands, the Border, the South and West where population and agricultural employment have started to decline and where replacement employment is required. These areas are characterised by having the lowest level of self-employment outside agriculture at 13% of the available labour force

Areas that are weak - including more western parts of the Midlands, certain parts of the Border and mainly inland areas in the West, where population decline has been significant and the ratio of those aged 65 and over exceeds 15% of the total population of the area.

Areas that are remote - including parts of the west coast and the islands. A feature of these areas is that they represent the highest proportion of part-time female workers at 29% of the total female population at work.

Areas that are culturally distinctive and highly diversified - including parts of the west coast and the Gaeltacht, which have a distinct cultural heritage. Due to their widespread distribution across the other areas, socio-economic needs vary from isolation to peri-urban pressure.

It is too early to evaluate the effects of the National Spatial Strategy but it is clear that a more spatially differentiated and geographically sophisticated approach to the development of rural areas in Ireland is evolving.

### The Border, Midlands and Western (BMW) Region

For the purposes of this study, our case study region is the Border, Midlands and Western (BMW) region, which covers thirteen counties and comprises three Regional Authority (NUTS III) areas (Border, Midlands and West). This region accounts 47% of Ireland's land area, but only 27% of the national population (1.1 million people) and just 21% of GDP.

The BMW region is relatively sparsely populated, with just 31 inhabitants per km<sup>2</sup>. During the economic problems of the 1980s, the region suffered high levels of out-migration, especially of young people. However, the population has grown in more recent years. For example, between 1996 and 2006, the population increased by 17%, with growth highest in the Midlands region (22%). Growth was concentrated in and around the larger urban areas, while the remoter rural areas continued to experience depopulation.

Levels of employment in the region are comparable with the national average for Ireland. Between 2003 and 2005, employment grew faster (from 63.5% to 66.1%) in the BMW region than in the Southern and Eastern region. There is a continuing move away from agriculture and traditional manufacturing. Regional Gross Value Added (GVA) grew by 111% between 1995 and 2003. This is below Ireland's national average (136%) and the rate achieved by the South and East region (141%), but is considerably higher than the average for the EU15 (19.7%) or the EU25 (20.3%). Per capita GVA in the region, although much smaller than the national average (73%), represents 103% of the EU average. The regional discrepancy

diminishes, however, when per capita disposable income is considered, the gap between the two regions narrowing from 13 percentage points in 2000 to 9 percentage points in 2004.

Agriculture's contribution to the region's economy has declined from 13.4% in 1995 to 4.7% in 2004. Over the same period, services have expanded from 50.4% to 62.6%. These are marked changes in the structure of the economy over a relatively short time period.

Most of the agricultural land in the region is classified as severely or less severely handicapped. Average farm size is smaller (27 ha) than the national average, and agriculture in the region has experienced proportionately greater levels of structural change. For example, the largest falls in the numbers of farm holdings between 1960 and 1980 were recorded in the West and Border areas where smallest farms under 20 ha have predominated and have become increasingly unviable. The decline of the number of farms has slowed down, but the increase in farm size, was more pronounced in BMW as compared to the S&E region, between 1991 and 2005. Currently, more than half (53%) of the Irish farms are located in the BMW region.

The imposition of milk quotas in 1984 particularly affected the BMW region, with the number of dairy cows declining by 30.7% and 35.3% in the West and Border areas respectively between 1980 and 1997. The squeeze on dairying corresponded with an expansion of specialist beef enterprises.

Agri-environmental schemes have become an increasingly important component of farm incomes in the BMW region. Payments under the Rural Environment Protection Scheme totalled €655 million and represented 15.4% of all CAP payments in the region over the period 1992-2002.

The BMW region was formed in the late 1990s as part of the Irish Government's strategy for securing future Structural Funds support. Ireland was divided into two NUTS II regions in the hope that the poorer region would remain eligible for Objective 1 support. Traditionally, the Structural Funds had not been used extensively to support rural development activity. For example, under the 1989-93 Programme, Priority 1 (Agriculture, Fisheries, Tourism and Rural Development) measures received between 2.1% (rural development) and 3.9% (tourism) of total support, compared to 27% for industry and services. However, there were marked geographical differences even within the BMW region, with some areas (*e.g.* West and Border) focussing over 4% of their expenditure on Priority 1 measures.

Since 1998, the region has also benefited from the Western Investment Fund (WIF) which supports social and economic development in the Western region through the provision of loans and equity. Between 2000 and 2006, 32 SMEs, 22 community projects and two strategic projects were supported by the WIF.



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## Success Factors in Managing Socio-Economic Change in Rural Ireland since Succession

The research underpinning this case study involved desk-based research and a review of key policy and evaluation documents, supplemented with consultation with key informants. Nine individuals were consulted between March and December 2007 drawn from academia, rural development consultancies and government departments.

A series of key success factors can be identified that help explain the management of the rural transition in Ireland following accession to the EU. It is first important to note that 'success' is a relative term. The success or otherwise of a local rural area may be measured against the norms for urban areas in its region, or against the regional average. The success of a region might be measured against the national average or against the average for the EU as a whole. Thus we can see that growth in the BMW region has been lower than that for Ireland's other NUTS II region (Southern and Eastern) and lower than the Irish national average, yet growth in BMW remains significantly higher than the norm for the EU as a whole. GVA per capita increased from 60% of the EU average to 103% between 1991 and 2004, which is a remarkable record for a geographically peripheral and sparsely populated region of Europe.

It is crucial that success in local rural development be understood in the particular context of the national scene for the Member State. The experience of the BMW region is of course intricately bound up with the changes experienced by the Irish economy more generally. Ireland's success in economic development is generally attributed to a combination of internal and external factors. Internally, fiscal policy, the role of the Industrial Development Authority in attracting Foreign Direct Investment (FDI) and a culture of adaptability and pragmatism within Irish society have all been pointed to as important ingredients in Ireland's success. Externally, analysts frequently point to the importance of EU membership in bringing new opportunities for economic development, including the rapid development of new infrastructure. Certainly, the combination of EU membership and a favourable tax regime made Ireland an attractive destination for FDI. Moreover, the adoption (since 1987) of the national social partnerships, a joint-effort of all social and political forces proved to be paramount for Ireland's economic progress.

The first five years following accession to the EEC were the most prosperous in the history of Irish agriculture. Ireland benefited not only from supported prices but also from the various European co-financed measures to improve agricultural structures. Agricultural productivity improved markedly. In the 1980s, there were further benefits from the introduction of the sheep meat regime and the introduction of the ewe and suckler cow premia.

Perhaps the most important stimulus to structural change in agriculture, however, has been the success of the wider Irish economy, which provided new employment opportunities for the workforce and helped smooth a transition from the land for many people previously tied to farming.

For those who have remained in farming, incomes have been squeezed, and the majority of Irish farmers (61%) belong to the lowest income group (*i.e.* earning less than €13,000 per

year). Direct payments under the CAP now contribute the vast majority of farming income (98% in 2006).

Consultations with key informants suggest that education, institutional and capacity-building issues are also important in Ireland's successes in rural development.

Since the 1980s, agriculture's share of national GDP in Ireland has fallen dramatically, from around 10% to 2% in 2005. Although agriculture remains essentially based on family-run businesses, non-agricultural income has become increasingly important and now accounts for more than half the gross household income on farms.

### Conclusions

Undoubtedly, Ireland's economic progress is exceptional and is attributed to a combination of internal and external factors which acted in a favourable environment, and not to a lesser extent to a range of national policies changes that laid the foundations for the economic progress. Moreover, it is the EU membership and the Single Market and the substantial financial resources transferred from Brussels which were vital for the economic progress of Ireland, and implicit for the transformation and development of rural areas.

Based on experts' view, some potential lessons to be learned are suggested. The setting up of appropriate EU structures and institutions which to act in accordance with the interest of the country and be able to attract the EU funds was seen as essential. Additionally, the design and the delivery of good National Development Plans are equally important. This implies the creation of a robust capacity building. The need for a clear regional strategy, to which the government to be committed to, is considered also very important, particularly if a balanced regional development is to be achieved. Moreover, governance decentralisation and a wider involvement of local communities in decision-making need to be fostered and encouraged.

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## LIST OF ABBREVIATIONS

ACF	Agreed Common Framework
AKI	Research Institute for Agricultural Economics
AWU	Annual Work Units
BMW	Border, Midlands and West
CAP	Common Agricultural Policy
CEE	Central and Eastern Europe
CEC	Commission of the European Communities
CSO	Central Statistics Office Ireland
EEC	European Economic Community
ERDF	European Regional Development Fund
ERS	Early Retirement Scheme for Farmers
ESF	European Social Fund
EU	European Union
ESU	Economic Size Unit
EAFRD	European Agricultural Fund for Rural Development
FDI	Foreign Direct Investment
FEOGA/EAGGF	Fonds Européen D'Oriation et Garantie Agricole/European Agricultural Guidance and Guarantee Fund
FMS	Farm Modernisation Scheme
GAO	Gross Agricultural Output
GDA	Greater Dublin Area
GDP	Gross Domestic Product
GVA	Gross Value Added
ICT	Information and Communications Technology
IDA	Industrial Development Authority
Leader	Links between actions for the development of the rural economy
LFAs	Less Favoured Areas
IMD	Institute for Management Development
MTR	Mid-Term Review
NDP/CSF	National Development Plan/Community Support Framework
NSS	National Spatial Strategy
OECD	Organisation for Economic Co-operation and Development
PPIRD	Pilot Programme for Integrated Rural Development
PNR	Programme for National Recovery
RDO	Regional Development Organisations
RDR	Rural Development Regulation
REPS	Rural Environment Protection Scheme
SCARLED	Structural change in agriculture and rural livelihoods
S&E	South and East
UAA	Utilised Agricultural Area
UK	United Kingdom

WIF                      Western Investment Fund  
WP                      Workpackage

## 1 FROM THE “SICK MAN” OF WESTERN EUROPE TO THE “CELTIC TIGER”

### 1.1 Prior Accession: From National-Protectionism to Liberal Policies

The spectacular economic transformation that Ireland has experienced since late 1980’s, from being one of the poorest countries in Western Europe to one of the most successful, has generated considerable interest and debate (e.g. Walsh, 1995; Sweeney, 1997; Barry, 1999; Sweeney, 1999; OECD, 1999; Allen, 2000; MacSharry and White, 2000, Dorgan, 2006). Recent (2004 and 2007) the accessions have brought ten more countries from Central and Eastern Europe (CEE) into the European Union (EU). The majority of these new member states are much poorer than the EU average, but have embraced membership with the hope that one day they too may become the ‘tigers’ of Eastern Europe. What are the driving forces behind the Irish economic miracle and what are the factors that made Ireland’s economic development so successful?

Ireland joined the European Economic Community (EEC) in January 1973, together with the United Kingdom and Denmark. This followed two unsuccessful attempts in the 1960s when France refused to endorse proposals for British and Irish accession. Ireland’s aspiration to Community membership lies within its “bleak history” (Sweeney, 1999) and economic heavy dependence on the United Kingdom (UK) (Dorgan, 2006, Bradley, 2000). Despite gaining its independence from the UK in 1922, Ireland’s economy remained heavily dependent on the British market (Table 1.1). The Irish currency was linked to the British Pound and more than 85% of total Irish exports were to the UK. Most of Irish exported goods were low-value added agricultural products, whereas most of the UK imports, which accounted for more than half of total imports to Ireland, comprised manufactured goods, machinery and transport equipment.

Table 1.1 Main Sources of Imports and Export Destinations, Ireland, 1949-1972

Imports	1949	1950	1951	1952	1953	1960	1972
UK	57.3	52.9	56.5	60.9	50.8	49.0	51.0
US	14.2	13.2	12.4	10.7	2.0	14*	8.7**
EEC	6.1	6.6	9.5	10.9	12.4	37.0	17.5

Exports	1949	1950	1951	1952	1953	1960	1972
UK	89.9	86.7	84.0	86.1	90.5	75	65.9
US	0.8	1.9	4.0	3.2	2.1	19*	12.9**
EEC	5.8	6.5	5.9	5.7	3.1	6.0	9.7

Source: Brady, 1993; \* it refers to other Non-EU Countries; \*\* including Canada

Notes: \* it refers to other Non-EU Countries;

\*\* including Canada

After independence, with half of the Irish workforce involved in agriculture, this sector was considered by decision makers as the “mainstay of the economy” (Sweeney, 1999). Thus, relying on agriculture as the engine of the economy, successive Irish governments sought to achieve economic self-sufficiency. This was supposed to be accomplished, however, over a 30-year period following independence, through a national protectionist

policy with high tariff barriers and import substitution, but limited industrialisation (Lee, 1989; Dorgan, 2006). These heavily interventionist measures were not successful and the Irish economy did not perform as expected. By the mid-1950s, Ireland's GDP per capita represented less than 65% of the European Community average and unemployment was three times as high (Galway Euro Info Centre, 2006). Additionally, economic stagnation was so severe that during the 1950s some 400,000 people (one seventh of the population) had to emigrate, leaving Ireland with less than 3 million inhabitants (Sweeney, 1999; Dorgan, 2006).

By 1957 when Fianna Fáil Party<sup>2</sup> returned to power, it was becoming, increasingly, evident that the protectionist policies to support agriculture, and the heavy reliance on a single market (the UK) for Irish commodities, would not ensure economic growth and development in Ireland (Murphy, 1997). Hence, the new Government took the first steps towards a radically different approach. The Government adopted the Economic Development Paper, a planning document, which set up the scene for the First Programme for Economic Expansion (1958-1963). Although criticised for the modesty of some of its targets, its pro-agricultural orientation, and "the vagueness [of] the mechanisms for achieving them [the targets]", the First Programme did establish the foundation of a more liberal economy (Ó Gráda, 1997, p. 74). It mainly advocated free trade and encouraged foreign investment. Trade tariffs were dismantled and a zero tax on profits from export sales was applied for the first time (Dorgan, 2006). This combined with the cancellation of controls on foreign ownership businesses and fiscal and financial incentives offered to both foreign and indigenous firms made Ireland more attractive to foreign investors. These measures also helped to weaken the "web of dependency" between Ireland and Britain, which had been so strong prior 1960 (Bradley, 2000).

The First Programme was followed by the Second (1964-1970) and Third Programmes for Economic Expansion (1969-1972). Following the pattern initially established, the next two programmes set up specific goals for each sector, for economic growth (e.g. a 4% annual increase in GDP) and employment (e.g. a net rise of 16,000) (Ó Gráda, 1997; Sweeney, 1999). Whereas the first programme was considered a success the next two programmes (particularly the third one) failed to achieve their aims to the same extent. Ó Gráda (1997, p.76) argues that this was due to the fact that the designed targets were unrealistically high and "flawed methodologically". Nevertheless, the increasing openness of the Irish economy had benefits and also fortuitously coincided with a period when the entire world economy was experiencing a sustained growth (Pike *et al.*, 2006). Between 1960 and 1973, the rate of economic growth in Ireland averaged 4.4% a year, reaching its highest levels ever (Sweeney, 1999). Although inflation and unemployment rates were higher than the EU15 average, the level of other economic indicators (e.g. labour productivity, total factor productivity growth, exports, gross fixed capital formation and government debt) were close to the European averages (Table 1.2).

In anticipation of accession to the Common Market, Ireland joined, in 1965, the Anglo-Irish Free Trade Agreement. As a consequence, the number of foreign investors started to increase with the majority arriving from the US, UK and Germany (Ó Gráda, 1997). By 1970 there were over 350 overseas companies investing in Ireland. The crucial role in attracting foreign investors was attributed to the Industrial Development Authority (IDA) (Dorgan, 2006). Established as a government agency, IDA's main priority was (and still is) to attract

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<sup>2</sup> Ireland's governing Republican Party founded by Éamon De Valera and by opponents of the Anglo-Irish Treaty of 1921. Currently, led by Bertie Ahern, is the largest political party in the Republic of Ireland. <http://www.fiannafail.ie>

large-scale foreign investors (e.g. multinationals) in the manufacturing and internationally traded services sectors. As a result, the manufacturing's share exports in total exports grew from 19% in 1959 to 35% in 1971 (McAleese, 1975). Although Barry (2002) argues that the major impact on manufacturing-sector foreign direct investment (FDI) was not perceptible until after accession, at the time of joining the EEC (1973) the foreign-owned firms accounted for almost a third of all manufacturing employment (Ó Gráda, 1997). On the eve of accession, however, Ireland could still be seen essentially as a small recently opened economy at the periphery of Western Europe (Brady, 1993; O'Reilly, 2004).

Table 1.2 Main Macroeconomic Indicators, Ireland and EU15, 1961-1973(average annual % change)

	1961-1973	
	Ireland	EU15
Real GDP	4.4	4.8
Gross fixed capital formation (real % change p.a.)	9.9	5.7
Exports (real % change p.a.)	8.7	8.1
Imports (real % change p.a.)	9.7	8.8
Inflation	6.3	4.6
Unemployment rate (Eurostat definition)	5.6	2.3
Labour productivity growth	4.3	4.4
Total factor productivity growth	2.6	2.9
Current account	-2.5	0.5
General government debt (as %of GDP) at the end of period	40.5	53.0

Source: CEC, 1999

## 1.2 Macroeconomic context 1973-2006

The radical changes in policies, from protectionism to free trade, and the encouraging economic transformation that took place during the 1960s had a positive impact on Irish population with regards to EU accession. Joining the EEC was seen by many as an escape from the economic dependence of the UK, the best opportunity to trade freely on a larger market and diversify exports (Brady, 1993). Moreover, because at the time of accession, agriculture was playing a very important role within the economy as a whole (e.g. 24% of the total labour force was employed in this sector, almost twice the EEC average), the prospect of subsidies inflows for Irish farmers, as a result of the adoption of the Common Agricultural Policy (CAP), heightened interest in and support for accession (Dorgan, 2006). In May 1972, more than 80% of the Irish electorate voted in favour of accession (Galway, Euro Info Centre, 2006).

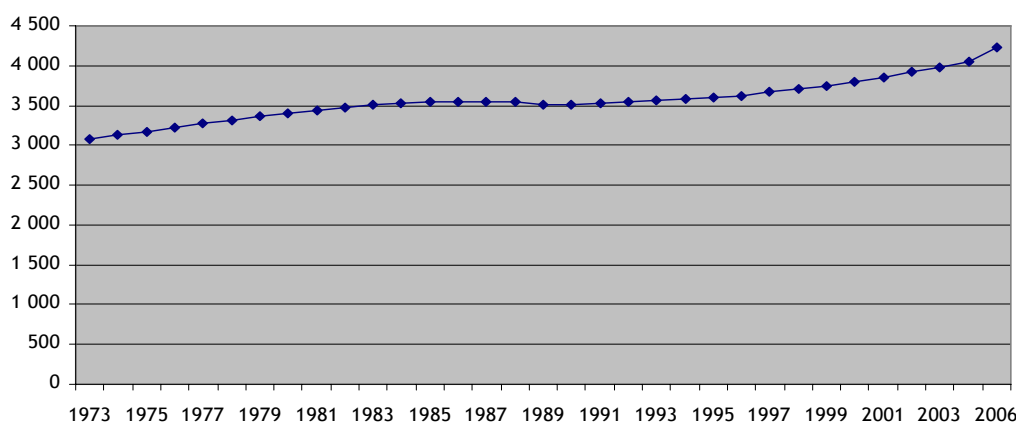
In 1973 Ireland's population was just over three million people. By 2006, the number of inhabitants had increased by 42%, reaching over 4.2 million people. Over the same period rural population has continued to decline steadily from 48% to 39.3% for the same period. This reflects the pattern of changes within the economy as whole. In the first decade



following accession, population increased by 432,000 (or 14%), followed by a stagnation during the 1980s (Figure 1.1). Between 1997 and 2006, the population rose by almost 16%, the second highest rate of increase in the EU27, after Cyprus (CSO, 2007a).

Economic and political changes have also influenced the structure of population over the years. Currently, Ireland’s population is rather young with the age group between 15 and 64 years accounting for 68% (CSO, 2006 Census) of total population. The average life expectancy is 77 years, increasing from 69 years in 1973 to 75 years in 2004 for men and from 74 years to 80 years for women (Table 1.3). The fertility rate, the second highest in the EU after France, was almost 2 in 2005 compared to that of the EU25 of 1.5 (CSO, 2007a).

Figure 1.1 Evolution of Ireland’s Population, 1973-2006



Source: OECD Factbook 2006

Table 1.3 Demographic Indicators, 1973-2003(thousands)

	1973	1978	1983	1988	1993	1998	2003	2004	2006
Population	3,073	3,314	3,505	3,535	3,563	3,703	3,979	4,044	4,235
Life expectancy									
male	68.8	69.5	70.1	71.0	72.3	73.0	75.1	74.74	...
female	73.5	75.0	75.6	76.7	77.9	78.5	80.3	80.15	...
Birth rate/1,000	22.5	21.2	19.1	15.4	13.8	14.6	15.5	...	...
Death rate/1,000	11.2	10.3	9.4	8.9	9.0	8.5	7.2	...	...

Source: OECD Factbook 2006: Economic, Environmental and Social Statistics, and CSO 2007b

The accession to the EEC found the Irish economy strongest comparing with 1950s. Nevertheless, although significant transformations that took place during the 1960s labelled often as the Ireland’s ‘golden age’ of Ireland<sup>3</sup>) in 1973, the GDP per head of population represented only 59% of the EU15, the lowest among the then Member States (Table 1.4).

<sup>3</sup> See Sweeney (1999) and Ó Gráda (1997).

Table 1.4 GDP per capita in Purchasing Power Standard, 1960-1986 (EU15 =100)

Country	1960	1973	1986
Belgium	98.6	104.5	104.2
Germany	122.1	114.5	116.8
France	105.3	110.5	109.8
Italy	87.3	94.0	102.5
Luxembourg	168.7	153.1	138.8
The Netherlands	112.1	107.1	102.2
Denmark	119.9	114.4	117.9
Ireland	60.8	58.9	63.7
United Kingdom	123.9	104.4	101.9
Greece	42.5	62.4	61.4
Portugal	43.2	61.1	54.0
Spain	56.9	74.8	69.7
Austria	94.8	98.5	105.4
Finland	87.8	94.3	100.6
Sweden	122.7	115.0	112.5

Source: Bradley, 2000, p. 8

Although membership of the EEC brought immediate benefits to agriculture (due mainly to the high CAP price and market supports), the Irish economy still struggled for almost two decades after accession. The economy recorded relatively high levels of economic growth, between 1974 and 1985, (e.g. 4% p.a.), but inflation and unemployment also reached high rates (Table 1.5). The negative effects of the oil crisis of 1973 were felt two years later, in 1975, when inflation rose rapidly to 21% (as compared with 8% in 1970) (Sweeney, 1999). The Government in power, a Fine Gael-Labour coalition, tried to slow down the economic recession by imposing a number of unpopular economic measures, including deflationary economic policies, a tax on health and farmers' income (Dorgan, 2006).

These unpopular measures led to a change in government. As a consequence, in 1977 Fianna Fáil, the newly re-elected government, adopted a new economic planning programme, The National Development Plan (1977-1980), which set new and ambitious economic growth targets (e.g. GDP growth of 7% p.a.) and "promised further rises in public spending and substantial tax cuts" (Ó Gráda, 1997, p.70). However, the government continued to encourage public spending but based on an expansionary foreign borrowing fiscal policy. Unfortunately, the National Development Plan turned to be "wildly and dangerously unrealistic" (Ó Gráda, 1997, p. 78). Despite a short economic recovery, the increase in domestic demand and the massive debt accumulated during the 1970s (which equated for almost a 100% of GDP) had serious consequences for most of the 1980s. The economic difficulties brought political instability and three general elections took place in less than two years (1981-1982). The euphoria of the 'golden age' was fading and replaced by the bleak memories of the 1950s (Sweeney, 1999; Ó Gráda, 1997).

Successive government's attempts in rectifying the economy proved rather to worsen the situation. Inflation returned to double figures (between 1980 and 1983), government' debt

reached its peak of 118% of GDP in 1987, and the budget deficit averaged over 12% (OECD, 1999). Although 60% of the manufacturing output was provided by foreign-owned companies, the indigenous industry suffered significantly being unable to compete with the foreign firms (Sweeney, 1999). As a result, despite a new wave of massive emigration, the domestic industry experienced a substantial loss of jobs and unemployment rose significantly year by year (17.3 % in 1985) (IMF, 2007) (Figure 1.2). As the economy was facing again a serious crisis, a large number of young highly educated people decided to leave the country. Dorgan (2006) estimates that between 1981 and 1990 some 200,000 people emigrated from the Republic of Ireland.

Table 1.5 Macroeconomic Indicators, Ireland and EU15, 1974-1995 (Average annual % change)

	1974-1985		1986-1990		1991-1995	
	Ireland	EU15	Ireland	EU15	Ireland	EU15
Real GDP	3.8	2.0	4.6	3.2	4.6	1.5
Gross fixed capital formation (real % change p.a.)	0.7	-0.1	4.5	5.8	2.4	-0.2
Exports (real % change p.a.)	8.0	4.4	8.9	5.1	12.3	5.4
Imports (real % change p.a.)	4.4	2.7	7.1	7.3	9.5	3.9
Inflation	13.8	10.9	3.2	4.5	2.6	4.2
Unemployment rate (Eurostat definition)	10.6	6.4	15.5	8.9	14.5	10.0
Labour productivity growth	3.7	2.0	3.5	1.8	2.6	2.1
Total factor productivity growth	2.0	1.0	2.9	1.4	2.5	1.0
Current account	-7.9	-0.3	-1.0	0.2	2.1	-0.3
General government debt (as % of GDP) at the end of period	98.6	54.5	92.6	71.6	80.8	54.9

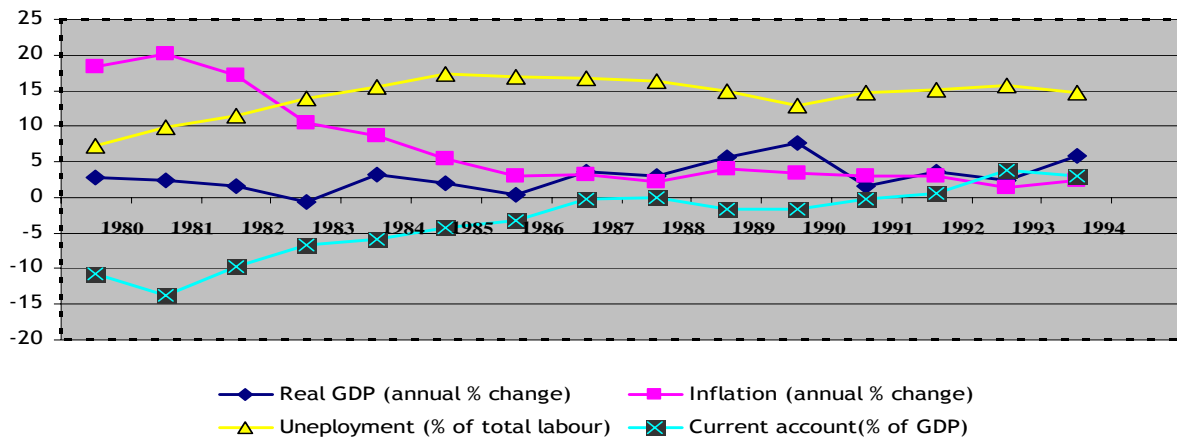
Source: CEC (1999)

The economy turned around in 1987, but it was not until 1994 that Ireland has become what is labelled today the ‘Celtic Tiger’<sup>4</sup> (Figure 1.3). Fianna Fáil, the party largely responsible for the excessive and misguided public expenditure during the 1970s, was again re-elected in 1987. Learning from previous mistakes, back into power it embarked on a more austere economic strategy which established tight budgetary targets (e.g. severe cuts in expenditure) (Dorgan, 2006; Walsh, 2001). The strategy bore fruit in the next few years (which saw improvements in the current account, an increase in the GDP growth rate, and falling inflation and unemployment rates), and established the foundations for the remarkable economic performance which of the 1990s.

<sup>4</sup> The term was used for the first time, in 1994, by the UK economist Kevin Gardiner, head of global equity strategy at the Investment Banking Unit of HSBC, who compared Ireland's unexpected economic boom to the Asian tiger economies.

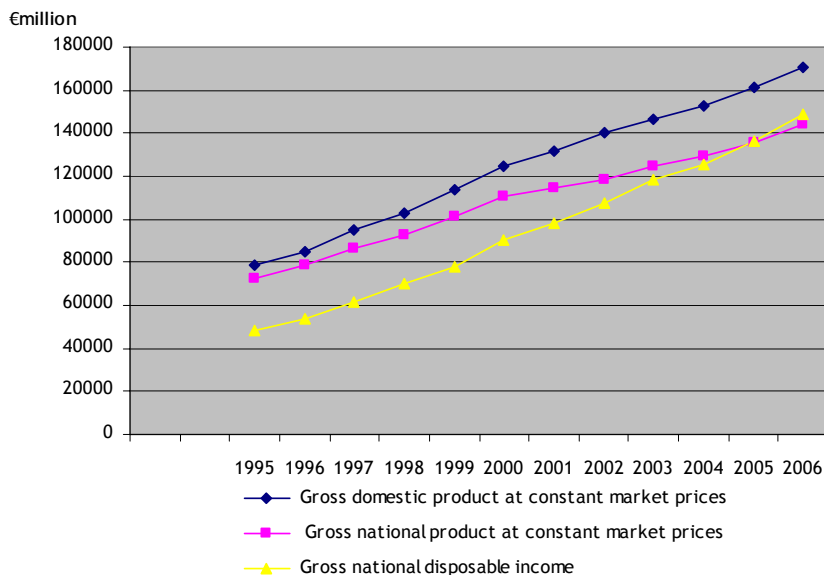
In less than a decade, Ireland transformed itself from one of the poorest country, at the periphery of Europe, into a leader (OECD, 1999). Real GDP (and GNP<sup>5</sup>) has continued to increase at some of the highest rates amongst the EU member states. The real GDP increased between 1995 and 2000 by three quarters, at an annual average rate more than three times the EU average (almost 10%, as compared with only 2.8% for the EU15) (Table 1.6).

Figure 1.2 Evolution of Main Macroeconomic Indicators, Ireland, 1980 -1994



Source: based on the World Economic Database, April 2007, IMF

Figure 1.3 Evolution of GDP, GNP and Gross National Disposable Income, Ireland, 1995-2006 (constant market prices, base year 2005)



Source: based on Eurostat data

<sup>5</sup> The GNP and the National Disposable Income are considered to provide a ‘true’ image of Ireland’s performance as it takes into account the net international transfers of the foreign-owned firms (Walsh, 2001).

Table 1.6 Real GDP growth (% change on previous year)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	9.6	8.3	11.7	8.5	10.7	9.4	5.8	6.0	4.3	4.3	5.5	6.0
EU15	...	1.7	2.6	2.9	3.0	3.8	1.9	1.1	1.2	2.3	1.6	2.8
EU27	...	1.8	2.7	2.9	3.0	3.9	2.0	1.2	1.3	2.5	1.8	3.0

Source: Eurostat

Its fiscal position improved considerably, and as a result the public debt dropped significantly from 82% in 1995 to 25% in 2006 (Table 1.7). For the same period, the national debt/GDP ratio fell sharply from 82% to 25%. Moreover, from 2000 onwards this was significantly much smaller (at less than 40%) than the EU15 ratio which remained constantly above 60% (Table 1.7). Inflation, although somewhat higher than in the EU15 averaged 3.7% between 1995 and 2006. By January 1999, Ireland met the Maastricht Treaty criteria for adopting the Euro. The higher inflation rates between 2000 and 2003 are explained by rises in wages in the service sector, lower real interest rate and the weakness of Euro (Walsh, 2001). The rate of investment in gross fixed capital formation is much higher than the EU25 average, in 2005 representing 27% of GDP as compared with 20% (CSO, 2006). Since 1995, Ireland recorded the highest levels of employment within the OECD countries. Employment increased from 56.1% in 1997 to 68.1% in 2006, and long-term unemployment rates have sharply dropped (from 9% in 1994 to 1.4% in 2005) (CSO, 2007b). The contribution of female workforce has also increased by 14% between 1997 and 2006, whereas the rate for men rose by around 10% (CSO, 2007b). In 2006, female and male unemployment rates were much lower in Ireland (at 4.1% and 4.5%) as compared with EU27 (8.8% and 7.1%) (ibid). In 2005, labour productivity, measured as GDP per person employed, was the second highest in the EU27 (ibid).

Good economic performance results in higher standards of living. In a rather short period of time (just five years) the country was able to reduce, and to close the income gap with the EU which had persisted for two decades since accession (Table 1.8). Ireland now has the second highest GDP per capita, expressed in PPS, within the EU27, after Luxembourg, being well above the average.

Recently (in 2005), the Economist Intelligence Unit has developed a new 'quality of life index', which includes not only the GDP per person (wellbeing) but eight other explanatory variables<sup>6</sup>. Not surprisingly, Ireland leads comfortably achieving the highest score (8.333) amongst the 111 countries included in the survey, well beyond the United States (ranks 13 with 7.615) and the United Kingdom (ranks 29 with 6.917)<sup>7</sup>.

Ireland's economic miracle is no doubt attributable to a conjunction of (internal and external) factors which performed in a favourable environment, and includes a range of national policies changes that laid the foundations for the economic progress (OECD, 1999; Dorgan, 2006). The restoration of a sound financial discipline, based on sharp cuts on public expenditure and a gradual reduction of public deficit, was its first step towards progress. A three-year Programme for National Recovery (PNR), elaborated in 1987, involved a joint-effort of decision-makers, trade unions, farmers and employers in the form of a national social partnership agreement (Dorgan, 2006).

<sup>6</sup> These are: health, political freedom, job security, family life, climate and geography, political stability, gender equality and community life (The World in 2005, www.economist.com).

<sup>7</sup> For comparison, EU15 scored 7.504.

Table 1.7 Macroeconomic Indicators, Ireland, EU15 and EU27, 1995-2006

	1995	1996	1997e	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	2.5	2.2	1.3	2.1	2.5	5.3	4.0	4.7	4.0	2.3	2.2	2.7
EU15	...	...	1.7	1.3	1.2	1.9	2.2	2.1	2.0	2.0	2.1	...
EU27	...	...	7.3	4.6	3.0	3.5	3.2	2.5	2.1	2.3	2.3	...

e = estimated value

Unemployment rate as share of total active population

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	12.3	11.7	9.9	7.5	5.7	4.2	4.0	4.5	4.7	4.3	4.3	4.4
EU15	10.0	10.1	9.8	9.2	8.5	7.6	7.2	7.5	7.9	8.0	7.9	7.4
EU27	...	...	...	...	...	8.6	8.4	8.8	9.0	9.0	8.7	7.9

Labour Productivity per person employed (EU25=100 )

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	112	115	118	118	117	120	121	126	127	127	127	127
EU15	108	108	108	108	107	107	106	106	105	105	105	105
EU27	93	93	93	93	94	94	94	95	95	95	95	95

General Government Debt as % of GDP

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	81.8	73.3	64.5	53.8	48.6	38.3	35.9	32.2	31.2	29.7	27.4	24.9
EU15	70.8	72.6	71.0	68.9	67.9	64.1	63.1	61.5	63.1	63.3	64.4	63.3
EU27	...	...	...	...	...	...	...	...	61.8	62.2	62.9	61.7

Source: Eurostat Database and CSO, 2007b

Table 1.8 GDP per capita in PPS (EU25=100)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ireland	97.1	102	108.6	114.8	119.4	123.6	125.4	130.7	133.1	134.1	136.5	136.9
EU15	109	108.7	108.7	108.7	108.6	108.6	108.3	108	107.6	107.2	107.0	106.6
EU27	94	94	94.1	94.2	94.1	94.2	94.3	94.5	94.6	94.7	94.9	95.1

Source: Eurostat Database

The Programme emphasised the importance of a fiscal policy as the “key to putting the economy back on the path to long-term sustained economic growth” (PNR, 1987, p.9). It also stipulated that a “low inflation rate was essential for increased competitiveness and economic viability” (p.9). Additionally, these were to be accompanied by moderate reductions in direct income tax and a monetary policy which will bring interest rates to a competitive international level. The Programme also referred to moderate rises in wages (at a level not exceeding 2.5% p.a.) with a particular focus on the lower paid workers. Enhancing education and improving access to social welfare, health, and housing were also



prime objectives (PNR, 1987). The national social partnership has also contributed significantly to the increase in the labour utilisation (IMF, 2004). All these measures had a positive effect on the economy as a whole, particularly from an economic and political stability point of view. As Dorgan (2006) stresses the consensus on national priorities and the joint-efforts it “proved to be of lasting value”. The success of the PNR has triggered similar national partnership agreements. The National Programme for Economic and Social Progress (PESP) commenced in 1991 and followed similar commitments as the PNR (e.g. economic stability, tax reform, employment and training). A National Development Plan/Community Support Framework was set up after extensive consultation with all social partners for 2000-2006. The plan included seven Operational Programmes (4 National, 2 Regional and 1 North/South) and involved over €57 billion of public, private and EU (Structural and Cohesion) funds (NDP/CSF 2000-2006 Review). ‘Towards 2016’ is the most recent social partnership agreement and covers the period between 2006 and 2015. The agreement provides an important and strategic ten-year framework for meeting the new economic and social challenges of Irish society, but focusing especially on social issues (Taoiseach, 2006). Undoubtedly, amongst the various economic factors that have contributed to Ireland’s successful economic performance are two fundamentals, trade liberalisation and the openness of the economy towards capital markets, and particularly the attraction of Foreign Direct Investment (FDI).

### 1.3 Trade

Ireland is one of the economies most opened to trade in the world. Its trade value has increased from €1.65 billion in 1973 to 133 €billion in 2004, an average of over 15% increase per year (Department of Enterprise, Trade and Employment, 2005). In less than two decades following accession to the EEC, Ireland shifted its trading position, from a net importer to a net exporter. Since 1988, its balance of trade has remained positive, reaching in 2003 almost €35 billion (Table 1.9).

Table 1.9 External Trade - Total imports and Exports (million €)

	Imports	Exports	Trade Balance
1972	1,062	822	-242
1973	1,444	1,104	-340
1978	4,715	3,763	-952
1983	9,354	8,817	-537
1988	12,970	15,624	2,654
1993	18,900	25,179	6,279
1998	39,715	57,322	17,607
2003	47,525	82,176	34,651
2006	60,655	86,861	21,196

Source: CSO database

The protectionist policy of the 1950s and the heavy dependence of Ireland’s trade on the UK market were replaced by 1960s by a liberal trade regime. Further, accession to the EEC and the Single Market had removed barriers giving Ireland the opportunity to break its ties with the UK and orient its exports towards more diverse markets (Brady, 1993). Although

the UK still remained for a number of years an important trading partner, its shares of Irish exports and imports have declined over the years. In 1973, some 45% of total value of exports and 47% of total value of imports were attributable to the UK. By 2006, these proportions drop to 18% and 32% respectively (Table 1.10). The openness of the economy to foreign investors, adequate and coherent trade and fiscal policies accompanied by an increase in real labour productivity led to a rapid growth in exports. Since early 1990s, the exports have grown by a factor of four in volume terms and by a factor of five in value terms (Department of Enterprise, Trade and Employment, 2005). Ireland recorded the highest real export growth amongst the OECD countries between 1997 and 2001 (16%) - well above of that of the OECD average (6%) (O'Reilly, 2004). By 2005, Irish shares of imports and exports accounted for 68.4% of GDP, and over 80% respectively (CSO, 2007b).

Table 1.10 Ireland's Trade by Main Areas, 1973-2006

Imports (% of total value)

	1973	1978	1983	1988	1993	1998	2003	2006
GB	47.0	45.1	41.1	38.3	33.1	31.2	28.7	29.8
Northern Ireland	3.7	4.3	4.2	3.8	2.8	2.7	2.2	2.2
Other EU	20.8	20.8	22.0	24.0	20.3	20.4	24.9	28.7
USA	6.9	8.4	14.7	15.9	17.0	16.0	15.5	11.2
Rest of the World	21.5	21.4	18.0	18.0	26.8	29.6	28.7	28.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Exports (% of total value)

GB	45.2	38.9	29.7	29.2	24.9	19.9	16.4	16.0
Northern Ireland	9.4	8.4	7.2	6.2	3.5	2.6	2.0	1.9
Other EU	21.3	30.2	32.1	38.6	39.4	45.6	43.2	45.2
USA	9.9	6.2	8.1	7.7	9.0	13.5	20.6	18.7
Rest of the World	14.1	16.4	22.9	18.3	23.2	18.4	17.9	18.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: based on CSO 2007a

Notes: \* including NI

Table 1.10 also highlights that, since 1988, Ireland's destinations of exports have changed considerably with almost half of the exports value coming from the EU market (UK not included). Germany and France are the most important trading partners amongst the EU member states. Most imports however are still provided by its neighbours Great Britain and Northern Ireland (taken together). The importance of the US as a trading partner has also increased significantly, the US being the second largest export market, outside the EU. The

proportion of Irish exported goods almost doubled between 1973 and 2006, mainly as products with a high value added replaced those with a low value added.

The major exporting sectors in the Irish economy are: (i) Chemicals; (ii) Machinery and Transport (including Computers) and (iii) Food, Drink and Tobacco (Table 1.11). EU membership brought significant changes in trade patterns; if during the 1970s Ireland's exports were dominated by food products for the UK markets, the next two decades these were replaced by machinery and transport. Currently, Chemicals sector is by far the largest accounting for over 43% of total exports, followed by Machinery and Transport (including Computers). Around a quarter of total chemical products exported within the EU25 are of Irish origins. The agri-food sector plays also a major role, as currently, 8% of the Irish exports are provided by this sector.

Table 1.11 Main Export Categories (€ million)

	1973	1978	1983	1988	1993	1998	2003	2005*
Chemicals	75	451	1,224	2,048	4,855	18,156	35,732	40,300
Machinery and Transport	109	521	2,303	4,876	7,303	21,444	23,401	23,050
Food, drink and tobacco	477	1,515	2,446	4,002	5,569	5,668	6,822	7,430

Source: CSO Database; \* Eurostat Database

A sectoral specialisation policy in the production of a small number of product-lines proved to be very successful, given that Ireland does not have the benefit of an 'economy of scale' (large size in terms of land, available natural resources and population) (Department of Enterprise, Trade and Employment, 2005). A study carried out by Barry and Hannah (in Barry, 2002) based on a Revealed Comparative Advantage (RCA) analysis using pre-accession data predicted that sectors such as Food and Clothing rather than Chemicals, Metals and Engineering were to succeed after Ireland's accession, but the outcome, in reality, was the reverse. Barry (2002) argues that the RCA failure in the Irish case lies actually in "its inability to take into account the size and nature of the FDI inflows that accession triggered" (p.12). Hence, the FDI proved to be crucial for the successful economic performance of Ireland, turning around its fortunes (ibid).

#### 1.4 Foreign Direct Investment

The policy of attracting foreign direct investment was actively promoted following the adoption of the First Economic Expansion Programme (1958), and it received a considerable boost with the implementation of the Anglo-Irish Free Trade Agreement (1966) (Breathnach, 1993). The EEC membership combined with favourable national fiscal policies (e.g. zero tax on export profits until 1980, followed by a low corporate tax and generous capital and training grants) made Ireland one of the most attractive partners for foreign investment (Dorgan, 2006; Bradley, 2000; Barry, 2000; Sweeney, 1999; O'Grada, 1997). Other factors can be added, such as a supply of relatively cheap but skilled labour, the English language (particularly attractive for US investors), a stable regulatory business environment, a supportive banking system, the credibility of a consistent industrial policy and an efficient public administration (OECD, 1999; Barry, 2002; Department of Enterprise, Trade and Employment, 2005). Furthermore, Barry *et al.* (1999) argue that the increase of the FDI inflow in Ireland was also due to a 'bandwagon' or 'cascade' effect, when large

firms move into those areas where their rivals are already investing successfully. This seems to be the case of the Irish Computer, Engineering, Pharmaceutical and Chemical sectors (Barry *et al.*, 1999).

The role for attracting foreign investors was attributed to IDA. Since its establishment in 1949, IDA focused its strategy in attracting foreign investors, but focusing mainly on clusters of business in industrial manufacturing and internationally traded services. Its targets were the large multinational companies. The first foreign companies to be established in Ireland were from Britain and Germany. The Irish economy experienced high level of investment, between 1960 and 1973, averaging almost 20% of the Gross National Product (Jacobsen, 1994). At the time of accession almost half of the labour force was employed by the 540 foreign industrial firms (Table 1.12). By 1992, the number of foreign companies doubled, and employment in these firms increased by almost 36%. By far the largest increase during this period was in Services, followed by Electronics and Engineering, and Pharmaceuticals and Chemicals sectors.

Table 1.12 Contribution of FDI by Sectors to Employment, Ireland, 1972 and 1992

	1972		1992	
	No of firms	Employment	No of firms	Employment
Electronics and Engineering	148	19,465	367	39,951
Pharmaceuticals and Chemicals	66	5,592	118	12,083
Food, Drink and Tobacco	86	17,106	90	12,206
Textiles, Clothing and Footwear	115	13,933	89	10,092
Services	10	465	220	6,926
Non-Metallic Minerals	32	3,167	25	1,878
Total	540	66,054	1,015	89,699

Source: IDA Annual Report, 1992

Accession to the EEC made Ireland particularly attractive to US investors. By 1992, the number of American companies almost tripled (359) as compared with 1974 (Table 1.13). Over the same period, the number of British firms remained almost constant, whereas German companies more than doubled. The contribution of US FDI increased from 2% to over 7% between 1987 and 1993 (Barry *et al.*, 1999). The distribution of FDI inflow by sectors has also changed. While the number of clothing companies declined by 9 percentage points, between 1974 and 1992, the number of chemicals firms increased by 1.3 percentage points. Moreover most American investments were mainly oriented towards electronics and chemicals. Dorgan (2006) notes that over the years the US invested over 80% of total Irish inflow capital, confirming the US as the main source of Irish investments. IDA's strategy based on a relatively narrow sectoral specialisation with a focus on specific high-tech sectors succeeded very well. Furthermore investment incentives, such as a low

corporate tax<sup>8</sup>, has also played a crucial role in attracting leading companies in Information and Communications Technology (ICT), Software, Pharmaceuticals and Medical products companies. Companies such as Intel, IBM, Hewlett-Packard and Dell have invested significantly over the years, currently each of them employing between 4,000 and 5,000 people. Moreover, nine of the ten biggest pharmaceutical companies and 12 of the world's top 15 medical products firms are present in Ireland (Dorgan, 2006).

Table 1.13 Origins of FDI, by sector Ireland, 1974, 1982 and 1992 (%)

	Food	Electronics	Engineering	Chemicals	Clothing	Other	No.
USA							
1974	7.1	...	48.0	13.4	11.0	20.5	127
1982	5.7	12.5	21.3	25.3	19.0	9.8	296
1992	3.9	12.8	16.7	22.0	6.1	10.3	359
UK							
1974	15.4	0.0	30.8	20.1	21.5	12.1	149
1982	13.1	0.0	22.6	16.1	19.0	15.5	168
1992	13.5	1.3	13.5	20.0	12.3	14.2	155
West Germany							
1974	2.5	...	47.6	13.4	15.0	16.2	80
1982	1.6	8.7	34.1	15.9	11.9	15.1	126
1992	4.3	10.2	22.6	22.6	5.4	10.2	186
Other European							
1974	4.9	...	34.5	23.5	25.9	11.1	81
1982	9.5	7.7	41.7	36.4	51.6	17.8	175
1992	21.6	7.5	24.9	32.1	37.1	19.7	249
All foreign							
1974	8.3	...	39.5	18.6	19.1	14.5	457
1982	6.5	7.3	23.3	19.7	14.8	12.1	811
1992	6.9	8.8	30.9	19.9	10.3	10.4	1,015

Source: Breathnach (1993)

Business and finance services, ICT and Life Sciences proved to be also very successful in recent years. In 2000, foreign-owned companies provided employment for almost 69,000 people (or 49% of total FDI employment) in Electronics and Engineering sector and 42,000 in International and Financial services. The contribution of foreign-owned companies to the economy as a whole is very significant: more than 80% of manufacturing output, 88% of exports and almost half of employment. Chemicals/Pharmaceuticals and ICT/Machinery provided together 72% of total exports in 2004<sup>9</sup>. Nevertheless, Ireland remains very

<sup>8</sup> At 10% until 2002, and at 12.5% since then.

<sup>9</sup> [www.finfacts.com/irelandbusinessnews](http://www.finfacts.com/irelandbusinessnews)

dependent on a few but especially important investors, mainly the US and the UK. Three quarters of the project investments in 2005 came from to these countries (OCO Consulting, 2006). Currently, out of 980 foreign-owned companies, 470 are American; they employ 95,515 people (or 70% of total FDI employment) (IDA, 2006). The number of German and UK companies account for 122 and 111 respectively. Between 1997 and 2006, Ireland received an inflow of FDI of almost USD90 billion (Table 1.14).

Table 1.14 FDI Inflow and Outflow in Selected OECD Countries, 1997-2006 (USD billion)

Country	Inflow	Outflow
USA	1,637.2	1,580.4
Belgium/Luxembourg	1,188.7	1,181.7
UK	797.2	1,045.3
France	480.2	871.3
Germany	473.2	510.2
Spain	239.8	420.8
Ireland	88.5	90.1
Austria	45.6	52.3
Total OECD	6,836.3	8,071.1

Source: OECD (2007)

Although the world economy has considerably changed in recent years, with countries such as China, Russia and the new EU member states from CEE becoming important locations for FDI, Ireland still remains an attractive destination. The World Competitiveness Year Book 2007<sup>10</sup>, which analyses the ability of 55 nations to create and maintain an environment that sustains the competitiveness of enterprises, ranks Ireland at 14, before EU countries such as Germany and the UK, but below Austria, Sweden and the Netherlands. However, Ireland ranks first for at least two important criteria, the country's image abroad to encourage business development and investment incentives to attract foreign investors (IMD, 2007). Additionally, Ireland relies tremendously on a young educated and highly-skilled workforce, which is flexible and quickly adaptable to new challenges (Dorgan, 2006).

<sup>10</sup> It is published by the International Institute for Management Development (IMD), a world leading institution in executive education, since 1989.



## 2 AGRICULTURE AND RURAL DEVELOPMENT IN IRELAND: BEFORE AND AFTER EU ACCESSION

### 2.1 Brief overview of agricultural sector and rural development prior accession

The Irish rural economy has changed dramatically following accession to the EEC, and there is little doubt that the CAP has played a pivotal role in the process of adjustment (Walsh, 1993). Post-war Ireland was characterised by “a mainly rural-based and traditional society” with agriculture at the core of the economy (McDonagh, 2001). At the beginning of 1950s, some 500,000 people were working on almost 318,000 farms. Aiming to achieve agriculture self-sufficiency, heavy state interventionist measures were oriented towards agriculture. Hence, in 1960 the state support for this sector represented 13% of the total value of agricultural output (Walsh and Gillmor, 1993). The subsidies were product-oriented, mainly for milk. The continuation of state support and the radical changes in policy (e.g. trade liberalisation and economy openness for FDI) of the 1960s had significant effects on the development of agriculture. Technological progress and an increasing use of farm inputs enabled a rise of land productivity and helped drive a decline in the agricultural labour force. Between 1960 and 1972, the volume of gross agricultural output increased by 41% (Walsh and Gillmor, 1993). The number of agricultural holdings declined from 290,300 in 1960 to 279,500 in 1972 (CSO database).

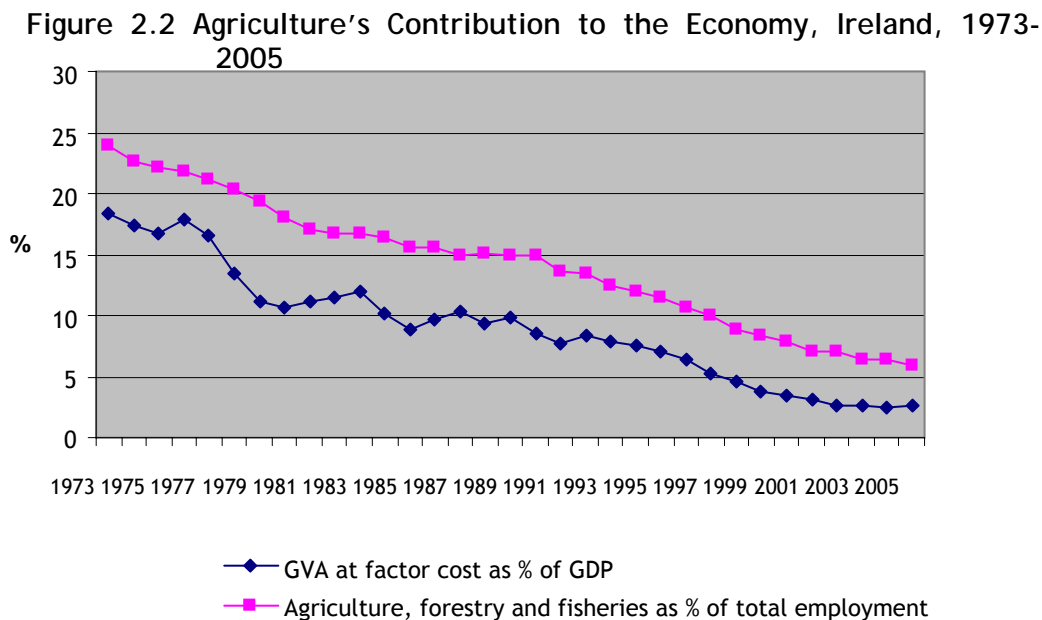
In parallel, as the economy thrived, the Government oriented its efforts towards other non-agricultural forms of rural development such as tourism, forestry and fisheries. During the 1960s tourism flourished up, and a set of new policy measures specific to rural areas were adopted, e.g. spatially dispersed manufacturing development and regional development (Walsh and Gillmor, 1993; Sweeney, 1999). Walsh and Gillmor (1993, p.86) argues that the “promotion of rural development [in Ireland] followed very much a “top-down approach”, but a local community initiative in County Donegal, “was to act later as a catalyst for community development efforts elsewhere”.

### 2.2 The development of agricultural sector and rural development following accession to the EU

The 1960s brought prosperity to the Irish economy, and in a decade Ireland transformed from an agricultural country to an industrial one (Sweeney, 1999). Nevertheless, at the eve of accession Irish agricultural sector was still very important, its contribution to the economy as a whole accounting for almost 20% of the GDP and 24% of the labour force. More than half of the total value of exports (51%, in 1972) represented food products and live animals (Brady, 1993). Thus, accession to the EEC, with the prospect of market diversification and a considerable amount of CAP subsidies, was considered a great opportunity for a strongly export agricultural-oriented economy. Since then, the significant changes that took place in the national economy and the several reforms of the CAP have influenced the evolution of the Irish agricultural sector and rural areas. As the sector prospered over the three decades since accession its contribution to the economy as a whole has declined; from 19% of GDP in 1973 to less than 2% in 2005. Currently, less than one person out of ten (6.4%) is employed in this sector as compared with one in four in 1973. However, in comparison with the rest of Europe its contribution to total employment is still above the average of EU15 (3.8%) and that of EU25 (5%).



Figure 2.1 Agriculture's Contribution to the Economy, Ireland, 1973-2005

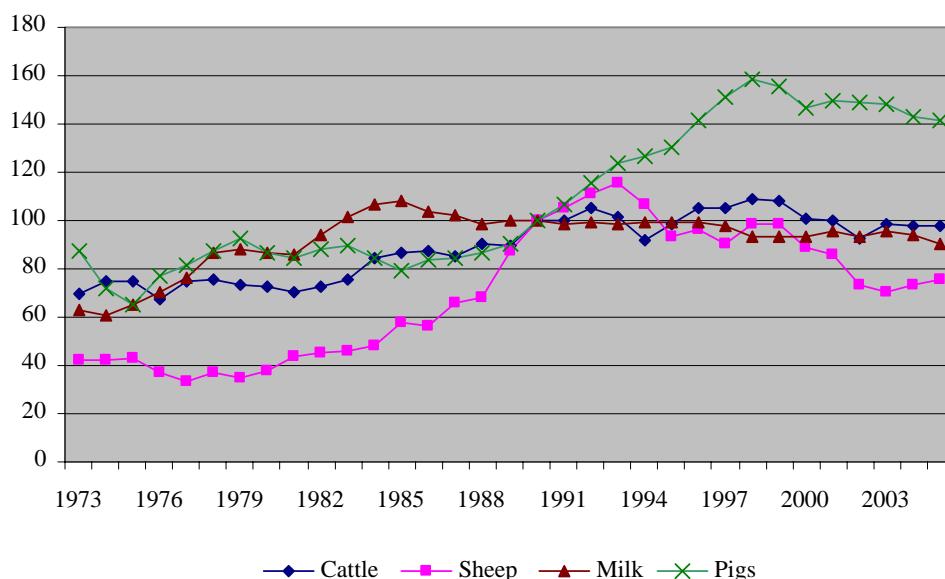


Source: based on Department of Agriculture, Fisheries and Food (2004a and 2006); Note: From 1990, the CSO applies a new methodology for calculating the GVA

The first five years after accession (1973-1978) were remarkable for this sector, and farmers benefited almost immediately as a result of this process. Agricultural output increased significantly by 35%, due to livestock and livestock products, especially beef and milk (Walsh and Gillmor, 1993). As prices for agricultural products went up, farmers' aggregate income (in nominal terms) doubled. However, from late 1970s, the situation changed. The recession that affected the entire economy during the 1980s and the first changes of the CAP (e.g. the milk quota and the establishment of common market for sheep meat) had various effects on Irish agriculture (see below). Nonetheless, agriculture remained very important for the Irish economy until 1989, when its contribution to the GDP was still around 10%.

The trends during the 1990s were partially the response to the MacSharry CAP reform, mainly the reduction of price support and the introduction of compensatory payments. Later on, Agenda 2000 (e.g. further cut price support and the introduction of 'decoupled' direct payments) and the CAP Mid Term Review (2003) had added their contribution to the structural changes of the Irish agricultural sector. Nevertheless, despite all the significant changes following accession to the EEC, the total Irish agricultural output has increased significantly over the years, with both livestock and crop output well above the levels recorded in 1973.

Figure 2.3 Volume Indices of Livestock Output, 1973-2005 (1990=100)



Source: based on the Department of Agriculture, Fisheries and Food (2004a and 2006). Note: from 1990 a new methodology is applied by the CSO

In 2006, the Irish agricultural output was structured as follows: 38% milk and dairy products, 33% cattle, 13% forage plants, 9% other livestock and 7% cereals and other crops (Department of Agriculture, Fisheries and Food, 2007a).

Ireland's land area is 6.9 million hectares, of which 4.3 million (64%) is Utilised Agricultural Area (UAA) and 650,000 hectares (9.4%) is forestry. The number of total holdings is at 135,000 with an average farm size of 32.3 hectares (Table 2.1). This is well above the EU15 average of 20.2 hectares, but much lower than other EU15 member states, such as France, Germany and the UK.

Table 2.1 UAA, Number of Holdings and Average Farm Size in Selected EU15 Member States, 2004/2003

	UAA ('000 ha) - 2004	Holdings ('000) - 2003	Average farm size
Ireland	4,307	135	32.3
Germany	17,020	412	41.2
Spain	25,249	1,141	22.1
France	29,632	614	45.3
Austria	3,254	174	18.7
Sweden	3,153	68	46.1
UK	17,069	281	57.4
EU15 (2004)	128,989	6,284	20.2
EU25	162,393	9,871	15.8

Source: CEC, 2005

### 2.2.1 Land Use

Ireland's geography and climate offer perfect conditions for livestock sector, particularly for beef and dairy and, as a result, this sector has a long tradition and a large contribution to agricultural output. Moreover, out of the 4.3 million hectares of UAA, 90% is used for crops which sustain the livestock sector. The largest share of total farmed land (51.5%) is pasture, followed by silage (24%) and rough grazing (11%) (Table 2.2). Over the years, following accession, although there has been a reduction of total Irish farmed land (by a quarter between 1980 and 2004) the structure of land uses remained almost constant. Some variation however is noticeable between silage, hay and rough grazing areas. For example, if in 1980 silage area was unaccountable, by 1991 around 800,000 ha were allocated to silage. Correspondingly, area under hay was reduced by 819,000 ha. The area allocated for cereals remained almost constant at 7% (Table 2.2).

Table 2.2 Distribution of farmed area by land use, Ireland, 1980 - 2004 ('000 hectares)

	1980	1991	1995	2000	2004	Change 2004/1980 %
Pasture	2,929	2,249.4	2,237.9	2,218.1	2,218.1	-24.3
Silage	0.0	764.7	933.6	1,074.7	1,020.4	33.4*
Hay	1,212.8	394.1	357.2	242.6	189.0	-84.4
Rough Grazing	1,008.0	641.9	459.5	506.5	453.5	-55.0
Cereals	444.8	301.6	273.8	279.0	310.2	-30.3
Total farmed area	5,704.4	4,441.8	4,388.5	4,443.1	4,305	-24.5

Source: CSO database;

Notes: \* change 2004/1991

### 2.2.2 Livestock and Livestock Products

By far the largest share of agricultural output is provided by the livestock and livestock products. The traditional orientation of Irish farmers towards livestock enterprises is explained by the combination of geographical, historical and economic conditions which have ensured over the years a competitive market for this sector (Lafferty *et al.*, 1999; Horner *et al.*, 1984). The contribution of beef sector was the largest to agriculture particularly until 1996, when due to the BSE crisis and the lost of foreign (e.g. the collapse of Russian) markets it went into a plunge (Lafferty *et al.*, 1999). The CAP reforms of 1992 (MacSharry) and 1998 (Agenda 2000) have also led to substantial changes in the Irish livestock sector. Cattle and milk sectors, taken together, represented more than 60% of the value of Gross Agricultural Output (GAO) between 1973 and 1990; with the cattle sector share predominant (Table 2.3). From 1996 and until recently (2005), the milk sector was the biggest contributor to the Irish GAO. Ireland's cattle and milk products contribute by 8.6% to the total value of EU25 GAO and by 10.4% of the EU15 GAO (based on CEC, 2005).

Table 2.3 Livestock and Livestock Products as % of GAO, 1973-2005

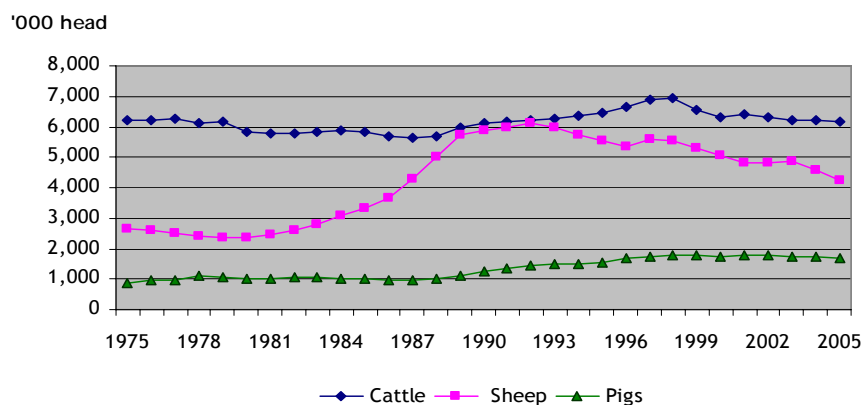
	1973	1978	1983	1988	1990	1996	2000	2002	2005
Total Livestock	59.8	53.1	50.6	53.4	47.0	44.9	44.4	42.8	45.8
of which									
cattle	42.4	39.0	35.6	39.4	33.6	28.7	28.3	25.0	28.5
pig	10.0	7.7	6.8	4.4	5.1	6.9	6.1	6.4	5.9
sheep	3.7	3.0	3.5	4.4	4.0	4.7	4.2	4.3	3.9
poultry	2.8	2.1	2.6	2.9	2.5	2.7	2.5	2.8	3.0
Total Livestock Products	26.5	33.0	34.6	34.6	29.0	30.5	30.4	30.8	27.8
of which									
milk	23.8	31.6	33.3	33.5	28.1	29.8	29.6	30.0	26.9

Source: Department of Agriculture, Fisheries and Food (2004a and 2006)

Notes: From 1990 the GAO is calculated at basic prices, whereas the GAO between 1973 and 1990 was calculated at producer prices. The basic price corresponds to the producer price plus any subsidies directly linked to a product less any taxes on products

Over three decades following accession, the number of cattle has marginally changed, from 6.5 million in 1973 to 6.2 million in 2005. Out of this, around 18% represents dairy cows and 18.6% other cattle. The number of dairy cows increased only between 1975 and 1984 (by 10.4%), followed since then by a continuously decline. From mid-1980s, as the economic environment changed unfavourably for farmers (e.g. milk quota and price reduction) the overall cattle herd steadily declined achieving its lowest level in 1987, at 5.5 million. This is equivalent to a 14% drop as compared with the 1973, and this was mainly due to the reduction of dairy cows number. Walsh (1993, p.90) argues that “for rural Ireland this [the introduction of milk quota] was probably the single most important change in the operation of the CAP in the 1980s”. A significant recovery took place during the 1990s (after MacSharry CAP reform) and it culminated in 1998 when the number of total cattle reached its highest level since accession, almost 7 millions. Since then, it has declined at an average rate of 1.4% per year.

Figure 2.4 The Evolution of Livestock Number, 1975-2005 (at December)



Source: based on Department of Agriculture, Fisheries and Food, 2006

The number of cattle holdings has almost halved, from 230,100 in 1973 to just 112,800 in 2005. In contrast, the national average size of the herd has increased, from 28 in 1973 to 61 heads in 2005; for the same period the average size of a dairy cows farm rose by a factor of 4.5, from 10 to 45 heads (CSO, 2007c). Traditionally, the dairy sector extends in the South and East regions, with almost 70 per cent of the dairy herd located mainly in the south-west, south-east and mid-east areas (Lafferty *et al.*, 1999). In 1991, the herd size category 10-19 provided the largest number of dairy cows; in 2005 the majority of animals belong to 50-99 herd size (CSO, 2007c). Although beef enterprises can be found almost all over Ireland, there is a high level of regional specialisation, with most of these farms located the North and West regions (*ibid*). The expansion of technological progress and the increase of farmers' knowledge have also influenced the level of production. Between 1973 and 2002, milk yield almost doubled from 2,631 kg/cow to 4,649 kg/cow (Department of Agriculture and Food, 2006).

Table 2.4 Livestock national herd, holdings and average farm size, 1973 -2001

	1973	1977	1981	1987	1991	1995	2001	Change 2001/1973 (%)
<b>Cattle</b>								
- no of animals ('000)	2,115.3	1,995.9	1,863.7	1,864.3	2075.8	2,225.4	2,307.6	9.1
- holdings ('000)	199.8	174	147.4	127.1	123	112	100.4	-49.7
- average size (head/farm)	11	12	13	15	17	20	23	109.1
<b>Dairy cows</b>								
- no of animals ('000)	1,431.4	1,483.5	1,458.3	1,443.6	1,293.6	1,220.8	1,148.0	-19.8
- holdings ('000)	144	119.9	92.1	69.2	50.6	40.8	30.9	-78.5
- average size (head/farm)	10	12	16	21	26	30	37	270
<b>Pigs</b>								
- no of animals ('000)	1,035.3	968.6	1,027	960.3	1,345.5	1,542.3	1,762.9	70
- holdings ('000)	35.7	19.7	10.1	4.8	2.9	2.4	1.4	-96.1
- average size (head/farm)	29	49	102	200	464	643	1,259	4,241.4
<b>Sheep</b>								
- no of animals ('000)	...	2,526	2,449.3	4,300.6	5,982.6	5,543.4	4,807	90.3*
- holdings ('000)						50.7	40.7	-19.7**
- average size (head/farm)						109	118	8.3**

Source: Department of Agriculture, Fisheries and Food, 2006; \* change 2001/1977; \*\* change 2001/1995

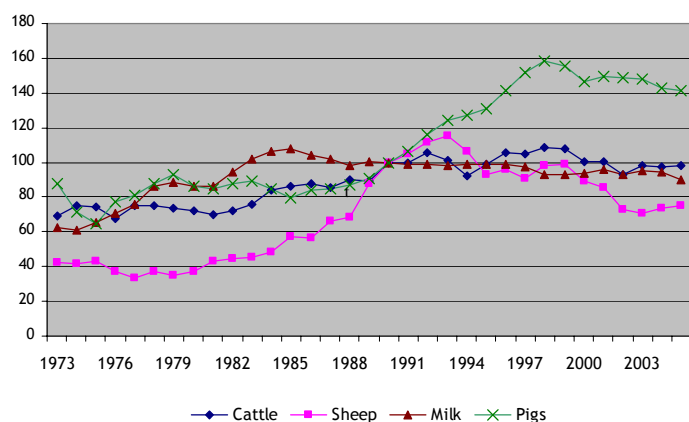
Notes: \* change 2001/1977; \*\* change 2001/1995

The sheep sector contributes much less to the agricultural sector, (e.g. only 4% of GAO), but over the years it has experienced significant changes. Although, less popular during the 1970s, the creation of the Common Market for sheep (and goat) meat and the introduction of sheep annual ewe premia in 1980, made sheep enterprise more attractive for Irish farmers. The BSE scare had also influenced favourable this sector, as consumers' demand shifted towards other meats, particularly sheep, poultry and pig (Binfield *et al.*, 1998). Between 1980 and 1992, the number of sheep farms rose by 20% (from 45,000 in 1980) and the average size of flock increased from 73 to 162 (Lafferty *et al.*, 1999). Hence, the number of sheep rose significantly from 2.3 millions to 6.1 million. The largest increase was recorded in the lower parts of Midlands and South-East (Walsh, 1993). However, from 1998 onwards, the national flock gradually declined at an average of 2.5% per year, accounting for almost 4.3 million at the end of 2005. This may be due to a set of factors such as a price fall and/or policy changes following Agenda 2000, which although not addressing directly the sheep (and pig) sectors included tougher stocking density restrictions on sheep (Binfield *et al.*, 1998). Most of the sheep farms are currently found the South-East, followed by the West and Border regions.

The pig sector has also a small contribution to the agricultural output, e.g. 6 per cent in 2005. As a relatively unsupported sector, it experienced considerable structural changes over the years. Various reasons could explain these changes, such as economic factors (e.g. price changes, loss/gain of markets and consumers' income) and health crises (e.g. BSE or swine fever). With the exception of a short period (1985-1987) when the pig herd suffered a small decline, the number of pigs increased gradually following accession and by the end of 2005 it accounted for 1.7 million. Typically, pigs were reared on a very small scale but on a large number of farms, with most farms keeping just one or two animals (Lafferty *et al.*, 1999). Over the years, as technology improved, the production system has transformed, from very extensive to a very intensive one. As a consequence, the pig sector has become highly commercially specialised, animals being reared by a reduced number of very large scale holdings. In 1973 the number of pig farms accounted for 35,700 with an average size of 29 animals, but by 1987 the number of holdings represented only 4,800 with an average size of 200 animals. The dramatic decline continued during the 1990s, and the official statistics records some 800 pig farms with an average size of 1,979 animals by 2005 (CSO, 2007c). This pattern, a reduced number of very-large pig farms, has been noticed also in other countries, such as the UK. Fowler (2004) explains this phenomenon as the "expansion and consolidation of farms in the search of economies of scale".

The changes experienced by the Irish livestock and livestock products following accession are also reflected by the trends of agricultural output for each of these components.

Figure 2.5 Volume Indices of Livestock Output, 1973-2005 (1990=100)



Source: based on Department of Agriculture and Food (2004a and 2006)

Note: from 1990 onwards the CSO applies a new methodology

### 2.3 Crop Sector

Traditionally, due to soil and climate conditions which are less favourable to cereal crops, arable farming has played a minor role within the Irish agricultural sector, as only 10% of the total agricultural land is used for cereals, potatoes and sugar beet, fruits and vegetables. The contribution of cereals to the Irish GAO has considerably declined, between 1973 and 2005, whereas the contribution of vegetables has increased. Since 1990s the largest share within the crop sector is retained by forage plants (Table 2.5).

Table 2.5 Arable Crops as % of GAO, 1973-2005

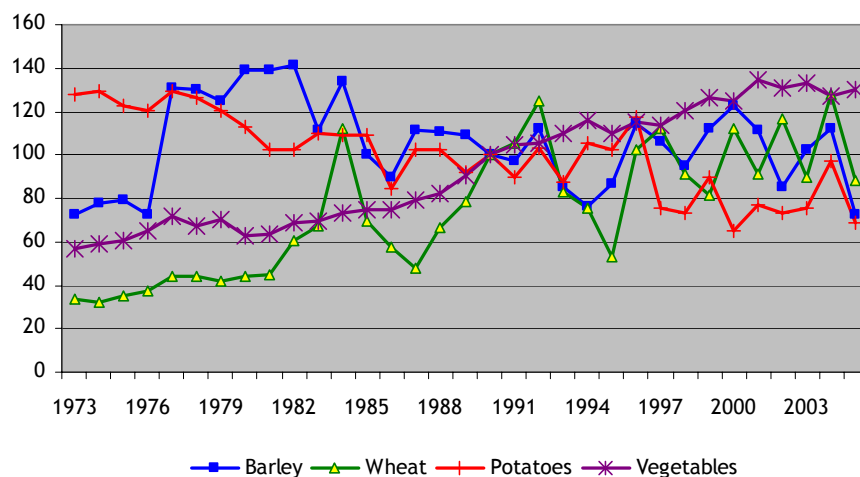
	1973	1978	1983	1988	1990	1996	2000	2002	2005
Cereals of which	6.4	7.5	6.7	5.3	4.6	3.9	3.8	3.0	2.5
- barley	4.5	5.9	4.7	3.6	2.7	2.4	2.3	1.6	1.4
- wheat	1.6	1.4	1.8	1.4	1.7	1.3	1.3	1.3	1.0
Root Crops		3.1	4.0	2.7	3.0	3.3	2.7	3.6	3.3
- potatoes	3.9	1.1	2.0	1.1	3.0	1.8	1.2	2.0	1.9
- sugar beet	2.3	2.0	2.0	1.6	1.5	1.4	1.5	1.5	1.3
Vegetables	1.6	2.0	2.1	2.1	2.4	3.1	3.9	4.5	4.0
Total forage plants	2.1	-	-	-	12.2	12.6	13.2	13.2	13.8

Source: Department of Agriculture, Fisheries and Food (2004a, 2006)

Amongst the cereals, barley and wheat are preferable. Barley is mainly used for malting within breweries and distilleries and feeding. However, the production of barley and wheat shows a very oscillatory evolution, following accession, with a high increase in output between 1977 and 1984, followed by a fall until 1990-1991 (Figure 2.6). Figure 2.6 shows also a tendency towards convergence of the two crops from 2000 onwards. This is mainly due to changes in the use of area under crops (Figure 2.7).



Figure 2.6 Volume Indices of crop Output, 1973-2005 (1990=100)



In 1980, 82% and 12% of total cereals area was allocated to barley, and wheat respectively; by 1997 the percentages changed to 61% and 30%. Lafferty *et al.* (1999) estimate that, between 1980 and 1991, total area under wheat increased at an average annual rate of 5.6%, whereas area under barley declined by an average of 4.3 % per year. A number of factors have concurred to this situation, e.g. lower prices for cereals (between 1986 and 1990 the price of cereals declined by 16%), adverse weather conditions, and a competitive price for other cereals (Walsh and Gillmor, 1993). Currently, 59% of total area under crops represents barley and 34% wheat. Vegetable output has steadily increased, between 1985 and 2005, while potatoes production has fallen for the same period (Figure 2.8). As well as livestock production, crops production tends to be concentrated on specialised larger arable farms located in areas where the soil and climate conditions are more favourable (e.g. parts of east and south) (Lafferty *et al.*, 1999).

Figure 2.7 Area under Crops, 1985 -2005

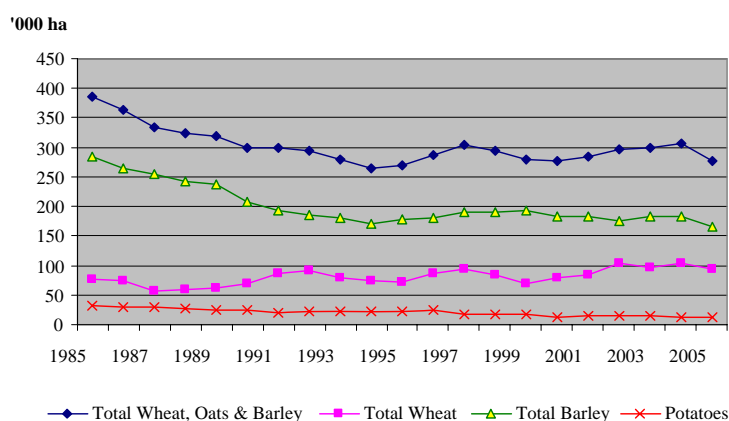
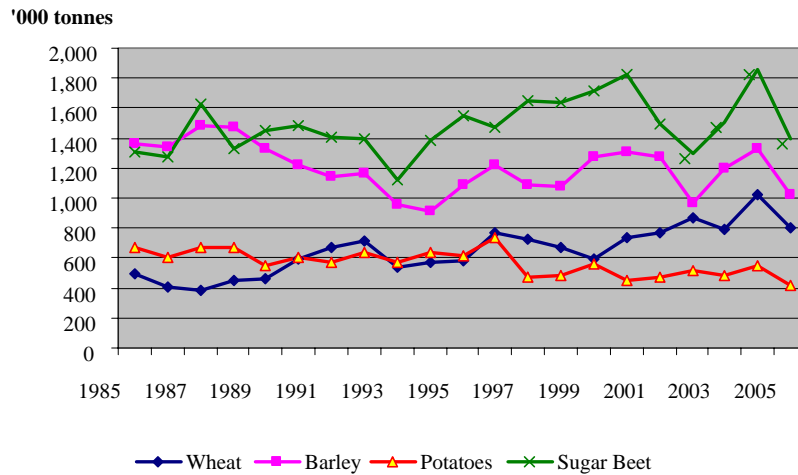


Figure 2.8 Crop Production, 1985-2005



### 2.3.1 Farm structure

Although the number of total Irish farms has decreased by 42% since EEC accession, the reduction was gradual, with the rate of declining accelerating particularly after 1985 (Table 2.6). Between 1975 and 1985, the number of farms has decreased only by 3.4%, while the change in the number of farms was very significant between 1985 and 1991, when one in four Irish farms went out of business. This maybe partially explained by the hard time that Irish farmers faced during the recession of the 1980s and in the introduction of milk quota which forced a significant number of small-scale farms (particularly of less than 5 ha) to leave the market.

Table 2.6 Number of Farms by Size Category, 1975-2005 ('000s)

	Total Farms	Average size (ha)	< 5 ha	5-10 ha	10-20 ha	20-30 ha	30-50 ha	50-100 ha	>= 100 ha	% Change*
1975	227.9	22.3	34.4	37.7	70.6	35.8	29.8	15.9	3.7	-
1980	223.4	22.6	34.0	35.4	67.7	36.3	30.3	16.0	3.7	-1.9
1985	220.1	22.7	35.2	34.7	63.8	36.9	29.9	15.9	3.7	-1.5
1991	170.6	26.0	19.2	24.1	48.3	31.0	28.4	15.7	3.9	-22.5
1995	153.4	28.2	14.8	20.5	40.6	29.1	28.1	16.1	4.1	-10.1
2000	141.5	31.4	11.7	16.7	34.3	25.0	29.6	19.5	4.6	-7.8
2001	139.6	31.6	10.9	16.3	33.7	24.8	29.6	19.6	4.7	-1.3
2002	136.5	32.0	10.4	15.8	32.8	24.4	29.1	19.3	4.6	-2.2
2003	135.5	31.7	8.6	19.9	32.1	23.9	28.1	18.5	4.5	-0.7
2005	132.7	31.8	9.2	18.5	30.1	22.5	28.7	19.6	4.0	-2.1

Source: Department of Agriculture and Food, 2006; CSO, 2007c

Notes: \* it refers to total no. of farms and the change is year by year

Surprisingly, although Irish farmers found themselves, following accession, under the pressure of maintaining economic viability (which usually forces farmers to enlarge the scale of their farm business), the process of farm extension was rather slow until the beginning of 1990s (Lafferty *et al.*, 1999). For example, the average farm size remained, between 1975 and 1985, constant at 22-23 ha. Lafferty *et al.* (1999) argue that the limitation of farm size represented one of the major structural problems faced by the Irish agricultural sector until late 1980s. This slowed down the process of farm restructuring in Ireland. The authors consider that this was mainly due to a long family tradition, with land transferred from one generation to another. This resulted in a rigid land tenure system with “a virtual absence of long-term leasing and a limited scale of land market” (p.16). This is also reflected in the high percentage of agricultural land owner-farmed, which persists for more than two decades following accession (Table 2.7). The situation has however changed. Thus, in 2005, a third of all Irish farms have rented a total of 771,500 ha of agricultural land (an average of almost 18 ha per farm) as compared to just 21% of total farms rented 553,000 ha of agricultural land (on average 15.2 ha per farm) in 1991. Nevertheless, land fragmentation has increased from 2 parcels per farm on average in 1991 to 3.4 parcels in 2005 (CSO, 2007c).

As the reduction of the number of farms accelerated from 1991, the average Irish farm size has constantly increased, reaching 31.8 ha in 2005 (a 22.3% rise as compared to 1991). This is in line with the EU trend, a reduction in the number of farms and an increase in the average size. The average farm size (UAA) however varies considerably across the regions, from 24.1 ha in the West to 41.4 ha in the South-East (CSO, 2007c). There has also been a significant change in the number of farms of various size categories. The decline has particularly affected the small-scale farms, which found it difficult to compete with the large ones (and which benefit of economy of scale) on productivity and high-quality output basis (Walsh and Gillmor, 1993). In 1975, the share of farms with less than 20 ha, represented the majority and accounted for 63% of total number of farms. By 2005, this share represented 43% of total Irish farms. For the same period, the share of farms with 50 ha or more doubled, increasing from 8.6% in 1975 to 17.7% in 2005 (Table 2.6).

Table 2.7 Share (%) of Agricultural Land Owner-Farmed in Total Agricultural Area, 1975-1997

	1975	1979/80	1985	1987	1989/1990	1995	1997
Ireland	95.1	94.3	96.1	95.8	87.6	87.6	86.7
EU9	63.5	63.1	62.8	62.7	56.3	53.6	52.9
EU12	...	...	...	64.8	60.6	58.7	58.2
EU15				...	...	59.4	59.0

Source: CEC (2000)

The use of farm holders’ age as a variable of analysis for farm structure shows also some interesting changes over the years. As expected, this characteristic is extremely important for the type of farming in which farmers are engaged and the sustainability of farm business. Table 2.8 presents the evolution of family farms according to the age of their holders. In 1975, more than half of all farms were managed by holders over 55 years of age, and a quarter of them were held by persons above 65 years of age. During the 1990s the number of young holders (less than 35 years of age) has increased, followed by a

gradual decline. Currently more than half (52%) of total farms have holders with an age less than 55 years, whereas those over 65 years represent 24%.

Table 2.8 Family Farms by Holder's Age ('000s)

Year	< 35	35-44	45-54	55-64	> 65	Total farm
1975	14.6	36.9	59.4	61.2	55.9	228
1980	17.1	38.9	57.8	60.9	48.0	223
1985	14.2	39.8	54.1	62.0	48.9	219
1991	22.4	33.8	37.0	38.0	38.7	170
1995	20.9	29.8	34.5	35.3	32.5	153
2000	18.4	30.8	36.3	27.8	28.0	141
2003	15.1	28.9	34.3	30.3	26.8	136
2005	10.8	25.0	33.0	32.1	31.6	133

Source: Department of Agriculture, Fisheries and Food (2006); CSO (2007b)

As regards farm structure by farm type, some of the structural changes were presented above in Livestock and Crop Sections. However, one principal conclusion evolves, that is the number of holdings has significantly diminished for all farm types in contrast to a large increase in the average size of farm. This implies that the structural changes that took place in agriculture led to a large concentration, specialisation and intensification of production (Lafferty *et al.*, 1999). This situation is also reflected by the changes that took place in the number of specialist Irish farms following accession. Hence, for example, between 1980 and 1997, the number of specialist cereals drop by 68%, from 11,700 to 3,700 (Table 2.9). The largest reduction is no doubt recorded in the number of specialist dairying farms. With the exception of 1975-1980, when there was a small increase of 10%, the number of specialist dairying farms declined continuously, accounting for just over 21,000 farms in 2005. The evolution of the number of specialised beef and sheep farms was however different. After a small drop between 1975 and 1980, it followed a period (1980-1987) of sharp increase, particularly for sheep farms; e.g. the number of specialised beef producers rose by 27% whereas specialised sheep farms doubled in number. The 1990s brought a steadily decline in the number of specialised sheep producers, but a small rise in the number of beef specialists.

Table 2.9 Number of specialised farms by farming system 1975-2005 ('000s)

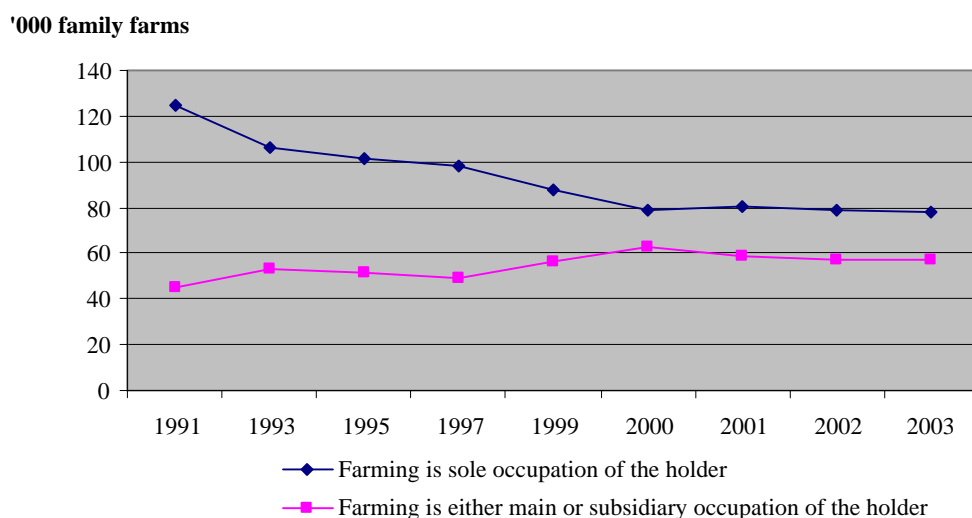
Year	Crop (tillage)	Dairy	Cattle rearing and fattening	Sheep, goats & other livestock grazing	Mixed crop & livestock	Pig and poultry	Total
1975	6.1	57.1	66.4	23.6	11.7	1.8	228.0
1979/80	11.7	62.8	65.6	22.7	14.4	1.5	233.5
1985	9.6	57.7	75.9	44.6	11.0	1.6	220.2
1987	9.7	54.9	83.2	47.3	7.6	1.3	217.0
1991	5.0	41.6	71.8	40.9	4.3	0.8	170.6
1993	4.4	39.0	68.9	35.7	4.3	0.7	159.5
1995	4.3	34.4	72.0	30.5	4.0	0.7	153.4
1997	3.7	33.3	73.0	28.2	3.6	0.7	147.8
2003	4.6	24.3	67.7	33.1	3.8	2.0	135.6
2005	4.8	21.2	69.2	32.4	3.5	1.5	132.7

Source: CEC (2000) and Department of Agriculture and Food (2006); CSO (2007c)

### 2.3.2 Labour Input

Traditionally, farming is a family business in Ireland, with land and business often transferred from one generation to another. Thus, the proportion of family farms in the total number of farms remained constant over the years and accounts for almost 100%. As the importance of agriculture within the economy as a whole has declined, farming has become less attractive as an activity. As a result, the volume of total agricultural labour has recorded a continuously descending trend. However, over the period 1979-1996, the annual average rate of decline of agricultural labour was less severe in Ireland (at a 2%) than in other EU countries (The Heritage Council, 1999). Since the early 1990s there is also a clear diminishing trend in the number of farmers for whom agriculture is the sole occupation as opposed to an increase of part-time farming. The number of full-time farmers has decreased more rapidly at an average rate of almost 4% per year whereas, the number of part-time farmers has increased on average by 2% per year. In 2003, farming was the sole occupation of the farm holder in almost six farms out of ten, as compared with seven out of ten in 1991 (Figure 2.9). Part-time farming is also likely to be taken up by younger people, rather than older farmers.

Figure 2.9 Full and Part Time Farm Numbers, 1991-2003



Source: based on Department of Agriculture, Fisheries and Food (2006)

As farming is almost totally a family business, family labour as input on the farm is very important. As most of the significant changes took place from late 1980s some comparable data are presented in Table 2.9 for the period 1991 and 2005. Family members (e.g. holder, spouse and other family workers) as input labour still prevails, providing more than 94% of total labour work on the farm. This share has hardly changed over the years. However the number of family members involved in farm labour has dropped by 24%. In the same time, when using Annual Work Units (AWU), a measure which presents more accurately the volume of used labour (Lafferty *et al.*, 1999), it can be noticed that total family labour input declined even more acute, from 234,200 persons in 1991 to 141,700 persons in 2005. Interestingly, for the same period the contribution of spouses and other family workers to total AWU has significantly fallen. This might explain the increase of off-farm employment which has become in recent years more widespread. Estimates from the National Farm Survey 2006 (Teagasc) show that the percentage of farm households with off-farm jobs by holder and/or spouse accounted for 58% of all farms. This is almost double as compared with 1993 figure of only 31%. The Survey also shows that farm size and type of enterprises are also important when analysing labour, and thus it is more likely that the holder of small size farms, with cattle or sheep, to have an off-farm job. Spouses tend to have an off-farm job in farms of an intermediate size. Moreover, although the amount of work of farm holders has decreased in absolute terms (by 44,700 AWU), their contribution to the total labour input has increased by 10 percentage points, emphasising the important role of the farm holder as a labour input. Overall, the average labour input per farm remained almost constant at 1.2-1.5 AWU (CSO, 2007c).

Table 2.10 Agricultural Labour Input, 1991-2005

	1991			1997			2005			% Change 2005/1991	
	Persons AWU '000		% of AWU	Persons '000	AWU	% of AWU	Persons '000		% of AWU	Persons	AWU
Holder	169.9	142.9	56	147.6	122.1	59	130.4	98.2	66	-23.2	-31.2
Spouse	72.0	53.0	21	54.4	33.9	16	45.3	22.3	15	-37.0	-57.9
Other family	57.3	38.2	15	66.0	32.3	16	57.9	21.1	14	1.0	-44.7
Total family workers	299.3	234.2	92	268.0	188.3	91	233.7	141.7	95	-21.9	-39.4
Regular non-family	13.4	11.0	4	13.9	8.9	4	14	7.0	5	4.5	-36.4
Total	312.7	253.7	100	281.9	205.8	100	247.7	148.6	100	-20.7	-41.4

Source: based on Lafferty *et al.* (1999) and CSO (2007b)

There has also been a significant change in the number of persons at work in agriculture (forestry and fishing) classified by employment status. Between 1985 and 2006 the number of people employed in agriculture has decreased by 35%, with the biggest reduction recorded by the assisting relatives. Self-employed category still remains the most important, and although in absolute terms the number of self-employed people has continually fallen (from 123,200 in 1985 to 86,800 in 2006), their share in total number of persons at work has increased by around 6 percentage points. The number of employees has oscillated moderately between 21,000 and 24,000, with the highest pick reached in 1999 at 27,000 persons. In relative terms this category has increased its contribution to total number of workers by 7 percentage points, whereas assisting relatives share dropped from 17% in 1985 to less than 4% in 2006.

### 2.3.3 Farm Income

Undoubtedly, all the transformations that took place within the agricultural sector over the years since accession had remarkable impacts on farm income and the livelihood of farmers and their families. As previously mentioned, the first five years after accession were very successful for Irish farmers. The injection of European subsidies, particularly in the form of price and market support (e.g. guaranteed prices for agricultural commodities) had a positive effect on Irish farmers' income. By 1978, farm income doubled in nominal terms (Walsh and Gillmor, 1993), and also increased by 15% in real terms. Since then, however farm income has been very volatile from one year to another and although in nominal terms the aggregate farm income increased over the years, in real terms the situation is very different.

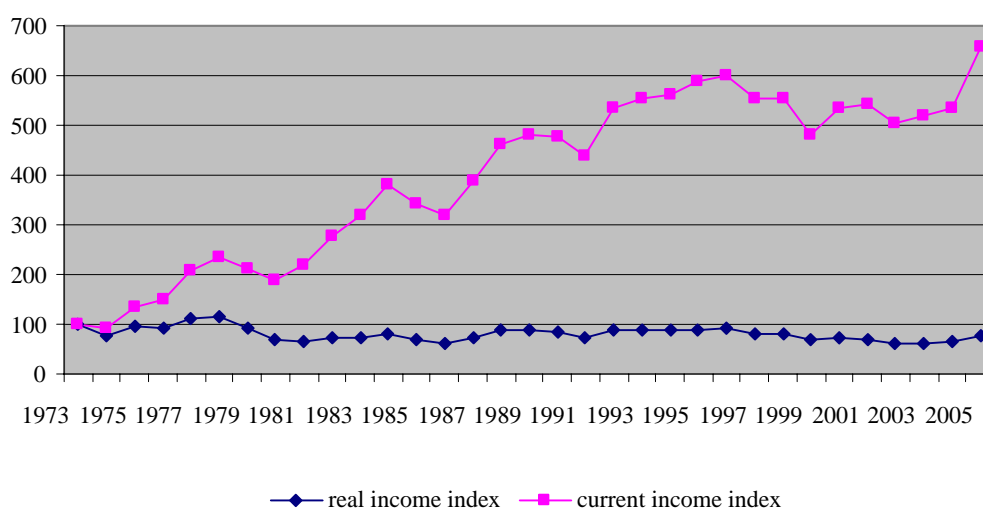
Figure 2.10 shows the evolution of aggregate farm income index, in nominal and real terms, emphasising the various changes that took place during this period. With the exception of two years (1977 and 1978) the level of real income in Ireland was never above the level of 1973. The largest fall is recorded in 1986, when farm's income dropped by 37%



as compared with 1973 reaching the lowest levels ever. There was a modest recovery between 1992 and 1996 when real income index oscillated between 88% and 90% of the 1973 level. In 1999, real income dropped to the same level as that of 1980<sup>11</sup>. Small increases followed and continued until 2002/2003 when again there was a significant fall in aggregate farm real income.

It is estimated that the increase in farm income in 2005 is the result of the changes in EU policy related to implementation of a decoupled system of direct payments from 2005, respectively the payment of an average once-off sum of “€5,266 per farm due to carry-over arrears from 2004 coupled payments” (Teagasc, 2005). This once-off sum represented more than a third of the increase. Recent data of 2006 show a decline of farm income of almost 26% as compared with 2005 (Teagasc, 2006), but this was expected given the specific circumstances of 2005.

Figure 2.10 Aggregate Farm Income, 1973-2005, (1973=100)



Source: based on Department of Agriculture, Fisheries and Food (2004a and 2006)

Note: From 1990 the CSO applies a new methodology

A better image of the situation of Irish farm income is summarised in Figure 2.11, which presents the evolution of family farm income (FFI) per farm (in current and real<sup>12</sup> terms), between 1995 and 2006, calculated by the Teagasc National Farm Survey.

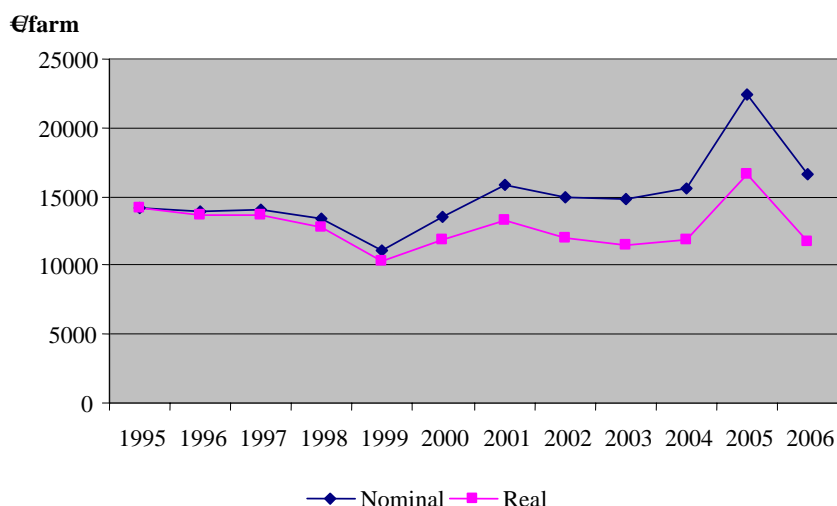
Irish farm income varies considerably across different farming systems, sizes and regions. Csakie *et al.* (1991) stressed that the relative poverty that characterised Irish farm households for a number of years was ‘mainly associated with the small and medium-sized farm households, with cattle and sheep, and where agriculture is the main income’. Lafferty *et al.* (1999) argued that the concentration on fewer but larger farms created a “polarisation of farm income” in Ireland, with the gap between high and low income farms

<sup>11</sup> Some caution is necessary when interpreting these data as from 1990 the Central Statistics Office has introduced a new methodology for the calculation of input, output and income in agriculture.

<sup>12</sup> This is calculated as the value of farm gross output minus all farm (direct plus overhead) costs. From 1995, the Survey includes in its sample only farms of a minimum 2ESU (National Farm Survey, 2006, Teagasc).

becoming more severe over the years. Hence, as farm size is important and, due partially to economy of scale, it is expected that the bigger the farm the larger the income. Furthermore, the large dairy and arable crops farms continue to be by far the most profitable enterprise in Irish agriculture (Table 2.11 and Table 2.12). Regionally, dairy as farming activity facilitated also “the survival of many small farms particularly in the south-west and north-east” (Walsh and Gillmor, 1993).

Figure 2.11 Family Farm Income per Farm, 1995-2006



Source: National Farm Survey 2006, Teagasc

Table 2.11 Family Farm Income by Type of Farm, 1995-2006 (€/farm)

	Specialist Dairy	Dairy other	Arable crops	Cattle rearing	Cattle Other	Sheep
1995	25,385	22,724	23,370	6,264	7,606	7,928
2001	34,426	27,082	24,105	7,278	7,822	12,126
2006	36,221	24,774	28,536	8,291	11,292	11,902

Source: Connolly, L. (2002); National Farm Survey 2006, Teagasc

The distribution of income is also very much related to the farm size and type of business, resulting in a large variation in the level of farm income. More than a third of Irish farms find themselves in the lowest income group (i.e. less than €6,500 per year) (Table 2.13), and most of these farms have cattle and sheep as main enterprise. Specialist dairy and arable crops farms are privileged and their earnings are three to four times higher than those with cattle and sheep. These are the farm types which belong to the highest income group but which accounts only for 12% of total farms. Connolly (2002) notices that the large variation in the level of income according to the type of farm has been evident in the Irish farm sector since mid-1970s. In 2006, within the highest income group (above €40,000) over 60% were dairy farms and 24% arable crops (tillage), with an average size of 76 hectares (Teagasc, 2006).

Table 2.12 Family Farm Income by Type and Farm Size (UAA), 2006

Size (ha)	<10	10-20	20-30	30-50	50-100	>100	Hill farms	All
€/farm								
Specialist Dairy	-	1,112	18,294	39,141	55,089	81,573	22,157	36,221
Dairy other	-	-	-	17,066	42,026	65,598	-	24,774
Cattle rearing	-	4,915	4,809	13,791	20,436	49,699	6,797	8,291
Cattle other	3,600	4,639	7,823	15,815	28,944	44,592	10,177	11,292
Mainly sheep	-	6,210	11,024	15,307	22,900	41,483	11,094	11,902
Mainly crop	-	-	-	21,061	40,550	81,322	-	28,536
All	3,392	5,441	8,837	21,442	38,241	63,381	10,942	16,680

Source: National Farm Survey 2006, Teagasc

Table 2.13 Family Farm Income Distribution, 1998-2006

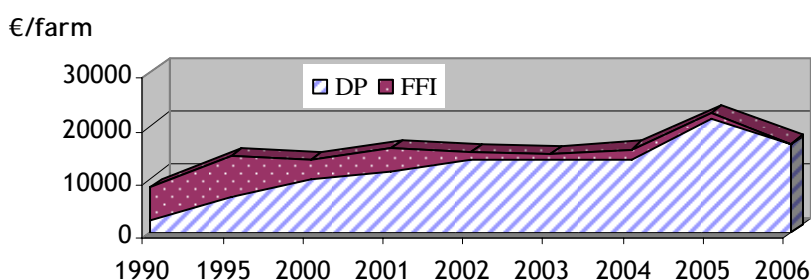
'000 €	< 6.5	6.5 - 13	13 - 20	20 - 25	25 - 40	> 40
% of total Farms						
1998	40	23	13	8	10	6
1999	51	20	9	7	7	6
2000	40	22	12	8	9	9
2001	40	22	12	5	11	10
2002	40	22	13	6	12	8
2003	39	22	14	6	10	9
2004	40	22	11	6	11	10
2006	37	24	12	5	9	12

Source: National Farm Surveys (various years), Teagasc

As indeed throughout the whole EU, a vital component of the Irish farm income (and the livelihood of farmers) is the subsidy, particularly the direct payments. Although, initially, the role of direct payments was limited, its share in farm income increased considerably over the years. Between 1973 and 1979, farm subsidies amounted to around €245 million and averaged only 5% of aggregate farm income. In 1985 alone, they accounted for €230 million representing almost 15% of aggregate farm income. Five years later, this share rose to 23% (CSO, 2004). The increase continued, particularly from 1992 onwards, and by 2006, direct payments represented 98% of total Irish family farm income (Figure 2.12). The explanation lies within the CAP changes laid down in the MacSharry reforms and the

introduction of compensatory payments to support farmers' income for the reduction of price support for agricultural products. Later on, Agenda 2000 and the Mid-Term Review reforms had also a major impact on farm incomes and their composition, as the EU weight of farm assistance shifted from price support to direct payments. The incidence of direct payments on farm income in Ireland is enormous. There is however a wide variation of the distribution of direct payments across farm sizes and enterprise mix. The larger the farm the higher the share of direct payment received. For specialist dairy, the share of direct payments represented 31% of family farm income, whilst for cattle rearing and sheep farms it was well above 100% (Teagasc, 2004). The distribution of direct payments by income deciles shows that, in 2005, 42% of direct payments were allocated to the 20% of farmers with the highest family farm income, whereas only 7% went to the 20% of the lowest farm income group. On average a farm received €21,101 in the form of direct payments, but the amount varied from less than €8,000 for farmers in decile 1 and 2 to €54,245 to farmers in decile 10 (Department of Agriculture, Fisheries and Food, 2007). Hence, the distribution of direct payments accentuates the income inequality amongst Irish farms. Yet, overall there is an unconditional reliance of Irish farm households on the EU financial support and an almost total income dependence on direct payments (Figure 2.12).

Figure 2.12 Contribution of Direct Payments to Family Farm Income, 1990 - 2006

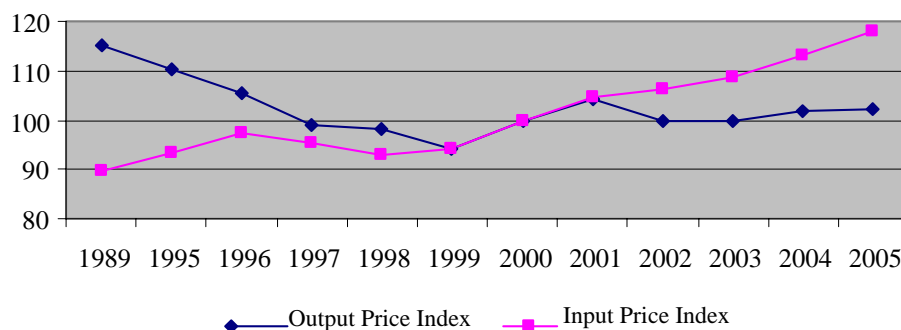


Source: based on National Farm Surveys

#### 2.3.4 Input-Output Price Development

The volatility of farm income is also related to the evolution of the agricultural output and input prices, which in turn reflects the interplay of the supply and demand for farm products (Matthews, 2005). As with the majority of farmers, Irish farmers found themselves often squeezed between agricultural output and input prices. Whilst agricultural output has increased significantly particularly over the years, as a result of technological innovation, output and input prices oscillated, hence pressing farm incomes. Both agricultural output and input prices have increased in nominal terms, between 1980 and 1990, but since then output prices have fallen (Matthews, 2005). Sheehy (in Walsh and Gillmor, 1993) noticed that the effect of price movements since 1977 has been greater in Ireland than in other Community member states. Figure 2.13 presents the evolution of Irish agricultural output and input price indices, between 1989 and 2005, emphasising the gradual increase in input prices.

Figure 2.13 Agricultural Output and Input Price Indices, 1989- 2005 (2000= 100)



### 2.3.5 Off-Farm Income

The various changes that took place over the years in the Irish agricultural sector had a continuously impact on farm incomes, pressuring family farm members, particularly in recent years, to engage in off-farm employment. As shown previously, whilst the agricultural input labour continues to decrease there is a tendency towards convergence of the proportion of full-time and part-time Irish farmers, and an increase in the number of farms on which the holder and/or spouse takes up off-farm work. Thus, the contribution of farming as the main source of income of an Irish farm household<sup>13</sup> has declined year by year. For example, if in 1973, the share of farming income (including EU subsidies/direct payments) represented 70% of total farm household, this was reduced to only a third in 2004 (Table 2.14). Whilst the percentage of household income derived from farming has continuously decreased, the contribution of other income components (including non-farm employment) has more than doubled, over the same period. The transfer payments from public funds (mostly pensions and other social benefits) are also important, particularly for the poorest farm households. For example, in 2004, for each €100 €16 were provided by the state.

Table 2.14 Gross Income of Farm Households by Main Sources, 1973-2004 (%)

	1973	1980	1987	1994	1999/2000	2004
Farming	70.1	58.3	54.2	53.5	40.7	32.9
Other direct income	19.1	26.3	17.6	34.8	48.7	51.5
State Transfers	10.8	15.2	28.3	11.7	10.6	15.6
Gross income	100	100	100	100	100	100

Source: based on Matthews (2005), Department of Agriculture, Fisheries and Food (2006)

As farm household income has declined and the gap between poorer and reach has widen, the Irish government has designed some schemes to support low-income farm families. The Farm Assist Scheme was introduced in 1999 and replaced the former Smallholders Unemployment Assistance Scheme. This is available for farmers between 18 and 66 of age.

<sup>13</sup> Farm household refers here at all households, including those in urban areas that have an income from farming (broad definition) (Central Statistics Office).

In 2006, the scheme supported 7,500 farmers and the total expenditure accounted for €71 million (Department of Agriculture, Fisheries and Food, 2007). The Rural Social Scheme, designed to support both low-income farmers and fishermen (particularly those who received specific long-term social welfare payments and certain services of benefit for rural communities) was initiated, in 2004, for eight regions, being subsequently extended to all Ireland's rural areas.

A good measure of the living standards is the average household income (Matthews, 2005). Table 2.15 emphasises the changes in the average annual household income that took place over a decade.

Table 2.15 Average Annual Household Income, 1994 and 2004 (€)

	Farm Households		Non-farm Rural Households		Urban Households		Average	
	1994	2004	1994	2004	1994	2004	1994	2004
Farming income	12,653	14,382	397	0	43	0	1,319	1,138
Off-farm employment	7,315	21,692	13,209	29,747	17,878	44,084	15,595	37,819
Other direct income	928	806	1,384	745	2,418	1,407	1,993	1,152
State transfers	2,762	6,825	4,177	9,151	3,803	9,551	3,809	9,210
Gross income	23,658	43,704	19,168	39,644	24,128	55,042	22,716	49,319
Disposable income	21,191	35,898	16,168	32,047	19,380	42,383	18,664	38,630
Person per household	3.6	3.1	3.3	2.74	3.2	2.97	3.28	2.91
Gross income /person	6,514	14,076	5,794	14,486	7,504	18,556	6,398	16,976
Disposable income/person	5,834	11,562	4,887	11,710	6,027	14,288	5,692	13,297
Gross income as % of average	104.1	89	84	80	106	112	100	100
Disposable income as % of average	113.5	93	87	83	104	110	100	100

Source: CSO, Household Budget Survey 1994/1995, Department of Agriculture, Fisheries and Food (2006)

There is a clear distinction between the average annual income of farm households, non-farm rural households and urban households, with the latter being well above the average. Despite a large increase (in nominal terms) of average income for all categories of households, the disposable income as percentage of average has decline particularly for farm households by almost 21 percentage points, whereas for urban households it increased by 10 percentage points. Indeed, over the same period, does not seem to be any significant changes between the average income of farm households and non-farm rural

households, but the high share increase of off-farm employment (from 30% to almost 50% of gross income) played a crucial role. Moreover, as almost 90% of farming income (in 2004) represented contribution of direct payments, it can be stated that without this support farm households will be less better off than other non-farm rural households.

#### 2.4 Approaches to Rural Development in Ireland

Defining 'rural' as a concept it is a complex and difficult task, as no precise and unique theoretical definition has yet been agreed. Frequently, in simple terms, rural areas are associated with small towns and villages, with a certain amount of population and in which agriculture (forestry and fishing) is still an important activity. There is however an official definition of which dates back to the 1898 Act, which defined Urban Districts and Rural Areas. More recently, the Local Government Act (2001) replaced Urban Districts with Towns (Meredith, 2001). Thus, Aggregate Town Area population refers to all those persons who are residing in clusters of 1,500 or more inhabitants; the difference belongs to Aggregate Rural Areas (CSO, 2006, Population Census). The Rural Development National Strategy Plan (2007-2013) defines rural areas in Ireland as all parts outside the major urban areas of Dublin, Cork, Limerick, Galway and Waterford.

McDonagh (2001, p.50) challenging what means 'rural' and 'rurality' in Ireland, argues that a "few places in Europe are so closely associated with the 'rural' as Ireland" (p.50) and "'rural' impinges on almost every aspect of Irish life, socially, economically and in influencing the decision-making process" (p.48). Additionally, in his view, rural Ireland has been transformed by a variety of economic, social, historical and cultural forces, but "older territorial patterns are still deeply embedded in rural structures" (p.50). Hence, the dilemma between Ireland traditional rural identity, with farming and landownership as predominates, and the new rural economic and social progress based on a multi-sectoral approach still persist in Irish spirit (McDonagh, 2001).

Irish rural areas have witnessed a rapid process of changes, particularly in the past decade; population growth, a diversification of employment opportunities and an expanding sense of community life in which culture, traditions and heritage are valued and retained. All of these are the "consequence of trends and processes influencing the reorganisation of the economy in response to global processes" (Meredith, 2006). The economic, social and demographic changes (particularly net migration) have influenced population trends and distribution between urban and rural areas, and as in most developed countries there has been a shift towards urbanisation. In 1971, rural population (using the CSO census definition) accounted for almost half of total population. By 1996, this share represented 42% and a decade later just 39% (Table 2.16). However, population in both urban and rural areas has increased but at a different speed. Between 1971 and 1996, urban population increased by 36%, while rural population rose by only 7%.

Using the official definition of rural areas, approximately 98% of land area is classified as rural; population density in rural areas increased from 29 persons/km<sup>2</sup> to in 1996 to 36 persons/km<sup>2</sup> in 2006 (Meredith, 2006).



Table 2.16 Urban - Rural Population, Ireland, 1971-2006

	1971	1986	1996	2006	% Change 1996/1971	%Change 2006/1986
Total	2,978,248	3,540,643	3,626,087	4,234,925	22	20
Urban	1,555,611	1,996,778	2,107,991	2,570,599	36	29
% of total	52.2	56.4	58.1	60.7		
Rural	1,422,634	1,543,865	1,518,096	1,664,325		
% of total	47.8	43.6	41.9	39.3	7	8

Source: CSO (Population Census various years)

As it has been noted, agriculture does not play any more the crucial role within the Irish farm household economy. Like throughout other EU established member states, the economic and social development of Irish rural areas is no longer synonymous with agricultural development (Department of Agriculture, Fisheries and Food, 1999). Between 1991 and 1996, for every job lost in agriculture 4.5 jobs were created within other sectors in rural areas, and over half of the new jobs were filled by women (ibid). According to the official statistics (CSO, Census Population 2002), traditional manufacturing employment is more important in rural areas (17%) than non-rural areas (12%). Estimates of the most recent Census of Agriculture (2000) show an increase in the number of farms involved in other activity than agriculture, from 1,917 (1.1% of all farms) in 1991 to 7,507 (less than 5%) in 2000. The Census also recorded the importance of forestry as a preferable activity within the farming community (Table 2.17). Despite that the number of farms which reported gainful off-farm activity is rather modest, 44% of farmers were engaged in other non-farm activity within the rural economy in 2000. Kinsella *et al.* (2000) considered that Ireland has a high share of pluriactive farm households, being the fourth in the EU15, behind Austria, Germany and Finland (in 2000). Forestry occupies only around 10% of the total country's land area, Ireland being the least forested country in the EU; however the Strategic Plan for the Development of Forestry Sector in Ireland (adopted in 1996) aims a two and a half fold increase in the forest areas over a period of 30 years. It is estimated that over 90% of planting is being undertaken by farmers (Rural Development Programme for Ireland 2007-2013).

Table 2.17 Number of farms with gainful non-agricultural activity

	Farm Tourism	Recreational activity	Home crafts	Forestry	Other	Total
Number of farms	1,240	374	173	2,849	2,871	7,507

Source: CSO, Census of Agriculture 2000

Tourism, in general, represents an important sector for the Irish economy as a whole. This sector has developed considerably particularly since the early 1990s; if in 1986 the number of overseas visitors accounted for almost 2 million, by 1996 the number had doubled. In 2006, some 7.7 million people visited Ireland, with the majority of tourists coming from

Great Britain (4 million) and other Europe (2.3 million).<sup>14</sup> The decline of agriculture has influenced the development of rural tourism, forcing farmers to find alternative employment. Nowadays, rural tourism in Ireland is viewed as an integral component of rural enterprise. Moreover, according to the Rural Development Programme for Ireland 2007-2013, there is a clear indication of the importance of both agriculture and tourism to rural areas, as “the regional spread of overseas tourism closely patterns that of agriculture in rural areas”. The programme emphasises however the existence of an unbalanced regional development, with concentration of tourism in a limited number of counties such as Dublin, Galway and Kerry, and stresses for a more balanced development of tourism in all Irish rural areas.

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<sup>14</sup> <http://www.cso.ie/statistics/vistoirenumoseasvisits.htm>

### 3 MOST SIGNIFICANT POLICY MEASURES TO MANAGE SOCIO-ECONOMIC CHANGES IN RURAL AREAS IN IRELAND SINCE EU ACCESSION

The importance of rural development in Ireland since accession to the EC has its origins in the Community efforts on rural affairs, particularly the intricate reforms of the CAP. Nevertheless, O'Reilly and Gough (2002) argue that awareness of rural and regional development and issues in Ireland have preceded the CAP; during the 1960s various government policies were oriented to support the development of the rural economy and the 'wellbeing of rural Ireland' through 'economic diversification and regional development'. The adoption of the Local Government (Planning and Development) Act (1963) and the creation of Regional Development Organisations (RDO) which enhanced local authorities' planning responsibilities were amongst these initiatives (McDonagh, 2001). O'Hara and Commins (cited in McDonagh, 2001) noticed however that (during the 1960s) Ireland's rural development was still very much related to agriculture with government policy designed predominantly to support farming population.

#### 3.1 Agricultural and Rural Development Policies up to 1992

State intervention played a major role in agricultural sector in the period between Ireland's territorial independence and 1973, when the agricultural policy decisions moved from the national to the Community level. There is little doubt that the Community policies have played a fundamental role in shaping Ireland's rural economy. In this respect, the CAP, as the major component of the EU budget, has been crucial for rural Ireland. Its effects have not only influenced considerably the status of the Irish agricultural sector (e.g. production levels and exports, farm structure and employment) but also spread well beyond (Jenkins, 2001; O'Reilly, 2004). For example, Walsh and Gillmor (1993) argue that the impact of CAP transfers has enabled the reorientation of national spending towards others sectors in need such as education, health and welfare services. This may contrast somewhat with Barry (2000) who affirms that "in general equilibrium-terms, agricultural support inhibits the development of other sectors of the economy" (p.1384).

Despite that the Irish agricultural sector experienced some substantial modernisation prior accession due to a considerable state support (Gillmor, 1977), the perspective of receiving a significant amount in the form of agricultural subsidies and exporting on a larger market, represented a stimulus for Irish people for embracing EEC membership. As Walsh and Gillmor (1993) noticed, for the agricultural community the EEC was the 'promised land'. Between 1973 and 2005, Ireland received a total amount of almost €56 billion of which 71% represents payments through both the Guarantee and Guidance FEOGA (Fonds Européen D'Orienteation et Garantie Agricole) sections (Table 3.1). For the same period, the Irish contribution to total EU expenditure accounted for €16.4 billion of which more than half (€8.9 billion) was oriented towards FEOGA (CSO, 2006).

During the 1970s, most of the CAP support came in the form of price and market support, and this had an exceptional positive impact on the Irish farming community as a whole, particularly for the first five years after accession. The level of output increased and farmers' income rose both in nominal and real terms. The dairy and beef sectors were the main beneficiaries, receiving almost 90% of total Guarantee Section funds, whilst arable crop (tillage) farms received only 3% (based on CSO, 2006). Nationally, the agricultural policy focused mainly on increasing the efficiency of production and maintaining the traditional family farms (Leavy *et al.*, 1997). Although no major structural changes were noticeable during this five-year period, the distributional impacts of the CAP varied widely across individual farms and regions. Most of the benefits were actually captured by large dairy and arable crops farms. Walsh and Gillmor (1993) stress that these farmers also

benefited from “investment aids and from infrastructure of research, advice and other services which had developed to support the agricultural sector” (p.87). Small-scale farms mainly based on other livestock such as cattle-rearing, sheep, pig and poultry or fruits and vegetables, received very little support or none (Table 3.2). Most often these producers were those vulnerable, such as older or unmarried, widowed or without children, and who could not adjust sufficiently rapid to the new agricultural challenges (Walsh and Gillmor, 1993). Regionally, farmers located in areas where the quality of soil and climate conditions were more favourable, such as the South and South-East, also benefited most in contrast with farmers from the West part of the country (Lafferty *et al.*, 1999; Cox *et al.*, 1985).

Table 3.1 EU Receipts, Ireland, 1973-2005 (€m)

	1973-1979	1980-1989	1990-1999	2000-2005
Total of which:	1,962.1	11,550	26,996.1	15,414.4
FEOGA Guarantee	1,666.3	8,098.9	16,234.4	10,825.8
FEOGA Guidance	49.3	708.1	1,739.7	178.3
European Social Fund	50.4	1,358	3,387	993.9
European Regional Development Fund	38.0	982.2	4,243.1	2,295.7
Cohesion Fund	0	0	1,091	869.3

Source: authors' calculation based on CSO (2006)

Table 3.2 EU Receipts by main Sector, Ireland, 1973-2005

Sector	1973-1979		1980-1989		1990-1999		2000-2005	
	€m	% of total	€m	% of total	€m	% of total	€m	% of total
Dairy	848.8	50.9	3,197.5	39.5	3,378.3	20.8	1,221.1	11.3
Beef and Veal	620.7	37.3	4,369.4	54.0	9,309.5	57.3	5,250.4	48.5
Arable crops (cereals)	49.3	3.0	75.4	0.9	791.5	4.9	657.5	6.1
Sheep	-	-	401.9	5.0	140.5	0.9	517.1	4.8
Sugar	25.6	1.5	109.5	1.4	93.1	0.6	38.1	0.4
Pig meat	31.2	1.9	11.4	0.1	25.2	0.2	7.9	0.1
Poultry and eggs	0.6	0.0	25.5	0.3	13.0	0.1	0.1	0.0
Fruits and Vegetables	3.2	0.2	1.8	0.0	1.0	0.0	20.7	0.2
Total FEOGA Guarantee	1,666.3	100	8,098.9	100	16,234.4	100	10,825.8	100

Source: authors' calculation based on CSO (2006)

### 3.1.1 Farm Modernisation Scheme (1974)

Against this background, the government tried to encourage farm development through the introduction of the Farm Modernisation Scheme (FMS), one of the first 'socio-structural' initiatives of the Community. This, alongside an early retirement aid (Council Directive 72/160/EEC) and vocational training (Directive 72/161/EEC), was designed to support the modernisation of agricultural holdings (Directive 72/159/EEC). Introduced in Ireland in 1974 (and operating until 1986 when it was replaced by the Farm Improvement Programme), the scheme financed inter alia land improvement and new farm buildings, supporting approximately 106,000 farmers (Heritage Council, 1999; Levy *et al.*, 1997). Even though most farmers were eligible for the scheme, Walsh and Gillmor (1993), however, argue that the modernisation and investment were de facto more beneficial for the large-scale farms, particularly those with favourable natural conditions from the South and South East.

### 3.1.2 Less Favoured Area Payments (1975)

The failure of the first socio-structural actions to support improvement of agricultural structures in areas where natural conditions were unfavourable and the increase in regional (income) disparities across the whole Community, led in 1975 to the introduction of compensatory payments for farmers in 'mountain and hill farming in certain less-favoured areas' (LFAs) (Council Directive 75/268/EEC). The LFAs subsidies, mainly in the form of headage payments for livestock, were the first direct payments which addressed territorial discrepancies and had as their main objective to support the farming community in areas with natural handicaps under threat of depopulation and land abandonment (Heritage Council, 1999). The scheme was also aiming to support the preservation of the countryside and the rural environment. In Ireland, these payments were particularly oriented towards the support of the western parts of the country, but Walsh and Gillmor (1993) highlight that the aid was far from compensating for regional disparities already existed. Kearny *et al.*<sup>15</sup> analysed the impacts of the scheme in Ireland and found that although the majority of farmers received relatively small financial support, cattle farmers relied considerably on this aid, as 40% of their farm income was based on the scheme. However, the payments also went to larger farmers who increased their livestock (Crowley, 2003). Moreover, the scheme has been only partially successful, by maintaining rural population in marginal farming areas and being somewhat more equitable than other premium schemes (Heritage Council, 1999).

### 3.1.3 The Common Market for Sheep (and goat) Meat and the Ewe Premium (1980)

The first significant CAP changes to affect Irish agriculture took place in the early 1980s, with the introduction of two schemes: (i) the Ewe Premium Scheme (and the creation of the common market for sheep meat) in 1980, and (ii) the Suckler Cow Premium (in 1981). As presented in Section 2, the introduction of the annual ewe premium had significant impacts on sheep agricultural holdings in the years to come. As farmers were assured a guaranteed minimum price level, sheep (and goat) enterprises became very attractive. The premium was also very important for farmers in disadvantaged areas who received this in addition to the LFA subsidies. However, the scheme has been heavily criticised for being 'poorly targeted' and its negative impact on the environment as a result of increased stocking density and overgrazing, particularly in the disadvantaged areas of the West part of the country (Heritage Council, 1999).

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<sup>15</sup> Cited in the Heritage Council Report, 1999

### 3.1.4 Milk Quota (1984)

The Community agricultural production grew progressively during the first decade of the CAP leading to high levels of self-sufficiency for most of the commodities. The so-called 'mountains' of cereals, butter and beef and 'lakes' of milk, wine and oil olive became a common phenomena during the 1970s and with these an increased budgetary pressure made almost imperative for changes in the policy mechanisms. Part of this cost was also supported by consumers (and to some extent by taxpayers), who had to pay more for food products than there will be necessary under free market conditions, with low-income consumers being more affected as a larger amount of their income is spent on food (Matthews, 2005). Moreover, one of the main aims of the CAP, i.e. fair standard of living for the farming community, was threatened, with income distribution among farmers becoming more unequal. The first significant change of the CAP, since Ireland's EU accession, took place in 1984 when milk super-levy and quota were introduced. Essential for controlling Community milk and dairy products production, the measure inflicted hardship on the Irish agricultural sector, as dairy was its most profitable sector. This also came at a time of recession for the Irish economy as a whole, making living conditions for farmers even more difficult. Between 1985 and 1995, the number of dairy cows declined by 22% and the number of holdings involved in dairying halved (based on CEC, 2000). Farmers' income also dropped in real terms. Some may argue that the declining trends were common for the dairy sectors across other member states. Walsh and Gillmor (1993), however, considered that the introduction of milk quota was probably the most significant changes that took place during the 1980s, but with rather sore effects for rural Ireland. In the author's view, the impacts were even more acute for small-farmers from the West and North-West regions.

### 3.1.5 Farm Improvement Programme (1986)

In February 1986, the Farm Modernisation Scheme was replaced by the Farm Improvement Programme (Council Regulation 797/85) which continued to support holdings investment in order to improve farm efficiency. The Programme run until 1994 with aid designated for farm improvement mainly for capital assets (e.g. farm buildings and land) and aimed to increase farm income. All full-time farmers who carried out a farm development plan were eligible for this scheme. Leavy *et al.* (1997) estimated that over 70% of farmers have participated in this scheme; two thirds of the participants expanded the size of their business (measured by aggregate gross margin per farm) and only a third witnessed a decline. Labour productivity, measured as the number of livestock units per standard labour unit, increased by 37 per cent. Despite regional disparities, these findings led the authors to conclude that this development programme provided "a suitable model for tackling the problems of low income, low utilisation of resources" (p.5).

## 3.2 Structural Funds and Rural Development

Accession and the integration to the EC brought no doubt important changes within the decision making process with agriculture, rural development and regional policies effectively passed over to the EC or following the directions issued in Brussels (McDonagh, 2001; Commins and Keane, 1994; Brunt, 1993). This led O'Reilly and Gough (2002) to conclude that accession, with its particular focus on CAP, "changed the context of national policy formation for agriculture and rural development" and put on hold until mid 1980s "any continuation of an integrated approach to rural development" in Ireland (p.2).

The discrepancies in the level of economic development across the Community's regions, following the accession of Denmark, Ireland and the UK and the rising trends in spatial



inequalities, led to the establishment in 1975 of the European Regional Development Fund (ERDF). The Fund aimed to reduce regional disparities across the Community, while encouraging the development and conversion of regions<sup>16</sup>. Given this opportunity, the Irish government decided to classify the entire country as an Objective 1 Region<sup>17</sup>. This meant that no specific disadvantage areas will benefit in particular from the fund. McDonagh (2001) and O'Reilly and Gough (2002) consider that the government's rationale behind this strategic decision was that Ireland will benefit more as one region by investing in programmes (e.g. infrastructure and education) with long-term positive economic effects. Between 1975 and 1986 Ireland's economy received through the ERDF almost ECU one billion, but Brunt (1993) stressed that this did little to stop the rising of unemployment and emigration that haunted the 1980s. Rural problems and regional disparities were expected to be solved mainly via the CAP price support (McDonagh, 2001). Moreover, the government dismissed any involvement at the regional level through the abolition (in 1987) of all Regional Development Organisations (Brunt, 1993; O'Reilly and Gough, 2002). During this period, only IDA supported regional development through its regional industrialisation plans and from which rural areas also benefited to a certain extent (O'Reilly and Gough, 2002; McDonagh, (2001).

It was not until 1988, when the adoption of the Single European Act led to the first reform of the Structural Funds, that the EEC regional policy reinforced the principle of economic and social cohesion. An integrated approach for regional development<sup>18</sup> was set up through the unification of the ERDF, the European Social Fund and the FEOGA Guidance. Furthermore, all member states were requested to submit a National Development Plan (NDP) under the Community Support Framework (CSF), by identifying main development priorities for specific regions through a local partnership involvement. Although this was not fully embraced by the Irish Government who preferred to maintain the Objective 1 status but failed to effectively comply with the partnership principle, clear priorities (Table 3.3) were set up for the first time (Brunt, 1993). A third of country's total public spending for the 1989-1993 programming period was to be provided via the Structural Funds, Ireland receiving the highest transfers per capita in the EC (Brunt, 1993).

Table 3.3 Distribution of Structural Funds by Priority, Ireland, 1989-1993 (%)

Priority 1 Agriculture, Fisheries and Rural Development	20.2
Tourism	5.3
Priority 2 Industry and Services	28.4
Priority 3 Measures to Offset Peripherality	24.1
Priority 4 Human resources	22.0
Total	100

Source: Brunt (1993)

<sup>16</sup> ([http://ec.europa.eu/regional\\_policy/funds/prord/prords/prdsa\\_en.htm](http://ec.europa.eu/regional_policy/funds/prord/prords/prdsa_en.htm))

<sup>17</sup> It concentrates to help areas lagging behind in their development and where the GDP per capita is below 75% of the Community average.

<sup>18</sup> It refers mainly to Objective 1 and Objective 5b (and later on and to Objective 6) areas.



The failure of the CAP mechanisms to support the development of rural areas and the accentuation of regional disparities across (and within) the EU member states led to the publication of the 'Future of Rural Society'. This key document issued by the European Commission (in 1988) represented an impetus for a shift in the EU policy and for the first time rural development gained momentum being recognised as a policy on its own (European Commission, 1997). The document, which highlighted the main Community rural problems, stressed the need to support structural changes in rural areas through an integrated bottom-up approach "geared to local requirements and initiatives".

Additionally, to the reform of the Structural Funds the Community set off a number of (13) much smaller initiatives, of which Leader (Links between actions for the development of the rural economy) proved to be the programme of most significance to rural development (Mannion, 1996).

Ireland's responded to Brussels' rural development initiatives through the adoption of the Operational Programme for Rural Development (1989-1993) under the Community Support Framework and by implementing a number of pilot programmes (e.g. the Pilot Programme for Integrated Rural Development (PPIRD) and the Area-Based Partnership). The PPIRD, a national programme run between 1988 and 1990, "was the first attempt to operationalise the concept of integrated rural development" (O'Reilly and Gough, 2002, p.15). Applied initially in twelve rural areas the programme was considered successful as it stimulated "considerable voluntary efforts by local people to promote economic and social development", with only one-sixth (out of almost 400) projects related to agriculture (Walsh and Gillmor, 1993, p.95). Some critics such as O'Malley (cited in Walsh, 1993) noticed that the success was rather limited (e.g. some 600 jobs were created) and despite the local initiatives were genuine there was a clear need for a "systematic central guidance of the whole process" (p.95). As a result, in 1991, the government decided to extend this initiative nationwide. The programme brought, however, a contribution to rural development by "succeeding to provide a basis for harnessing local resources and empowering some communities" McDonagh (2001, p.178). The Area-Based Partnerships involved voluntary public and private forces which jointly addressed and tackled area-specific issues in the support of local community.

### 3.3 CAP and Rural Development since MacSharry's Reform

It was not, however, until 1992 that the CAP underwent more radical changes. The overall forms of the MacSharry reforms was the reduction, for the first time, of price support for the major agricultural commodities (e.g. cereals, oilseed and beef) and the introduction of compensatory payments for these farmers for the consequential losses of income. The introduction of direct payments originates in the set of problems that the CAP has faced since the early 1980s. Overproduction, over-intensification, external constraints on subsidised exports, an unpredictable growth of the agricultural budget and the decline of real farm income were major issues which influenced the EU policy-makers to look for a new policy instrument. However, Fennell (1997) stressed that the introduction of direct payments was an "opportunity lost" and "they did little - if anything - to shift support in the direction of disadvantaged farmers" (p.172). From a distributional point of view, it promoted income discrepancies among farmers: the larger the farm the larger the benefit from these payments. Moreover, due to their link to production they stimulated rather than discourage the increase of production in most productive areas (Pezaros, 2001).

The MacSharry reform, particularly the introduction of direct aid and agri-environmental measures had a significant impact on Irish farming sector. As shown in Section 2 (see Figure 2.12), the introduction of compensatory payments (later on direct payments) was

crucial for Irish farmers. The contribution of direct payments to the family farm income increased from 30.2% in 1992 to 41% in 1994 and to 60% by 1996 (Frawley, 1996; Frawley and Phelan, 2002). Nevertheless, the distribution of direct payments was uneven depending mainly on farm size and enterprise mix. As previously mentioned direct payment remains the most important source of income for Irish farmers.

### 3.3.1 Rural Environment Protection Scheme (REPS)

The 1992 CAP reform brought as novelty the so-called ‘Accompanying Measures’, namely the agri-environmental measures, compensatory allowances, early retirement scheme for farmers and forestry measures in agriculture (i.e. afforestation)<sup>19</sup>. In response to Brussels, Ireland introduced in 1994, as agri-environmental measure, the Rural Environment Protection Scheme (REPS) which rewards farmers “for carrying out farming activities in an environmentally friendly manner and bring environmental improvement on existing farms”<sup>20</sup>. REPS is a comprehensive, five year period, whole-farm scheme, in which farmers have to comply with eleven basic measures related mainly to good farming practice and production methods, protection of wildlife habitats and endangered species of flora and fauna and production of quality food in an extensive and environmentally friendly manner<sup>21</sup>. The measures are drawn up in a plan specific for each farm by a professional adviser approved by the Department of Agriculture and Food. Although the scheme retains its basic format designed in 1994, it suffered some modifications in 1999 (to address the problem of overgrazing by sheep on commonage land<sup>22</sup>) and in 2004 (to include a selection of pro-active biodiversity measures)<sup>23</sup>. The scheme has attracted high levels of participation (currently reaching 50,000 farmers), and both farmers and their advisers are well trained in the objectives and details of the Scheme. The scheme, although voluntarily, was well received by Irish farmers (particularly beef and sheep producers) as the financial incentives received throughout the scheme have contributed significantly to farm income (Heritage Council, 1998; O’Reilly and Gough). Moreover, it is believed that the scheme has increased farmers’ awareness towards the environment (Heritage Council, 1998). The scheme is co-financed by the EU (75%) and the Irish taxpayer (25%). Between 1994 and 2006, more than €2.1 billion were transferred to farmers. The number of farmers covered by the scheme has increased from 45,500 farmers (1994-1999) to over 59,000 participants (end of 2006), representing approximately one-third of the utilisable agricultural area. For 2000-2006, the expenditure for REPS accounted alone for €1,379.8 million (or 37.3% of Ireland CAP Guarantee Section) of which €1,050.4 million from the EU. As the scheme seems to be popular amongst farmers, the Ministry of Agriculture has launched for the period 2007-2013 a fourth version (REPS 4) which will transfer another €3 billion to Irish farmers. The enthusiasm about REPS was recently expressed by the Minister of Agriculture, Fisheries and Food<sup>24</sup>: *“For generations, farmers and farm families have been the keepers of Ireland’s rural landscape and rural environment. Modern farmers are very conscious of their responsibility for this heritage and they want to maintain it and*

<sup>19</sup> Council Regulations (EEC) No 2078/92, No 2079/02 and No 2080/92.

<sup>20</sup> <http://www.agriculture.gov.ie>

<sup>21</sup> <http://www.agriculture.gov.ie/index.jsp?file=areasofi/reps.xml>

<sup>22</sup> Commonage land in Ireland is defined as land that is owned by two or more farmers in undivided shares. For example, 10 farmers could own 500 ha and each individual would own an undivided one-tenth of the 500 ha. It is not publicly owned.

<sup>23</sup> Ireland Rural Development National Strategy Plan 2007-2013, [http://www.agriculture.gov.ie/cap/RD\\_STRATEGY\(IRL\)200707.doc](http://www.agriculture.gov.ie/cap/RD_STRATEGY(IRL)200707.doc)

<sup>24</sup> <http://www.agriculture.gov.ie>

*pass it on to future generations. REPS helps them to do is. While the payments are made directly to farmers, the benefits are for society as a whole.*" (Minister Coughlan, 8 August 2007).

The Rural Development National Strategy Plan 2007-2013 notes that there are indications that a significant number of Irish farmers who had not previously considered joining REPS are now doing so, as a consequence both of decoupling and of the implementation of the Nitrates Directive. In the Government's view, REPS is a well established and important means of delivering benefits in water quality, biodiversity and climate change in Ireland. In consequence, the Irish Rural Development Programme allocates, for the period 2007 -2013, its largest share (79%) to Axis 2 measures (payments for farmers in areas with handicaps other than mountain areas, Natura 2000 payments and payments linked to Directive 2000/60/EC, and agri-environmental payments). The agri-environmental payments alone however accounts for almost half (48.7%) of total public expenditure for rural development (Axis 1, 2, 3 and 4) in Ireland.

### 3.3.2 Early Retirement Scheme for Farmers (ERS)

Somewhat similar state initiatives regarding early retirement from farming were promoted in Ireland since 1965, but none of them proved to be attractive until MacSharry reform in 1992 (Department of Agriculture, 2004c). The scheme introduced in 1994 aimed to encourage elderly farmers to retire from farming by providing them an income and offering the opportunity to young people to enter farm business. Initially, in the first round (1994-1999), the scheme (ERS 1) proved to be rather successful with 10,300 elderly farmers transferring 283,000 ha (6.4% of total UAA) to 11,000 young farmers (Department of Agriculture, 2004c). Gillmor (1999) considered that "while the impact has been less than initially forecast, it has made a significant contribution to the restructuring of Irish agriculture given the past rigidity" (p. 85). Furthermore, Lafferty *et al.* (1999) noticed that although ERS 1 did not have overall a noticeably high impact, the incidence of its adoption was regionally very distinctive. The share of participation in the scheme was much higher in the South-East region (where commercially larger farms predominate) than in West and Nord West (particularly Border) regions. As regards the impacts of the second phase of the scheme (ERS 2 for 2000-2006) the number of studies is rather limited if not sparse. However, the Department of Agriculture (2004) estimated that the impacts of ERS 2 might be less successful than those of ERS 1, as by the end of 2003 the shares of participants in the scheme were much lower than those expected. ERS 3 was launched in June 2007 as one of the measure of Ireland's Rural Development Programme, and some €360 million (8.4% of total public expenditure for rural development) were allocated for this measure.

### 3.3.3 Leader Programme

One of the EU launched schemes which seems to be very popular in Ireland is the Leader Programme (McDonagh, 2001; Moseley *et al.*, 2001; O'Reilly and Gough, 2002; Shucksmith *et al.* 2005). Launched in 1991 as a pilot programme, Leader focuses on territorial rural development based on a bottom-up approach, multi-sectoral integration designed and implemented through an innovative local partnership (Local Action Groups). Despite that Ireland is characterised by a 'weak Irish local Government system', the success of partnership between the Government and 'social partners' at the national level (as a 'mechanism for policy making and implementation') led to its adoption to various local regions (Moseley *et al.*, 2001). Leader I (1991-1994) involved 16 pilot areas across the country and focused mainly of rural employment and community involvement (O'Reilly and Gough, 2002). It involved almost 30% of population and the targeted rural areas were those peripheral and disadvantaged with a population in decline and heavily dependent on

agriculture (McDonagh, 2001). Some £34 million were allocated from both EU and national funds and the resources were mainly oriented towards rural tourism, small enterprises and natural resources (ibid.) Leader II (1995-1999) comprised 34 local groups all over rural Ireland covering around 9,600 projects accounting for almost €100 million national and EU money (Moseley *et al.*, 2001). Almost half of these projects were concentrated on three main sectors: (i) rural tourism (55%); (ii) small business/services (30%) and (iii) agriculture, forestry and fishing (15%) (Shucksmith *et al.*, 2005). For 2000-2006, Leader+ initiative and a complementary Leader national programme funded 35 Local Action Groups (Matthews, 2005). Under Leader, during this period, 3,100 new jobs have been created and 3,900 existing jobs sustained. Leader has also assisted some 8,000 enterprises and trained over 30,000 people<sup>25</sup>. The total amount spent for the Leader+ Programme (2000-2006) is estimated at €75 million of which more than half (€48.75m) from the EU. For 2007-2013, Leader/Rural Economy Sub-Programme has allocated through the National Development Plan and Rural Communities an amount of €564.4 million (public and private funds) for promoting quality of life and the diversification of the rural economy.

### 3.3.4 National Policies since the adoption of Agenda 2000

A key stage in the EU process of agricultural (and rural development) reform was the adoption, in 1999, of the Agenda 2000 reforms. A new set of objectives, such as to increase the competitiveness of EU agriculture, to integrate environmental concerns into the CAP, to ensure food safety and quality, and to enhance rural development replaced the initial set of CAP objectives, with the exception of stable farm incomes. Although Agenda 2000 has not brought radical reforms to the CAP, it represented a continuation of the MacSharry reform with a further cut in intervention prices (for cereals and beef) and continuation of compensatory payments, but in the form of direct (income) aid attributed per hectare or per animal. As a novelty, Agenda 2000 introduced the “cross-compliance” concept, meaning that direct payments should be paid conditional on farmers’ compliance with environmental targets.

Moreover, Agenda 2000 established rural development policy as the second pillar of the CAP alongside the EU’s agricultural market policy (the first pillar) (CEC, 2006a). As a result, the Rural Development Regulation (RDR) was adopted, and incorporated all previous (nine) instruments (e.g. agri-environmental measures, forestry, Less Favoured Areas (LFA) payments, and investment in farm modernisation) into a coherent package of measures for the whole EU (CEC, 2006b; Ward and Lowe, 2004; CEC, 2003). Although, the financial resources allocated for 2000-2006 were limited (10.2% of CAP expenditure) the RDR novelty was the implementation mechanism (Hubbard *et al.*, 2007). Member States were entitled to initiate their own Rural Development Programmes in accordance with their specific requirements of rural areas, but following a ‘Europeanized approach’ (Ward and Lowe, 2004). In the imminence of 2004 enlargement, the Mid Term Review (2003) CAP reforms strengthened further the issue of rural development by transferring some funds from the first to the second pillar of the CAP through modulation, making cross-compliance compulsory, and adding new measures such as the promotion of food quality and animal welfare and help for farmers to comply with new EU standards (CEC, 2003; CEC 2006a).

The changes brought by Agenda 2000 and the MTR had markedly contributed to further changes in rural Ireland. The shift in the EU policies towards a focus on rural development issues led also the Irish Government to change its strategy with regards to agriculture and

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<sup>25</sup> Rural Development Programme Ireland 2007-2013, [http://www.agriculture.gov.ie/cap/RDP2007/RDPbody\\_aug07.doc](http://www.agriculture.gov.ie/cap/RDP2007/RDPbody_aug07.doc)



rural development. The adoption in 1999 of the White Paper 'Ensuring the Future - A Strategy for Rural Development in Ireland' - established for the first time an overall policy strategy, a coherent vision of the long-term future of Irish rural society (Department of Agriculture and Food, 1999). The document concentrated its strategy for rural development around a set of principles, e.g. the establishment of appropriate institutional mechanisms for rural development, the adoption of a balanced spatial development strategy, a sustainable economic development based on indigenous potential and inward investment, the provision of services and infrastructure, the development of human resources and social inclusion (McDonagh, 2001).

The instrument through which these elements were implemented was the National Development Programme (NDP) 2000-2006 which was perceived as 'the vehicle for delivering the commitments in the White Paper' (Davern cited in McDonagh, 2001). The NDP role was "to create a strategy for the improvement of Ireland's economic and social infrastructure, the development of enterprise and to meet education and skill requirements across all regions"<sup>26</sup>. The Irish NDP comprised seven Operational Programmes (4 national, 2 regional and 1 for border counties and Northern Ireland), all with potential effects on rural and regional development. Agriculture and rural development benefited from the various measures included in the Operational Programmes under the NDP which complemented Ireland's CAP Rural Development Plan (Guarantee Fund). The Irish CAP Rural Development Plan was launched in 2000 and aimed to allocate some €4.9 billion to support rural economy by improving farm structure, providing farm income support in disadvantaged areas, enhancing rural environment and ensuring some additional income via a substantial afforestation programme<sup>27</sup>. Around €6.7 billion (or 17% of the total national expenditure for 2000-2006) were allocated for rural development of which the largest share focused on the four Accompanying Measures, particularly the REPS and Compensatory Allowances (Matthews, 2005). Overall, the NDP 2000-2006 proved to be one of the most successful strategies for economic and social development ever drawn up for Ireland<sup>28</sup>. Involving over €57 billion (national and EU funds) it contributed to economic growth, it has improved the national infrastructure, assisted in the development of a highly-skilled and flexible workforce, increased Ireland's competitiveness and promoted social inclusion<sup>29</sup>. The EU's contribution, much smaller than previously, accounted for €2.2 billion for the CAP Rural Development Section and €3.8 billion in the form of Structural and Cohesion Funds.

The National Development Plan 2007-2013 builds on the significant social and economic achievements of the previous plan. Launched in January 2007, and entitled 'Transforming Ireland - A Better Quality of Life for All', it allocates an amount of €184 billion for sustainable economic growth, greater social inclusion and balanced regional development. As regards agriculture and rural development, the Rural Development Programme allocates, for 2007-2013, the largest share (almost 80%) for Axis 2 (Improving the environment and countryside).

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<sup>26</sup> Business 2000, Tenth Edition, 2006, <http://www.business2000.ie/ndp/index.htm>.

<sup>27</sup> Department of Agriculture and Food (2001), Summary of the Agriculture and related Rural Development measures, under the NDP 2000-2006.

<sup>28</sup> Business 2000, Tenth Edition, 2006, <http://www.business2000.ie/ndp/index.htm>.

<sup>29</sup> <http://www.ndp.ie/docs>

Table 3.4 Financial Plan by Axis, Ireland, 2007 -2013 (€, total period)

Axis	Public contribution		
	Total public	EAFRD contribution rate (%)	EAFRD amount
Axis 1	482,000,000	50.0	241,000,000
Axis 2 of which	3,385,298,800	55.0	1,861,914,340
Axis 3 / Axis 4 <sup>(1)</sup>	425,455,000	55.0	234,000,250
Technical Assistance	6,000,000	50.0	3,000,000
Total	4,298,753,800	-	2,339,914,590

Source: Rural Development Programme Ireland 2007-2013

Note: <sup>(1)</sup> Axis 3 measures are to be implemented under Leader (Axis 4)

The NDP for 2000-2006 had also amongst others priorities the completion of a National Spatial Strategy (NSS), a key document for planning the spatial development of the country (Matthews, 2005). Adopted in 2002, the NSS is a twenty-year national planning framework which aims to achieve a better balance of social, economic and physical development across all Irish regions, through a network of gateways and hubs<sup>30</sup>. It designates four new national level gateways and identifies nine, strategically located, medium-sized hubs to promote regional development and link out to wider rural areas. The Strategy establishes five broad rural area types in Ireland<sup>31</sup>:

Areas that are Strong - mainly in the South and East where agriculture will remain strong (presently over 30% of the labour force is engaged in primary agriculture) but where pressure for development is high and some rural settlements are under stress. Many of these settlements are peri-urban in nature and have the highest population densities in this area type of over 40 persons/ km<sup>2</sup>.

Areas that are Changing - including many parts of the South and East but also parts of the Midlands, the Border, the South and West where population and agricultural employment have started to decline and replacement employment is required. These areas are characterised by having the lowest level of self-employment outside agriculture at 13% of the available labour force.

Areas that are Weak - including more western parts of the Midlands, certain parts of the Border and mainly inland areas in the West, where population decline has been significant and the ratio of those aged 65 and over exceeds 15% of the total population of the area.

Areas that are Remote - including parts of the west coast and the islands. A feature of these areas is that they represent the highest proportion of part-time female workers (at 29% of the total female labour force).

Areas that are Culturally Distinct and highly diversified - including parts of the west coast and the Gaeltacht, which have a distinct cultural heritage and amenity value. Due to their widespread distribution across the other areas, socio-economic needs vary from isolation to peri-urban pressure.

It is too early to evaluate the effects of the National Spatial Strategy, but it is clear that a more spatially differentiated and geographically sophisticated approach to the development of rural areas in Ireland is evolving.

<sup>30</sup> <http://www.irishspatialstrategy.ie>

<sup>31</sup> Ireland Rural Development National Strategy Plan 2007-2013, p.18.

## 4 THE BMW (BORDER, MIDLANDS AND WEST) REGION <sup>32</sup>

### 4.1 Brief description of the Region

Regional policy in Ireland and the promotion of a balanced regional development has been a long-term objective for Irish policy-makers (Forrestal, 2002), but it was not until the reform of the Structural Funds (1988) that the Irish Government has commenced to pay a specific attention to this issue. Boylan (2005) highlights that the rediscovery of interest for regional policy issues in Ireland “was not born of a new-found enthusiasm” but “the emergence of the Single Market agenda and more specifically the creation of the Structural Funds ... [that] forced the Irish Government to make a number of important regional policy decisions ... for drawing down the monies from these Funds” (p.99). The Irish response to the EU requirements was the establishment of eight new Regional Authorities<sup>33</sup>. By 1995, however, five of these regions (i.e. Dublin, Mid-East, Mid-West, South-East and South-West) were not anymore eligible for Objective 1 funds (Boylan, 2005). Thus, for the EU Cohesion Policy purposes, i.e. the maintenance of Objective 1 status, the regional agreements negotiated by the Irish authorities in the context of the Agenda 2000 led to the creation (1999) of two major NUTS II level regions: (i) The Border, Midland and Western (BMW) Region which has retained Objective 1 status for the full period to 2006, and (ii) the Southern and Eastern (S&E) Region qualified for a six year phasing out regime for Objective 1 Structural Funds up to the end of 2005, and for part of the region for 2006 (BMW Regional Assembly, 2007).

The BMW Region covers thirteen counties and comprises three Regional Authority NUTS III areas: Border, Midlands and West. It covers 47% of total land area, almost 27% of Ireland’s population (1.1 million) and accounts for 21% of the country’s GDP (BMW Regional Assembly).

The Border Region comprises six counties, Cavan, Donegal, Leitrim, Louth, Monaghan and Sligo. It covers the area along the southern side of the border (with the Northern Ireland), and between the Atlantic Ocean on the West Coast to the Irish Sea on the East Coast. The region covers an area of some 12,156sq km (17.6% of total area) and a population of 467,327 (11% of total population) of which 74% lives in rural areas (in 2002) (BMW, Regional Assembly). Tourism and small and medium enterprises are most important, particularly in the western part of the region.

The Midlands Region is located in the heart of Ireland and comprises only 6% of total population (251,380) and covers four counties, i.e. Laois, Longford, Offaly and Westmeath. The West Region comprises three counties of Galway, Mayo and Roscommon which taken together accounts for 413,383 inhabitants or 10% of total population. The Region extends from the Atlantic Ocean to the banks of the River Shannon (Galway Euro Info Centre, 2006). The area is noted for its beautiful scenery and its picturesque landscape and coastline. Over 70 foreign companies are operating in the region employing about 13,000 people. The sectors includes medical technologies (accounting for 63% of IDA client company employment), ICT (17%) engineering (13%) and international services (7%).

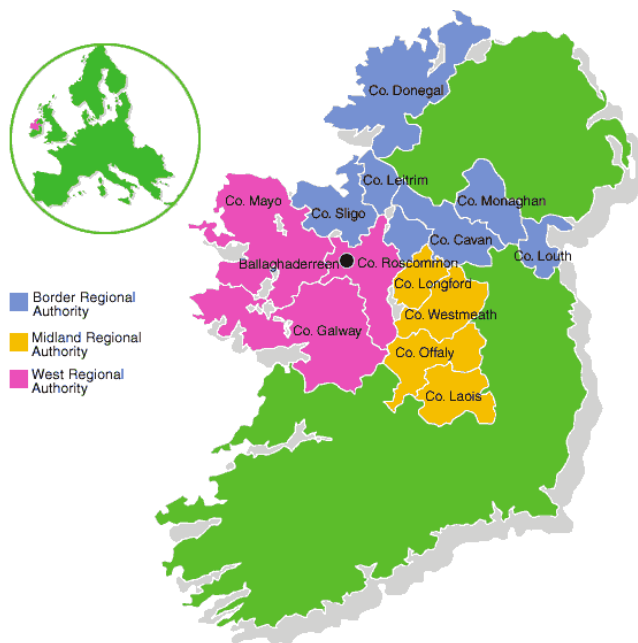
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<sup>32</sup> Some parts of this section are heavily drawn on Galway Euro Info Centre Report (2006) and BMW Regional Assembly, Regional Operational Programme 2007-2013.

<sup>33</sup> In this section, the analysis of long-term trends proves to be rather difficult given the changes that took place in planning regions since accession to the EU.



Map 4.1 BMW regions



#### 4.1.1 Demographic Changes

The BMW Region is sparsely populated (31 inhabitants/km<sup>2</sup>) and predominantly rural, with 68% of population living in concentration with less than 1,500 people, compared to the national average of 41%<sup>34</sup>. Population is widely dispersed and the only major urban centre is Galway, although one of the fastest growing cities in Ireland (NDP, 2000-2006). Some significant demographic changes are noticed since accession to the EU, but particularly from 1996 onwards. During the economic and social hardship of the 1980s, the region suffered from high levels of outward migration, as people were looking for employment opportunities outside the region. As the economy started to experience some of the highest levels of growth in the EU, the region also felt its impacts although to a lower extent as compared with the S&E region.

The BMW population has increased by 17.3% between 1996 and 2006 (Table 4.1), the largest change within the country as a whole. Within the BMW region, Midlands's population grew high above (22%) the average rate of 16.3%. However, Bannon (2005) highlights that although regional population has increased, this was particularly around the larger urban areas (e.g. Galway, Mullingar, Drogheda, Letterkenny and Castlebar), while remote rural areas population has continued to decline. Until 2002, there was a large discrepancy between BMW and the S&E region, with the demographic balance of the country shifting towards the latter, mainly the Great Dublin Area (GDA) (Bannon, 2005). Nevertheless, between 2002 and 2006, the region has started to recover, recording the highest annual growth rates, i.e. Midlands (2.8%); West (2.1%) and Border (2%) (NDP 2007-2013). The percentage of active working population is close to the national average (2002), with population below 25 years of age accounting for 37.8%<sup>35</sup>.

<sup>34</sup> <http://www.bmwassembly.ie>

<sup>35</sup> <http://www.circa.europa.eu/irc/regportraits/info>

Table 4.1 Population in BMW Region, 1971-2006

	1971	1986	1991	1996	2002	2006	% change 2006/1996
Border	360,943	410,899	402,987	407,295	432,534	467,327	14.7
Midlands	178,908	207,994	202,984	205,542	225,363	251,380	22.3
West	312,267	348,328	342,974	352,353	380,297	413,383	17.3
BMW	852,118	967,221	948,945	965,190	1,038,194	1,132,090	17.3
SE	2,126,130	2,573,422	2,576,774	2,660,897	2,879,009	3,102,835	16.6
State	2,978,248	3,540,643	3,525,719	3,626,087	3,917,203	4,234,925	16.8
BMW % of state	28.6	27.3	26.9	26.6	26.5	26.7	

Source: Central Statistics Office (Census Population)

#### 4.1.2 Major Socio-Economic Trends

As the rest of Ireland, the BMW region has also experienced major economic and social changes since accession to the EU, despite its predominantly rural character. Indeed, the agricultural sector still provides an important share of the regional gross value added. Nevertheless, in recent years, following the general trend, there is a continuing move away from agriculture and traditional manufacturing (BMW Regional Assembly, 2007). The region contributes only by 19% of Gross Value Added (GVA)<sup>36</sup> as a whole, and its contribution varied between 1995 and 2004, with ups and downs. The BMW Assembly report (2007) highlights that although the region's economy develops more rapid than other EU regions, it continues to lag behind the S&E region. Nevertheless, there is a lot of potential for economic growth and the region benefits of number of advantages such as its quality of living environment (e.g. low level of air pollution, very little congestion, outstanding natural beauty and lower costs of living) (Galway Euro Info Centre, 2006).

Between 1995 and 2003, the BMW GVA increased by 111%. This is lower than the national average of 136% and 141% for S&E, but is considerably higher when compared with the EU15 (19.7%) or EU25 (20.3%) (BMW Regional Assembly, 2007).

The region participates by just above a quarter to the national labour force, the number of people at work accounting for 533.5 thousands as compared with 1.54 million for S&E region (BMW Regional Assembly). In 2005, within the BMW region, 45% of total population was employed as compared to the national average of 46.7% and 47.4% for S&E region. While no robust analysis can be made for long trends as regional data are not totally comparable (given the changes in planning regions) caution for data interpretation is necessary. Between 1986 and 1996, employment levels in the region increased by 15% compared with a rise of 20% at the national level (Galway Euro Info Centre). A study carried out by the National Economic and Social Council (NESC, 1997) noticed that most of the growth of employment during the 1970s took place in regions which now are part of the S&E region (such as East, Mid-West, South-East and South-West). In contrast, for the

<sup>36</sup> GVA (at basic prices) measures the value of goods and services produced in a region (minus any taxes and plus any subsidies).

same period total employment in regions such as North-East, the West and North-West<sup>37</sup>, which today belong to the BMW region, suffered a decline mainly due to a decrease in agricultural employment. The study also emphasized that whereas during the 1970s the growth of employment took particularly place in the East, the non-agricultural employment was rather different across the regions. Hence, between 1971 and 1981 the fastest growth rate occurred in the West (38.9%, almost double the national average of 21.4%), Midlands (29.6%) and North-West (23.3%). In contrast, between 1986 and 1996 although all regions experienced non-agricultural employment, the fastest growth rates were recorded in the East and South-West. As regards unemployment rates previous recorded data for planning regions show almost a similar pattern, with one exception, i.e. the North West area (Table 4.3).

Table 4.2 Gross Value Added by Region, 1995-2004

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
BMW (as % of total)	20.3	20.5	19.5	19.6	19.3	19.0	18.8	18.3	18.8	19.4
Border (as % of BMW)	44.1	43.8	44.1	44.0	42.5	40.7	40.6	43.2	43.3	42.4
Midlands(as % of BMW)	19.5	19.5	19.2	18.6	18.3	19.0	19.8	19.7	20.3	20.0
West (as % of BMW)	36.4	36.7	36.7	37.4	39.1	40.3	39.6	37.1	36.5	37.6
S&E (as % of total)	79.7	79.5	80.5	80.4	80.7	81.0	81.2	81.7	81.2	80.6

Source: Central Statistics Office, Regional Accounts

Between 1992 and 2002 total employment in the BMW region rose by 46.1%, with sectors such as services (72%) and industrial and construction (59.8%) experiencing a real boom (Bannon, 2005). New jobs were created in education, health, professional services, local administration, recreation and construction, and these sectors has continued to progress particularly since 2002 (Bannon, 2005; BMW Assembly, 2007). Moreover, it seems that in the last five years there is some regional convergence in terms of lower unemployment and higher participation of labour force, with the unemployment gap between BMW and S&E regions falling significantly between 2003 and 2005. In 2006, the rate of unemployment in the region was at 5.3%, almost one percentage point above the national average. There is, however, some discrepancy when labour force data is analysed by gender, with female participation rate (48.9%) in BMW region much smaller than in the S&E region (53.4%), EU15 (62%) or EU25 (60.8%) (BMW Regional Assembly, 2007). Between 2003 and 2005, employment rate grew faster in BMW from 63.5% to 66.1% as compared with the S&E from 66.2% to 68.2% respectively (Table 4.4). The region also benefits of the advantage of a 'flexible, adaptable and generally well-trained labor force' (Galway Euro Info Centre, 2006). Education has been very important and currently the region's shares for primary

<sup>37</sup> The former North-East and North-West regions formed the Border region; the former East region has been divided into Dublin and the Mid-East (NESC, 1997)

(42% of region's population) and third level education (11%) are higher than those at the national level (34% and 10% respectively) (Galway Euro Info Centre, 2006).

Table 4.3 Unemployment Rates by Planning Region, 1975-1996

Region	1975	1985	1993	1996
Dublin	9.6	19.4	17.5	13.8
Rest of East	7.2	14.7	17.2	10.1
Total East	9.1	18.4	17.4	12.9
South West	8.9	14.6	15.0	12.4
South East	8.7	19.0	17.0	13.5
North East	10.6	16.3	17.6	14.1
Mid West	9.2	14.9	15.8	10.2
Midlands	7.6	15.2	16.0	9.4
West	9.0	16.4	16.1	13.8
North West/Donegal	13.1	22.6	17.6	18.3
Ireland	9.3	17.4	16.7	12.9

Source: NES, 1997

Table 4.4 Employment and Unemployment Rates, 1997 -2006 (%)

	1997	2001	2003	2005	2006
<b>BMW</b>					
- employment rate	...	63.1	63.5	66.1	61.1*
- unemployment rate	11.2	4.9	5.3	4.4	5.3
- female unemployment rate		5.0	5.0	4.6	4.3*
- male unemployment rate		4.9	5.6	4.3	4.2*
<b>S&amp;E</b>					
- employment rate	...	66.8	66.2	68.2	63.7*
- unemployment rate	...	3.6	4.5	4.3	4.6
- female unemployment rate		3.1	4.1	3.8	3.6*
- male unemployment rate		3.7	4.8	4.7	4.7*

Source: Eurostat, BMW Regional Assembly , 2007; Galway Euro Info Centre, 2006

Notes: p = provisional; \* it refers to Q4 2006

One of the key indicators for assessing the economic performance of the region is the GVA per person. Table 4.4 shows that there is a significant difference between BMW GVA per person and the S&E GVA per person. Moreover, it can also be noticed that the GVA per person in BMW as percentage of total actually fell from around 80% in 1991 to 73% in 2004. The situation, however, contrasts when comparing, for the same period, the BMW GVA per person with the EU indicator; if in 1991 the BMW GVA per person represented 60% of that of the EU, in 2004 this was 103%. The notable discrepancy between the two regions, with

regard to this indicator, might be explained, amongst others, by the large presence of the multinational companies within the S&E region, particularly in the Greater Dublin Area. The GVA includes the profits of these companies, much of which accrues to non-residents, therefore its regional variation depends on the changes in profits of these companies<sup>38</sup>.

Table 4.5 GVA per person, 1991 -2004

	1991	1995	2000	2004
BMW (€ per person at basic prices)	7,690	10,111	17,611	26,637
- as % of total (State =100)	79.2	76.1	72.0	72.7
- as % of EU (EU=100)	60.2	75.4	95.3	102.9
Border (€ per person at basic prices)	8,097	10,494	17,044	24,142
- as % of total (State =100)	83.3	79.0	69.7	74.3
- as % of EU (EU=100)	63.3	78.2	92.2	105.1
Midlands (€ per person at basic prices)	7,276	9,288	15,480	21,553
- as % of total (State =100)	74.9	69.9	63.3	66.3
- as % of EU (EU=100)	56.9	69.2	83.7	93.8
West (€ per person at basic prices)	7,456	10,145	19,541	24,315
- as % of total (State =100)	76.7	76.4	79.9	74.8
- as % of EU (EU=100)	58.3	75.6	105.7	105.9
S&E (€ per person at basic prices)	10,460	14,433	26,917	35,727
- as % of total (State =100)	107.7	108.7	110	109.9
- as % of EU (EU=100)	81.8	107.6	145.6	155.5
Ireland (€ per person at basic prices)	9,715	13,281	24,463	32,501
- as % of EU (EU=100)	76.0	99.0	132.3	141.5

Source: Central Statistics Office Ireland

The discrepancies between the two regions are, however, smaller when disposable income is considered. The level of disposable income per head in the BMW region was estimated at 93.2% of national level in 2004, whereas in the S&E at 102.5% (BMW Regional Assembly, 2007). Disposable income (after tax) is a good measure for assessing regional living standards. Hence, although there is still a gap of 9.3 percentage points between the two regions, this has narrowed from 10.5 points in 2003 and 12.8 points in 2000. This seems to be the result of a better performance of the whole region, particularly since the implementation of the National Development Plan 2000-2006.

<sup>38</sup> County Incomes and Regional GDP 2004 (Central Statistics Office)

## 4.2 BMW and Agriculture and Rural Development

As the region is predominantly rural, agriculture still plays an important role. Nevertheless, over the years, but particularly since 1994, agricultural contribution to region's economy (GVA) has declined from 13.4% in 1995 to 4.7% in 2004. For the same period there is a reduction of the share of manufacturing, building and construction sector (from 35.6% to 32.4%) and an increase of services (from 50.4 % to 62.6%) which is by far the largest sector (based on CSO database). The contribution of the BMW agriculture to the total Irish agricultural sector although it has fallen over the same period, is still high at about 37% in 2004. Despite that region labour force in primary sector has followed the general declining trend, the share of people employed in agriculture (12.4% of total employment) is more than doubled when comparing to S&E region (5.8%) and much higher than the national figure (7.4%) (Centre for Industrial Study, 2005).

The region occupies almost half the country total land, but most of it is classified as "severely handicapped" or "less severely handicapped" implying an agricultural land of mixed quality and a weak farm structure (Galway Euro Info Centre, 2006). In 2006, out of 4.4 million ha of total area farmed 44% was in the BMW region. Although, the total Irish farmed area has slightly decreased between 1991 and 2006, the BMW region experienced the reverse phenomenon, the farmed area increasing by 6.5%. Most of the region arable land is under pasture (47.3%), silage (28.7%) and rough grazing (17.2%); cereals (mainly wheat) accounts only for 3% (based on CSO, database). The pasture area suffered a decline during the 1980s (Lafferty *et al.*, 1999), followed by a recovery during the 1990s and early 2000, but the largest increase was in silage area which doubled from 1991 to 2006.

More than half of Ireland's farms are located in the region (53% in 2005), but they are much smaller with an average size of around 27 ha (13 ESU) as compared with 37.5 ha (26.6 ESU) in the S&E region (CSO, 2007). The farm structure in the region has suffered significant changes over the years (e.g. a severe decline in the number of farms, particularly smaller size classes, and amalgamation into larger units). Between 1960 and 1980, the number of farms decreased overall in Ireland, but the largest fall was recorded in the West and Border areas where small farms, particularly those with less than 20 ha became economically unviable (Lafferty *et al.*, 1999). Hannan and Commins (cited in Lafferty *et al.*, 1999) explained that the variation of the rate of structural change between regions was due to three main factors: a) the average size and the quality of resources; b) the degree of farm commercialisation and c) the off-farm employment opportunity. With the economic boom of the 1990s the decline has slowed down, but the increase in farm size, between 1991 and 2005, was more pronounced in BMW (by almost 30%) compared with the S&E (by 17%) (Table 4.6). Interestingly, is that more recently (between 2003 and 2005) took place a slight rise (by 4%) in the number of very small farms (less than 5 ha) and a decline (by 8%) in the number of very large ones ( $\geq 100$  ha). The latter represents only 1.7% of total farms in the region as opposed to 4.5% for the S&E, which implies a lower degree of commercialisation in the BMW region (CSO, 2007c).

In 2005, crops and pasture account for 66,500 farms covering 1.6 million ha, of which permanent pasture farms represent 69% (CSO, 2007c). Livestock and livestock products, mainly beef and sheep, are by far the most important farm enterprises within the region. However, although the number of cattle farms in BMW is higher (59,600) than in the S&E region (53,300) the BMW cattle herd is almost half of that of S&E (2.8 million as compared to 4.1 million, CSO, 2007). These estimates reinforce the existence of small average size farms within BMW region as compared to the S&E. The decline of the dairy sector, which has affected the whole country after the introduction of milk quota, was particularly



significant in the Border and West, areas with rather weak tradition in dairy farming. For example, between 1980 and 1997, the number of dairy cows declined by 30.7% in the West and 35.3 % in the Border (Lafferty *et al.*, 1999). The consequence was the shift from dairy to beef specialist farms. Currently, the BMW is recognised for its largest number of specialised beef, sheep and mixed grazing livestock (Table 4.7)

Table 4.6 Number of farms and average size by regions

	Number of farms			Average Size (ha)		Average ESU per farm	
	1991	2003	2005	1991	2005	1991	2005
Dublin	1,511	10,300	9,600	32.6	40.3	19.2	28.1
Mid-East	11,629			36.0		16.5	
South-East	20,377	16,300	16,000	36.5	41.4	19.7	31.4
South-West	28,178	22,300	22,300	29.8	35.9	16.2	26.5
Mid-West	20,066	14,900	14,700	28.1	33.9	12.4	20.5
West	38,964	32,200	31,300	18.4	24.1	6.0	9.9
Border (west)	20,268			19.8		5.5	
Border (east)	14,314	26,900	26,300	19.7	25.9	9.8	13.0
Midland	15,271	12,500	12,400	28.1	35.2	11.1	20.6
BMW*	88817	71,600	70,000	20.6**	26.7	...	13.0
S&E*	81761	63,900	62,700	31.9**	37.5	...	26.6
Total	170,578	135,500	132,700	26.0	31.8	11.6	19.4

Source: Eurostat database. CSO, 2007c

Notes: \* for 1991 the number of farms for BMW are roughly estimated by the authors adding together data for Border (west and east). West and Midlands;

\*\* authors' estimation using weighted average; 1 ESU =€1,200 using 2002 standard gross margin

Table 4.7 Specialised farms by region, 2005

	Tillage	Dairy	Beef	Sheep	Mixed grazing	Mixed crops + livestock	Other	Total
BMW	1,000	5,700	41,400	10,400	9,600	1,100	800	70,000
Border	400	2,600	14,300	5200	2,900	400	400	26,300
Midland	400	1,500	8,400	400	1,100	500	100	12,400
West	100	1,600	18,800	4,800	5,500	300	200	31,300
S&E	3,800	15,400	27,700	5,600	6,900	2,400	800	62,700

Source: CSO, 2007c

A classification of family farms by characteristics of holder shows that in over half (53%) of the region farms, the holder has agriculture as sole occupation (CSO, 2007c). This contrasts



however with 1991 when in more than 70% of the farms in the region agriculture was the sole occupation of the farm holder. Shucksmith *et al.* (2005) also highlights that between 1991 and 2000 there has been a major shift from “sole” to “major” occupation, particularly in the larger farm areas of the south and east, but also in the Border and Midlands. Currently, in one out of three farms in BMW the holder has agriculture as a subsidiary occupation or is not engaged at all in farm work. As a labour input, family workers (holder, spouse and other family workers) still remain the most important for both regions, although overall the number of family and non-regular family workers has declined, particularly since 1991 (CSO, 2007c). Regular non-family workers in BMW account only for 4.4% of total persons in the region as compared to 7% in the S&E. Following the general trend, the number of farms within the region reporting gainful non-farm activities has also increased accounting for 2,600 holdings, with farm tourism (around 20% of reported farms) being the most popular activity.

Family farm incomes in BMW region although much lower than in the S&E region have relatively improved since 1994 (Galway Euro Info Centre, 2006). The National Farm Survey (Teagasc) for 2005 estimates that family farm income for farms in Objective 1 (the entire BMW region) accounted on average for €17,184 per farm (or 60%) compared to €28,395 per farm in S&E region. For comparison, the average farm income in BMW region represented only 49% of that in the S&E in 1999. The distribution of income varies considerably between farms according to the enterprise mix, e.g. from €35,898 for a dairying farm to just €10,780 for a cattle rearing farm. There is also a large variation within the BMW region itself, with farms in the West area having a family income of just €13,994 as opposed to €27,395 for a farm in Midlands or €16,527 for a Border farm. The influence of direct payments is no doubt essential for all Irish farmers but particularly for BMW farmers, where it accounts for the largest share of family farm income. The impact of direct payments has increased considerably since 1992 (Table 4.8), but for beef and sheep farmers (the majority of BMW farmers) these are crucial, as market-based output often does not covered total costs (Shucksmith *et al.*, 2005).

Table 4.8 Share of DPs in FFI by regions

Region	1996	1998	1999	2001	2002	2005
Border	78	97	106	93	119	113
Midlands	73	90	85	89	101	100
West	78	86	108	88	118	112
Mid-East	61	71	76	63	95	96
Mid-West	43	62	67	64	72	80
South-East	55	58	61	63	79	86
South-West	39	52	53	52	71	77
State	59	69	74	72	90	94

Source: Shucksmith *et al.*, 2005; and National Farm Survey 2005, Teagasc

### 4.3 Driving (national and EU) forces for rural changes in BMW

#### 4.3.1 CAP and BMW

The region has benefited over the years from considerable national and EU support. Amongst these, the EU agricultural and regional aids are the most significant and they have markedly influenced the structural changes and the transformation of the agriculture and rural development across the region. After accession, for almost two decades, farmers in the region benefited mostly of market support (e.g. price support and export subsidies) and LFAs payments. Additionally, parts of the current BMW region benefited of some specific EU off-farm structural and social policy measures. In 1978 and 1979 two Council Directives adopted two programmes to accelerate and promote drainage operations in the less-favoured areas of the West of Ireland (78/628/EEC) and on both sides of the border between Ireland and Northern Ireland (79/197/EEC). These measures intended to help to increase farmers' income in areas where agricultural income was low, a large share of population was engaged in agriculture and with limited opportunities for off-farm employment (Fennell, 1997). From 1992, farmers received compensatory payments and could apply for accompanying measures, such as Rural Environment Protection Scheme and Early Retirement Scheme. Later on, Agenda 2000 introduced direct payments, and as shown above (Table 4.8), the role of direct payments in supporting BMW farmers' livelihood was, and still is, vital. Without direct payments most of the region farmers would have to give up their farming business. This is particularly due to the characteristics of the region (e.g. a low quality soil and harsh climate) which allow mainly for the existence of beef and sheep and pasture farms. The REPS was also very popular in the region, with almost a third of farms participating in the scheme. Lafferty *et al.* (1999) estimated also that between 1994 and 1999, almost half of the area farmed in the West and Border (west) areas was included in this scheme. However, as Leavy (cited in Lafferty *et al.*, 1999) noticed, the scheme was less attractive to low-income and small farmers inhibited by the high costs of compliance with the scheme. It is estimated that between 1992 and 2002, the region received an amount of €4.2 billion through the various EU schemes operating in the region (Table 4.9). This equals 45% of total EU agricultural payments for Ireland over this period.

Table 4.9 EU Agricultural Funds to the BMW region (€ million)

Programme	Total payments 1996-2002	Average annual payment	% of State 1992-2002
Suckler Cow Premium*	996.7	87.9	54.1
Ewe Premium	387.2	55.3	54.1
Special Beef Premium	622.6	89.0	37.9
Slaughter Premium	131.4	18.8	35.8
Compensatory Payments	766.0	69.7	62.4
Arable Aid	169.9	24.3	20.3
Extensification	346.5	49.5	48.8
Early Retirement Scheme**	166.2	18.5	28.1
REPS**	655.1	72.8	58.6
Total EU Payments*	4,241.6	-	45.1

Source: Bannon, 2005, p. 115; \* for 1992-2002, \*\* for 1994-2002

For 2000-2006, the agriculture and rural development sector in the region benefited through a number of various measures included in both the National Development Plan/Community Framework Support 2000-2006 and the CAP Rural Development Programme (i.e REPS, Compensatory Allowances, Early Retirement and Afforestation). Some 57% (€1,949 million) of the total expenditure of the CAP Rural Development Programme was allocated for Accompanying Measures in the BMW region (NDP 2000-2006, Summary of Provisions for the BMW Region). Its impact on farm income, particularly the importance of direct payments as a source for farmers' livelihood, within the region is indisputable as shown above.

Under the Operational Programme for BMW region (National Development Plan 2000-2006), the Sub-programme on Agriculture and Rural Development accounted for €321 million of which almost a quarter co-funded from the EU EAGGF (Table 4.10). Within this sub-programme the region planned to allocate an important share for measures that make an improvement in farm structure, the environment, animal welfare and hygiene standards and better quality products.

Table 4.10 Agriculture and Rural Development Sub-programme, in BMW region, 2000-2006

Measures	Total national and EU funds (€m)	EAAGF (€m)
1. General Structural Improvement	183.5	51.3
2. Alternative Enterprises	23.4	-
3. General Rural Development	74.3	19.0
4. Services for Agriculture and Rural Development	39.9	-
Total	321.04	70.3

Source: BMW Regional Assembly (2000). Operational Programme for BMW Region 2000-2006

#### 4.3.2 CAP and BMW Structural and Cohesion Funds and the National Development Plans

EU Structural and Cohesion Funds have undoubtedly been one of the main contributing factors to Ireland's economic success, and to the BMW region as well (Galway Euro Info Centre, 2006, Bannon, 2005). It was actually due to the areas in this region, which lagged economically behind others, that the Irish Government decided in late 1990s to divide the country into two NUTS II regions in order to remain eligible for EU Structural (Objective 1 status) and Cohesion Funds. However, overall, little was allocated to rural development measures (Walsh, 1995). In the first round of Structural Funds (National Development Plan/Community Support Framework (NDP/CSF) 1989-1993), under Priority 1, agriculture, fisheries, tourism and rural development measures, received between just 2.1% (for rural development) and 3.9% (for tourism) of total structural expenditure, as opposed to measures for industry development and services (27%) and physical infrastructure (17%) (Walsh, 1995). At the regional level, however, the distribution of expenditure contrasted significantly, with areas in the BMW region (e.g. West and Border) focusing their expenditure (over 40% of total) on measures related to rural economy (Priority 1) (Walsh, 1995).

BMW retained the status of Objective 1 for the entire period 2000-2006, and received EU Structural Funds support through the European Regional Development Fund (ERDF), the EAGGF (Guidance section), the European Social Fund (ESF) and the Financial Instrument for Fisheries Guidance (FIFG). Under the NDP 2000-2006, the the BMW Regional Operational Programme received €4 billion (of which 10% from the EU) and it focused mainly on the development of local infrastructure, local enterprises, agriculture and rural development and social inclusion and childcare (Table 4.11).

Table 4.11 BMW Operational Programme and EU Structural Funds Support, 2000-2006 (€m)

Priority	EAGGF	FIFG	ESF	ERDF	EU Contribution	Total CSF	Total OP	% of OP
Local Infrastructure Improvement				175.3	175.3	526.9	2,523.8	62
Local Enterprise Development	18.9	16.1		69.9	104.9	273	552.3	13
Agriculture and Rural Development	70.3				70.3	213.2	640	16
Social Inclusion and Childcare			33.1		49.7	66.4	378.2	9
Total	89.2	16.1	33.1	261.9		1,079.5	4,094.4	100

Source: BMW Regional Assembly (2000). Operational Programme for the BMW Region 2000-2006

Previous National Development Plans have also made considerable impact on the region, but indeed the BMW has received much smaller shares than the S&E region. Through the first (1989-1993) and the second (1994-1999) plan, an area approximately the same as the current BMW region received 32% (€3,690 million) and 29.8% of total expenditure programme (€6,302 million) (Bannon, 2005). For 2000-2006, the investment in the region through the NDP was set up at €15,921 million (28% of the total of €57 billion) of which 70% was allocated for two of the three inter-regional operational programmes: the Economic and Social Programme (€6,997 million) and Employment and Human Resources (€4,275 million).

#### 4.3.3 Other EU transfers to the BMW Region

The Leader programme is one of the Community Initiative Programmes that has influenced rural development across the entire state and the BMW region as well. Leader I and Leader II had have a considerable success between 1992 and 2000, and for 2000 and 2006 Leader + (some €74 million from public contribution) was applied in 22 localities throughout the country of which 10 from BMW region and out of the thirteen Area Based National Rural Development Groups seven were in the region (Bannon, 2005). The region has also benefited of other Community Initiative Programmes such as INTERREG, EQUAL and Urban. INTERREG, a cross-border, transnational and interregional programme (funded by the

ERDF) that encourages a harmonious, balanced and sustainable development at the EU level is also one of the most significant Community Initiative affecting the BMW region (Bannon, 2005). Under INTERREG II the EU financed about €160 million on Environmental Protection measures and for 2000-2006 INTERREG III allocated €180 million (Bannon, 2005). There are also other national and (more recently) regional policies that helped the region to develop. State direct aid was oriented particularly to support the industrial sector and to develop tourism, as well as infrastructure. Bannon (2005) estimates that between 1992 and 2002 the BMW region has received through the main development agencies (i.e. Industrial Development Authority, Enterprise Ireland and Udaras Na Gaeltachta) a quarter (€750 million) of the total state support for the development of enterprises. Accordingly, this direct aid to companies represents the region next single major source of support apart from the agricultural payments. Within the region, the West and Border areas were major beneficiaries, with Midlands receiving a smaller share of the total funding. As regards rural development, the region has also benefited, since 1998, of financial support provided by the Western Investment Fund (WIF). This assists and encourages economic and social development in the Western Region (the counties of Clare, Donegal, Galway, Leitrim, Mayo, Roscommon and Sligo) by providing loans and grants for a small number of strategically important investments and small and medium enterprises (including those run by women and in community-based developments)<sup>39</sup>. The NDP 2000-2006 allocated under the BMW Operational Programme (i.e. General Rural Development Measure) around €29 million for the WIF. During this period, 32 small and medium enterprises, 22 community projects and two strategic projects were funded by the WIF (NDP/CSF 2000-2006, Review - Key features of investment January 2000 to December 2006).

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<sup>39</sup> <http://www.bmwassembly.ie>

## 5 SUCCESS FACTORS IN MANAGING RURAL CHANGES SINCE EU ACCESSION

### 5.1 Overall

The success of Ireland's economic development is no doubt the result of a combination of interplaying (internal and external) factors and driving forces. As Dorgan (2006) notices, Ireland has achieved its success through a mixture of "sensible policies and pragmatism, at the heart of [which] was a belief in economic openness to global markets, low tax rates, and investment in education" (p.1). Overall, the Irish success means unprecedented levels of excellent economic performance reflected in high standards of living. Moreover, it is the "interplay of modernity and tradition in determining life satisfaction", the combination of "the most desirable elements of the new - ... wellbeing, low unemployment rates, political liberties - with the preservation of certain ... elements of the old, such as stable family life and the avoidance of the breakdown of community" that promoted Ireland at the top (The Economist Intelligence Unit, 2005).

Specific (internal) factors refer to economic and social (e.g. the structure of the economy, the openness of the economy towards trade and capital markets, demographic patterns and skillful and flexible labour force), institutional (the role of IDA in attracting FDI), cultural and historical evolution. To these, although difficult to measure, some intangible factors such as creativity, open attitudes towards the world, 'pragmatism without ideology' (Dorgan, 2006) played also a role. External factors refer mainly to the considerable opportunities brought by the EU membership and the significant impact of FDI (particularly from the US) on the country as a whole. National and EU policies were paramount for the development of the country. Although from the moment of accession it is rather difficult to strictly separate national and EU policies as they interconnect and as national policies were/are framed within the EU context, some national decisions (e.g. low tax rates to attract investment and the social partnership agreements) were very specific to Ireland's economic management. Accession to the EEC combined with favourable macroeconomic policies (e.g. fiscal and competition policies and deregulation) made Ireland one of the most attractive destinations for FDI. It is the concentration of the multinational companies (particularly in high-tech industries and internationally traded services) that had driven the Celtic Tiger performance<sup>40</sup>. To these other factors such as a young, well-educated, English-speaking labour force, an established regulatory business framework implemented by an efficient public administration and a supportive banking system concur further to the attraction of foreign investment. As Bradley (2000) remarks "directly as well as indirectly the FDI affected every corner of the Irish economy" (p.8). Furthermore, the adoption of the first national social partnership (in 1987), a joint-effort of both social partners and political forces, was paramount for the development of a favourable macroeconomic environment in Ireland. This brought political stability, but more important it achieved "a high degree of wage-coordination" and a "sufficient degree of consensus on public finance", fundamentals for a successful macroeconomic environment (O'Donnell, 1998, p. 22). This has triggered the adoption of a succession of successful partnership's agreements. The importance of these social partnership agreements was expressed by Ireland's Prime Minister, Bertie Ahern (June 2006), as follows: "Social Partnership has helped to maintain a strategic focus on key national priorities, and has created and sustained the conditions for remarkable employment growth, fiscal stability, restructuring of the economy to respond to new challenges and opportunities, a dramatic improvement in living standards, through both lower taxation and lower inflation,

<sup>40</sup> Personal interview with expert, autumn, 2007.



and a culture of dialogue, which has served the social partners, but more importantly, the people of this country, very well.” (Towards 2016, Taoiseach).

Although the Irish economic success will not be totally possible without the benefits of the EU membership, it is the “right decisions [taken] at certain key moments” that made the difference and brought the country’s to unprecedented level of development (Fitzgerald, Former Irish Prime Minister, 2004).

## 5.2 CAP and Irish Agriculture

Focusing specifically on agriculture, Lafferty *et al.* (1999) stress that there is not a single determining factor, but a combination of internal and external driving forces and dynamics of modernisation and marginalisation in agriculture that explain the ‘modern revolution’ in Irish agriculture. The authors summarised these in six clusters (p.12): (i) geographical differences in natural resource base which influence a spatial distribution of farming activity and performance; (ii) global economic factors (e.g. demand and supply for farm products, expansion of technology and technological knowledge) which compel farmers to achieve competitive advantage and maintain economic viability; (iii) national and EU policies which push structural changes (e.g. larger-scale and economic viable farms) but in the same time provide direct payments to support farm income; (iv) changes in the off-farm economy; (v) cultural, institutional and historical factors with variation across farm categories and geographical areas; (vi) ‘adaptive strategies’ determined by individual behaviour subject to motivation and lifestyle, individual resources and capabilities.

Ireland took its first steps towards economic progress a decade before accession when it advocated free trade and encouraged foreign investment and education. These had significant effects on the development of agriculture and rural development (e.g. increase of land productivity, a decline of agricultural labour force, a rise in tourism, forestry and fisheries activities). Nevertheless, during this period, Ireland remained economically dependent on its neighbour, the UK. Hence, accession to the European Community, a much desired dream that became true only in 1973, found Ireland as one of the poorest agrarian country at the periphery of the Community. Agriculture accounted for 16% of the Irish GDP and more than a quarter of its labour force was employed by this sector. In these conditions, the adoption of the CAP with its high prices support for agricultural commodities and the opportunity of expanding Irish exports on larger markets were crucial for Ireland. Crowley (2003) notices the CAP “has been the main financial and ideological influence on agriculture in the Irish state” (p. 68). Agriculture’s contribution to the economy as a whole remained important throughout the 1980s.

The first five years after accession (1973 to 1978) were the most prosperous in the Irish agriculture history. In addition to the CAP price and market support mechanisms, the country also benefited of on-farm structural and social policy measures (e.g. modernisation of farms, less-favoured areas payments) and specific off-farm measures such as the drainage programmes in the West and the Border areas between Ireland and Northern Ireland. The volume of agricultural output rose significantly and for the first time Irish farmers enjoyed high increases in real income. During the 1980s the creation of the common market for sheep (and goat) meat and the introduction of ewe and suckler cow premia had a sound effect on the agricultural sector as a whole. The number of sheep almost doubled, as sheep enterprise became very attractive. Parts of BMW region (e.g. Midlands) recorded the largest increase.

Indeed, during the 1980s, as the country went into recession, farmers also faced an unfavourable economic environment. The introduction of milk quota and the fall of world prices for agricultural commodities inflicted hardship on the farming community,



particularly on the dairy producers, as dairy was the most profitable sector of Irish agriculture. Areas within the BMW region (Border and West) were the most affected. The analysis presented in Sections 2 and 3 shows, however, that despite various impacts of the CAP on the sector as a whole for almost two decades (since accession) Irish farm structure remained almost unchanged. The number of farms decreased very slightly (e.g. only by 3% between 1975 and 1985) and the average farm size remained constant at 22-23 ha up to 1989. The process of farm enlargement was rather slow and some authors (e.g. Lafferty *et al.*, 1999) considered limitation of farm size as one of the major structural problems of Irish agriculture during this period. The slow process of farm expansion was particularly due to the specific characteristics of the Irish farming and landownership system. Farming in Ireland is traditionally a family business and most of the land belongs to farmers. The sentimental attachment to land and family farm resulted in an inflexible land tenure and a limited land market which lasted for more than two decades.

From early 1990s the circumstances changed and some significant restructuring started to take place in the Irish agriculture. The economy took off, hence helping directly or indirectly with changes in rural areas too, and for the first time since its adoption the CAP went to some radical changes. Amongst these the introduction of compensatory payments and agri-environmental measures were the most important. These measures aimed to support farm income, particularly those unable to compete on the market, in order to 'preserve the fabric of rural society' (Crowley, 2003). Furthermore, agricultural production was encouraged but in compliance with "requirements of the protection of environment and the maintenance of the country side" (Council Regulation 2078/92). In Ireland, Rural Environment Protection Scheme, the main agri-environmental scheme, is considered, particularly by decision makers, as a sound success. Indeed, beef and sheep producers, most of them located in the BMW region, have benefited of this scheme. REPS was very popular in the region, with around a third of farms participating in the scheme and covering almost half of the area farmed in the West and Border (west). Some scholars (e.g. Emerson and Gillmor, 1999) argued that from an environmental perspective the REPS failed to challenge those who put the real pressure on the environment (the large intensive producers). Hence, the scheme amplified the structural dualism (between the poor and the wealthy farms) characteristic to Irish agriculture (Tovey cited in Crowley, 2003). Additionally, other accompanying measures (e.g. early retirement scheme and afforestation) had also significant impacts on the restructuring of Irish agriculture; regionally the incidence was very distinctive, with farmers in the S&E more enthusiastic to participate. Agenda 2000 and the Mid-Term Review contributed to further structural changes. The support of farmers in the form of 'decoupled' direct payments and the introduction of the Single Farm Area Payment helped Irish farmers to survive. Essentially without this support most Irish farmers, particularly those rearing cattle and sheep, would not have lasted. A summary of some of the implications of these various policy changes are presented as follows.

As from 1991, the decline of number of farms has accelerated (an average 2,700 farm each year) and the average farm size constantly increased (from 26 ha in 1991 to 31.8 ha in 2005) (CSO, 2007c). The sharpest decreases in the number of farms were recorded in the Border and West areas. As expected, as the average farm size increased the number of small-scale farms (less than 20 ha) has declined. This explains partially the larger share of reduction in the BMW region, characterised by smaller-scale farms and which found it difficult to remain economically viable. These changes led overall to the concentration, specialisation and intensification of agricultural production. The number of specialist cereals and dairy producers declined, whereas the number of specialist beef and sheep producers increased. The specialist beef production has remained the predominant farming

type in Ireland, and this has slightly changed since 1991. Hence, the decline in the overall number of farms is attributed to the reduction of specialist dairy and mixed grazing livestock farms (CSO, 2007c). The largest number of specialist beef farmers is by far in the BMW region. Important changes took also place for pig, poultry and cereals farms, although these commodities have a relatively small contribution to agricultural output. The production system for pig and poultry sectors has become very intensive with most of the output produced by very large commercially-specialised companies. For example, if at the time of accession pigs were typically reared on a very small scale and a large number of farms (35,700 farms with an average of 29 animals) by 2001 the Irish pig production was assured by 1,400 holdings with an average size of over 1,200 animals. Between 1991 and 2005, the number of poultry farms has decreased by 62%, but the flock remained almost constant (CSO, 2007c). The number of farms growing cereals has also declined (by 40% between 1991 and 2005) whereas the average farm size has increased from 13 ha to 20 ha. Labour input in agriculture has also suffered transformation since accession. As the importance of agriculture within the economy has declined, farming has become less attractive as an activity. Nevertheless, it still remained very much a family business and the share of family farms in the total number of farms has hardly changed over the years. The volume of agricultural labour has continuously decreased, but to a lower average rate per year (2%) than in other EU member states (The Heritage Council, 1999). Indeed, the number of full time farmers has declined, whereas the part-time farming has increased. Although family labour (e.g. holder, spouse and other relatives) prevails (more than 90% of total labour force), the contribution to spouses and other family workers has significantly fallen. Off-farm employment taken by the holder and/or spouse has become more common being present in almost 60% of all farms (National Farm Survey, Teagasc, 2006). The number of farmers reporting one or more of gainful non-agricultural activities has also increased from 1% in 1991 to 4% in 2005, with farm tourism as the most attractive activity (CSO, 2007c).

Agricultural policy changes, farm size and enterprise mix and the development of the agricultural output and input prices have influenced (amongst others) the farm income and the livelihood of farmers and their family. In nominal terms the aggregate farm income increased between 1973 and 2005 by almost six-fold. However, with the exception of the first five year of accession, when Irish farmers' real income doubled, aggregate real farm income has dropped. Family farm income per farm has also been volatile over the years, with most of small farmers being on the edge of surviving. The distribution of family farm income varies considerable across farm sizes, enterprise mix and regions. The majority of Irish farms (61%) belong to the low income groups (i.e. less than €13,000 per year) and most of these farms have cattle rearing and sheep as enterprise and they are of a small-scale. Specialist dairy and arable crops are by far the most profitable farm types. A vital component of the Irish farm income and implicitly of the livelihood of farm families is the direct payments. The contribution of direct payments has increased tremendously from just 5% in 1973 to 98% of total farm income in 2006. In recent years the incidence of direct payments has become even more crucial, particularly for cattle rearing and sheep farms for which direct payments represents above 100% of their total farm income. However, the direct payments were unevenly distributed across farms as they have depended mainly on the farm size and enterprise mix. As the larger farms got most of the benefit, this led to a deeper gap between the low and high income farms.

### 5.3 Structural Funds, National Development Plans and Rural Development

EU support in the form of Structural Funds for Ireland is undoubtedly one of the driving forces that concurred to the economic success of the country as a whole, and only to some extent to rural areas. The creation of the Single Market and the reform of the Structural Funds, in early 1990s, marked the start for important changes in regional policy decisions for Ireland. In order to attract large amounts of EU funds, the Irish government declared to maintain the entire country under Objective 1 status. This implied that the country as a whole will benefit of these funds and no specific disadvantaged area was favoured. Moreover at the EU request, the government submitted its first National Development Plan/CSF which set up for the first time clear development priorities. Some 20% of the Structural Fund expenditure (for 1989-1993) was allocated to promote agriculture, fisheries and rural development and a further 5% for tourism, whereas the largest share went to substantial investment in industry, services and physical infrastructure. Despite that Structural Funds has not targeted in particular the development of rural economy, the massive investment in infrastructure, industry and services and human resources (education and training) had effects that spilled over into rural areas. For example, the manufacturing industry contributed significantly to the rural economy as most of the jobs were located in rural areas (interviewee). Some small amounts of the Structural Funds were also allocated for local development (e.g. Leader Programme). Leader (Leader I, II and Leader +) Programmes, an EU bottom-up approach for promoting rural development, have been very well received in Ireland. Despite that the Programmes benefited of limited financial resources, it is believed that Ireland has set up the best example of local initiative participation in the implementation of local rural development (McDonagh, 2001).

The publication of the European Commission's document 'the Future of Rural Society' represented a turning point for EU rural development policy. This had also influenced government's decisions with regards to the future of rural development in Ireland. As it became clear that the importance of agriculture as an activity within the rural economy has started to decline and in response to the introduction of the EU integrated rural development concept, the Irish government promoted (1988-1990) in twelve rural areas a Pilot Programme for Integrated Rural Development. The programme which sought to promote employment improvement, an increase of quality of life and encourage a sense of community identify in rural areas was regarded as a success as it stimulated and encouraged local initiatives to a scale not experienced before. This initiative was considered a precursor of the Leader Programme.

The adoption of the Agenda 2000 and the establishment of rural development as the Pillar 2 of the CAP have driven further national rural development initiatives, such as the White Paper and the NDP 2000-2006 that influenced changes in rural areas. Agriculture and rural development benefited from measures included in the Operational Programmes under the NDP which complemented the CAP Rural Development Plan. All of these have been discussed in Section 3.3. Most of these factors/driving forces were also pointed out by the interviewed key experts. A summary of their views and opinions are presented in Annex 1.

## 6 CONCLUSIONS

Ireland's economic miracle is irrefutably attributed to a combination of internal and external factors which acted in a favourable environment, and not to a lesser extent to a range of national policies changes that laid the foundations for the economic progress. Moreover, it is the EU membership and the Single Market and the substantial financial resources transferred from Brussels which were also vital for the development of Ireland. It is not surprising that after almost four decades since accession, Irish population has the highest level of belief (87%) in membership having benefited a country across the EU27 (Eurobarometer, July 2007). From this point onwards national and EU policies are rather difficult to separate, as they interconnect very strongly, but it is the approach of implementation and delivery of such policies that made a difference to Ireland.

At the time of accession, despite some substantial economic progress achieved during the 'golden age', Ireland was still a poor, yet agricultural-oriented economy at the periphery of Europe, heavily dependent on its UK neighbour. As agriculture was still contributing significantly to the economy as a whole, accession brought immediate benefits to this sector. Substantial CAP subsidies were transferred to Irish farmers mainly in the form of price and market support. Furthermore, for the first time the country could trade unrestricted on broader markets and diversify its exports. Agricultural output increased and Irish farmers benefited from the rise in real income. However, it was not until mid-1990s that the implementation of various national and EU policies have started to show tremendous positive results, and it was especially the creation of the Single Market and the EU transfers from Structural and Cohesion Funds that made a difference to Ireland's economic development. The country as a whole has positively benefited from Objective 1 status, and over the years it has received some of highest EU transfers per capita. Additionally EU membership and some specific macroeconomic policies made Ireland one of the most attractive destinations for FDI, particularly from the US. Although Structural Funds and FDI were not specifically oriented towards the development of rural areas, as mentioned above, they had spilled over effects. Nonetheless, the CAP and its intricate reforms have played a pivotal role in the transformation that took place in rural Ireland. Agriculture remained very important for the Irish economy throughout the 1980s, when still accounted for around 10% of the GDP. Since then its share fell significantly representing less than 2% in 2005. As the economy prospered, the sector experienced some significant structural changes. These were especially noticeable from the 1990s onwards. The number of farms, particularly those of a small-scale size, declined significantly for all types of farms in contrast to a constantly increase in the average farm size. This led to concentration, specialisation and intensification of production. Specialist beef production has remained the predominant farming activity in Ireland, whereas the number of specialist dairy and mixed grazing livestock farms almost fell dramatically. Farming in Ireland still remains very much a family business, with land and farming business regularly passed on from generation to generation. Since accession the proportion of family farms in total farms remained almost unchanged. However, there has been a change in the farm holders' age, with younger farmers replacing the elderly category. Furthermore, as agriculture has become less attractive as an activity, there has been a clear diminishing trend in the number of farmers of which agriculture is sole occupation in contrast to an increase in the number of part-time farmers. As the country developed, the economic and social development of rural areas is no longer associated with agriculture. Farming does not play any longer a primordial role as a source of household income, and its contribution has diminished year by year. Currently, more than half of the gross income of a farm household is provided by off-farm employment, with the number of farmers engaged in

gainful non-farm activity rising. Since accession, the aggregate current farm income has increased, but in real terms it hardly changed. The distribution of income is very much dependent on the farm size and enterprise mix, and thus there is a large variation in the level of farm income. The contribution of direct payments to family farm income has substantially increased over the years. There is also an unconditional reliance of Irish farm households on the EU financial support and an almost total income dependence on direct payments.

Overall, Irish rural areas have experienced a process of changes, particularly in the past decade; population growth, a diversification of employment opportunities and an expanding sense of community life in which culture, traditions and heritage are valued and retained. Nevertheless it was not until late 1980s that rural development as a policy on its own gained some attention from Irish policy makers. This came yet again from Brussels, with the publication of the 'Future of Rural Society' document that stressed the Community major rural problems and proposed an integrated bottom-up approach to support the development of rural areas. In response, the Irish government adopted, under the CSF, the Operational Programme for Rural Development and run some local initiatives pilot programmes such as the PPIRD. Although criticised for its limited impacts (mainly due to the lack of sufficient financial resources) these programmes provided a starting point for local people to become involved and promote economic and social development in rural areas. Hence, the launch of the EU Leader programme a few years later was very well received in Ireland. Additionally the adoption of so-called 'Accompanying Measures' as a result of MacSharry CAP reform opened new opportunities for the diversification of rural economy and raised awareness for the preservation of rural landscape and environment. Amongst these the Rural Environment Protection Scheme has become the most popular amongst Irish farming community. A decade later (1999) the shift in the EU policy from its focus on CAP to rural development led the Irish government to adopt the White Paper, the first coherent, long-term strategy of the future of Irish rural society. This is supposed to be achieved through National Development Plans and CAP Rural Development Programmes. Nonetheless as McDonagh (2001) noticed in Section 2 "a few places in Europe are so closely associated with the 'rural' as Ireland" (p.50) and "'rural' impinges on almost every aspect of Irish life, socially, economically and in influencing the decision-making process" (p.48). Rural Ireland has been transformed by a variety of economic, social, historical and cultural forces, but "older territorial patterns are still deeply embedded in rural structures" (p.50). Hence, the dilemma between Ireland traditional rural identity, with farming and landownership as predominates, and the new rural economic and social progress based on a multi-sectoral approach still persist in Irish spirit (ibid).



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## Annex 1

### Summary of Experts' Views on the Major Driving Forces for Changes in Rural Ireland

The telephone interviews were structured around six main topics (see below) and key experts in the area (e.g. academics from the most reputable universities in Ireland and civil servants from national and regional organisations) were consulted.

- Main factors/driving (local and external) forces for changes in Ireland's rural areas since accession. Other (specific) factors which have influenced (positively) changes in rural areas (e.g. culture/traditions, community involvement?)
- The importance of national and regional policies and their effect on Ireland rural areas.
- EU membership and EU policies (have they made a difference to rural Ireland?) Which of these policies were the most important?
- Missed opportunities for a better success (particularly when comparing regional levels for e.g. BMW region versus SE)?
- Any suggestions/lessons to be learned for the new member states?

In line with the descriptive analysis carried out in previous sections, most of the experts have pointed out three major driving forces that influenced the transformation in rural Ireland since accession: (i) the CAP support; (ii) the influx of FDI and (iii) the development of infrastructure (based on EU Structural and Cohesion Funds). There is no doubt in the experts' view that the CAP support (mainly in the form of subsidies for farmers) had a considerable impact on Irish farming. Additionally (although mostly oriented towards urban areas, such as the Great Dublin Area) the massive inflow and the nature of the FDI driven by multinational companies, and the development of airports and telecommunications have also influenced changes in surrounding rural areas. To these, other such as the overall economic growth, an attractive fiscal policy (e.g. tax regime), education and training, the development of tourism industry (particularly in the BMW region), the partnership agreements, and the IDA's role in attracting FDI have also played an important role for the development of rural areas.

Most of the experts agreed that the development of rural areas cannot be discussed without considering the overall national economic development. The role of education and training, but particularly the development of the third level education system seems also to be an essential factor for the transformation of rural Ireland in the view of some experts. It is not only the increase in the number of universities and the attraction of a significant number young people, but the establishment across the whole country of so-called Institute of Technologies (ITs) which have a considerable influence on enhancing people skills. These Its promoted the development of the "middle-skills level" which further helped and encouraged people to work in various factories (e.g. multinational companies) and at various levels: "knowledge which will produce economic benefits (knowledge economy)" (interviewee). Having an IT in the area was very important and, in the experts' view, it made a difference to the area where it was located. Nevertheless, the establishment of these ITs was possible due to the support and finances through the ESF, e.g. Structural Funds. In addition, it is also believed that the "respect for education", particularly amongst farmers' children was also important:



*"The share of children of farmers participating in the third level is one of the highest in the country. There is a very good an incentive education system in rural areas which attracted good teachers helping young people to develop their skills .... Farmers' economic incentives were underestimated maybe and lots of grants were made available for farmers' children" (personal interview, expert, autumn 2007).*

Along the same lines others highlighted the importance of the Irish population and the society as a whole. Ireland's population was "young and hungry for knowledge and culture", and although "Irish people are traditional, [they] are also opened". The English language represented no doubt an advantage. *"We can understand the Americans and the Americans can understand us"* (personal interview, expert, autumn 2007).

Indeed, for all interviewed experts, EU membership was paramount for the country as a whole, but especially for the Irish agricultural sector. Although the contribution of the sector to the economy has declined over the years, the sector has experienced significant changes. Accession to the Community opened new trading opportunities for Irish products and the agricultural sector benefited considerably. Currently agri-food industry contributes by 10% of total Irish exports. Unanimously, it is recognised that initially the CAP price support and later on the direct payments were decisive for Irish farming. Moreover, the adoption of specific measures such as the REPS was also very important for rural areas, as it supported those farms which provide diversification. The advancement of the 'integrated rural development' concept and 'bottom-up approach' in the late 1980s has triggered Irish policy makers' attention, as the maintenance of rural population and economic diversification in rural areas became major concerns. Hence, the development of a broader integrated rural development policy was well received in Ireland. The adoption of the first National Development Plan and the establishment of a coherent Rural Development Programme represented a significant step in this direction. Although initiated by Brussels and perceived as a Community requirement the design and application of NDP under the CSF proved to be very beneficial. For the first time *"money were there, but in order to get them it was necessary to do a cost-benefit analysis and create an evaluation plan which will get best of the money"* (personal interview, expert, autumn 2007). Collectively, the experts recognise that the decisions-taken process in Ireland is still very centralised, with local authorities having very little power and financial resources (*e.g.* some 90% of funds come from the Exchequer). At the microeconomic level, however, Leader Initiative (plus other forms of local partnerships) has become most popular in Ireland. Leader Programmes gave the opportunity to local communities and representatives to become involved in accordance with priorities in their areas.

The transfers from the Community in the form of Structural Funds were crucial for the country as a whole, but their distribution at the regional level was rather uneven, with most of the funds oriented towards the East and Greater Dublin Area. The country withdrew massive amounts of EU funds under the Objective 1 status, but for almost four decades (until 2000) there was no particular regional policy in Ireland. The only regional development initiative was the Regional Industrial Programme applied by IDA, during 1970s-1980s, which used incentives for the purpose of encouraging firms to locate and invest outside the Greater Dublin Area. The lack of an earlier regional policy is perceived by most experts as a missed opportunity for a balanced regional development which led also to a "weak urban hierarchy" and a "very weak planning system". Moreover, it is considered that within the BMW region there are voices which complain that the Irish

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government did not allocate the share which it promised for the region between 2000 and 2006. Only very recently the National Spatial Strategy (adopted in 2002) aims to achieve a more balanced regional development, but in some experts' opinion, until now, the NSS has added in practice too little. For example, Government's initiative to reallocate some 10,000 civil servants within 45 locations out in the country rather than focusing on allocation of investment across the regions and the emergence of new forms of rural governance led some experts to question Government's commitment and credibility towards devolution of power and regionalisation (personal interview, expert, autumn 2007). However, it is too early to assess its impacts and things may improve in the future.

With regard to some potential lessons to be learned for the new member states the following were suggested. The setting up of appropriate EU structures and institutions which to act in accordance with the interest of the country and be able to attract the EU funds was seen as essential. Additionally, the design and delivery of the National Development Plans are also very important, *"deliver what you say you will do"*. To accomplish this, the creation of a strong, sustainable and responsible capacity building is necessary. The need for a clear regional strategy, to which the government to be committed to, is also considered as very important, particularly for a balanced development at the regional level. Moreover, decentralisation of responsibilities and a broader involvement of local communities at the regional and local levels need to be fostered and encouraged. *"The representation of rural regions and rural people and its mechanism within the parliament ... is a centripetal force for the development of rural area. Listen to the voice of people in these areas and their needs. In Ireland, politicians are very rooted in their constituencies and rural areas are represented in the parliament"* (personal interview, expert, autumn 2007)

## Annex 2

### List of Consulted Experts

Expert	Organisation
Prof. Alan Matthews	Jean Monnet Professor of European Agricultural Policy, Department of Economics, Trinity College Dublin
Dr. Seamus O'Reilly	Department of Food Business & Development University College Cork
Patricia O'Hara	Policy Officer, Western Development Commission
Prof. Patrick Commins	National University Ireland, Galway
Kevin Smyth	Chief Economist Department of Agriculture, Fisheries and Food
Paul Kelly	Academic Director of the Irish Auctioneers and Valuers Institute
Dr John McDonagh	Department of Geography National University Ireland, Galway
Liam Dunn	Rural Economy Research Centre, Teagasc
Mary Brennan	Lecturer, Newcastle University