

Study on the Functioning of Land Markets in the EU member states under the Influence of Measures ap- plied under the Common Agricultural Policy

End of Project Report

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Trevor Donnellan, Kevin Hanrahan, Thia Hennessy

Rural Economy Research Centre, Teagasc

Athenry, Galway

Ireland

www.tnet.teagasc.ie/rerc

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ABBREVIATIONS

CAP	Common Agricultural Policy
DAFF	Department of Agriculture, Fisheries and Food, Ireland
CSO	Central Statistics Office
EU15	European Union of 15 Member States
FFI	Family Farm Income
GAEC	Good Agricultural and Environmental Condition
IACS	Integrated Administration and Control System
NFS	National Farm Survey, Ireland
REPS	Rural Environment Protection Scheme – Ireland’s agri-environmental scheme
SFP	Single Farm Payment
SPS	Single Payment Scheme

EXECUTIVE SUMMARY

- This study examines the evolution of land markets in Ireland with single emphasis on the special payments systems (SPS). The SPS was introduced in Ireland in 2005.
- Irish agriculture is primarily pasture based with dairy and beef production representing close to 70 percent of the value of Irish agricultural production. Sheep and cereals account for a further 10 percent of Irish agricultural output value. On this basis, the vast majority of Irish farm operators are in receipt of payments under the SPS.
- The Irish implementation of the SPS uses the historical model with 2000 to 2002 as its reference period. The system will continue to operate on this basis. The SPS was paid to 118,000 farmers in 2006 and the aggregate value of these single farm payments was over €1.3bn.
- Prior to the introduction of decoupling there was opposition to full decoupling from some farm organisations on the basis that some farmers would be more negatively affected by decoupling than others. Despite this opposition, the decision to fully decouple was made and since then there has been no significant political pressure to reverse the full decoupling choice.
- There has however been pressure to introduce additional coupled direct payments in the livestock sector. This pressure has led, in part, to the introduction of a nationally financed coupled direct payment scheme that supports Irish suckler cow farmer incomes. This scheme known as the *Suckler Cow Welfare Scheme* has been introduced under the provisions of Article 40 of Council Regulation 1689/2005.
- Agricultural land purchase and rental markets in Ireland are very distinct. Non-agricultural factors are the principal factors behind the evolution of agricultural land prices, whereas agricultural factors are more relevant in determining agricultural rents.
- The SPS has not had a significant impact on Irish agricultural land purchase-prices. These prices have increased dramatically since 1995. The price level in 2005 (the latest year for which data are available) was almost 200 percent higher than in 1995. Anecdotal evidence is that agricultural land purchase prices have continued to increase during 2006 and 2007.
- Land rental prices have fallen over time. Rented land cannot be used for development purposes and hence is mainly sought for agricultural use. The price of rented land is positively correlated with farm margins and since these have fallen over time, the price of rented land has declined.

1. INTRODUCTION

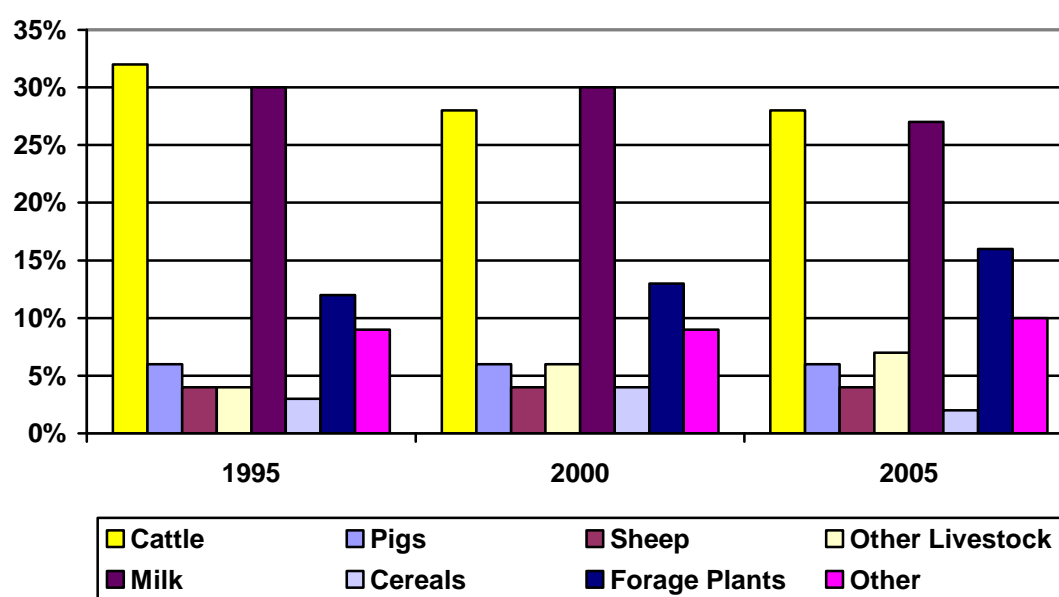
As recently as 15 years ago agriculture still constituted a significant share of the Irish economy. Extremely strong economic growth led to a doubling of GDP in just 10 years and consequently primary agriculture, which did not experience similar growth over that period, now represents just 2 percent of national GDP, although it is notable that it remains more important in rural regions.

The rapid growth in the economy over this period has meant that the land purchase market (including the agricultural land market) in Ireland was subjected to a whole range of inflationary pressures, which make it relatively unique among the EU15. Major national infrastructural projects such as road building, schools and public offices, as well as private developments such as housing and commercial developments (retail parks, industrial estates and golf courses) have created a demand for agricultural land for non-agricultural uses, and more importantly has increased the resources available to farmers to acquire replacement agricultural land when farmland is sold for non-agricultural purposes.

There is a particularly strong emotional attachment to land in Ireland, which means that the dominant means of transfer of ownership is through non-market arrangements, mostly through inheritance. Less than half of 1 per cent of total agricultural land area transfers by way of sale each year, so the land purchase market is quite thin. The rapid rise in agricultural land prices in the period since 1990 has done little to change this institutional setting.

In terms of output value, two sectors continue to dominate Irish agriculture: beef production and milk production. Currently, each accounts for close to one third of overall agricultural output in Ireland. The contribution of dairy, beef and other sectors to Irish Gross Agricultural Output (GAO) is shown in Figure 1-1.

Figure 1-1: Share of Gross Agricultural Output by Sector: Ireland selected years



Source: Central Statistics Office, Ireland.

Historically, the beef sector was by some way the larger of the two sectors in Ireland. While both sectors continue to constitute the substantial share of agricultural output, the dairy sector's share has increased in significance. This was particularly the case in the 1970's and is largely attributable to the particular benefit the dairy sector derived from EEC accession back in 1973. From the mid 1980's the milk quota has been beneficial as a supply control and maintained dairy product and farm gate milk prices, through the 1980s and 1990s.

Many Irish farms constitute mixed enterprises and it is not unusual to find dairy farms with significant beef enterprises and mixed beef and sheep farms. Cereal farms often operate a second enterprise. By contrast pig and poultry production are now quite specialised

The scale of livestock agriculture is large relative to the population of the country and as a result Ireland exports significant quantities of dairy products, beef and lamb. By contrast Ireland has a deficit in grain production. Fruit and vegetable production tends to be specialised and represent just 5 percent of agricultural output and needs to be supplemented by imports.

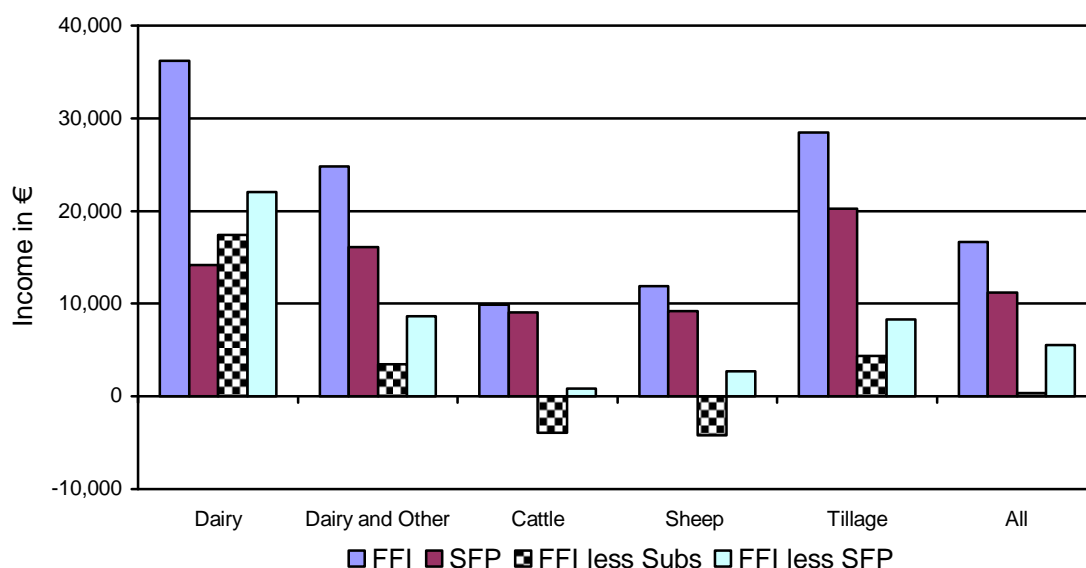
In terms of size, the Irish livestock holdings are on average similar in size to the EU average. Cereal farms would be smaller in scale relative to the typical size of cereal farm found in the major EU grain producing countries. It is notable that dairy farms have been growing in size at a faster rate than other enterprises.

Dairying tends to predominate in areas with good land quality in the South and East of the country. Cereal production is relatively concentrated in the East and South East of the country, where land quality is high and the terrain is relatively flat. Beef rearing and sheep production are concentrated in Western regions where land quality is poorest, while beef finishing tends to be concentrated in the East. Market gardening (fruit, green vegetables, potatoes) tends to be concentrated near urban areas, particularly in the East in the vicinity of Dublin.

Increasing production and productivity have been one of the most significant features of agriculture in general in the past 20 years. Changes in technology and input composition have increased yields. Production is concentrated on fewer but larger farms. Declines in the agricultural labour force, disguised unemployment and a trend towards part time farming are other features of modern Irish agricultural restructuring. These are more prevalent in drystock (cattle and sheep) farming than in dairy farming, given that labour requirement on dairy farms tend to be higher, although the poorer incomes in drystock farming are also a factor.

The data presented in Figure 1-2 shows that across all farm systems the average family farm income (FFI) in 2006 was approximately €16,500 while the average Single Farm Payment (SFP) was just over €1,000. This illustrates the considerable reliance of FFI on the decoupled payment. Figure 1-2 also presents market family farm income or family farm income less all subsidies (displayed in the graph as FFI less Subs). The total subsidies received by farmers in 2006 include the SFP along with disadvantaged area and Rural Environment Protection Scheme (REPS) payments where applicable and to a lesser extent forestry premia, environmentally sensitive area payments, installation aid and bovine-TB compensation. The average market family farm income across all subsidies in 2006 was approximately €350.

Figure 1-2: Average Family Farm Income & Reliance on Subsidy Measures in 2006



Source: Teagasc National Farm Survey

Clearly farmers are very reliant on subsidies. The average market family farm income is very low and for some farm systems the market income figures are negative - the average income of the cattle and sheep systems for example are -€4,000 and -€5,000 respectively. Some of the subsidies listed above are still linked to production or to some activity and not all farmers qualify for these subsidies. If we consider the SFP as the main decoupled payment, it is notable that a large number of farmers have a negative family farm income when the SFP is deducted.

2. DATA AND INFORMATION SOURCES

Most of the data included in this report are from official sources such as EUROSTAT and the Irish Central Statistics Office (CSO). These data are supplemented by data from the Teagasc Irish National Farm Survey (a member of the EU Farm Accountancy Data Network).

The appendix and the related MS Excel file contain data from the Irish Central Statistics Office (quarterly prices) and from Eurostat's NewCronos database (annual prices).

3. IMPLEMENTATION OF SPS

This chapter examines the operation of the Single Payment Scheme (SPS).

3.1. Single Payment Scheme

Ireland adopted the historical SPS on a national basis using the reference period 2000 – 2002. All eligible payments were fully decoupled and there is no regionalisation of the payments or intention to move to a hybrid system.

Full decoupling of payments was chosen as the means to ensure the highest level of support payments from the CAP. It was expected that agricultural production would decline in the future even if payments were to remain coupled since some farmers already operated on a market loss basis in order to qualify for receipt of coupled support. If future production declined then in a coupled environment this would have reduced the future level of support to farmers as a whole, in comparison with the relatively fixed amount of support that would be obtained under full decoupling.

Choosing a payment system other than the historically based system would have involved favouring one group of farmers over another and this would have created significant political controversy in Ireland. Given these considerations, the Irish Government choose to adopt full decoupling and it could be argued that support for this decision from the farmer representative organisations would have been less likely if the historical system had not been chosen.

Anecdotally, farmers are generally satisfied with the historical decoupled payment system. While there has been no explicit pressure for a change in the SPS in recent times, there has been pressure for the introduction of new coupled payments outside of the SPS. For example Ireland has just introduced a coupled Suckler Cow Welfare payment as allowed for under Article 40 of Council Regulation 1698/2005.

The Irish Government has indicated its desire to protect these payments and to see their continuation in their current form beyond 2013.

3.2. Establishment and activation of entitlements

Only eligible land can be used to activate an entitlement. Eligible land is any type of agricultural land, except that used for growing permanent crops, (such as fruit and forestry) and included land used for sugar beet production even though there were no direct ‘compensation’ payments for producers of this crop. The land area should have been declared on the Area Aid applications during the reference years 2000, 2001 and 2002.

Entitlements may only be paid to a farmer once they have been ‘activated’. The Entitlements are activated by the farmer submitting an ‘Area Aid Application Form’ for 2005. This was required even if the farmer had no previous claims for any of the ‘coupled’ payments.

There is no size constraint on the eligibility of a plot for entitlements.

Initially it was envisaged that if an area of land was converted to forestry it would become excluded from area eligible for entitlements. This regulation would have presented an immediate increase in the opportunity cost of engaging in forestry. Therefore, due to concerns that this SPS condition would prevent a desired growth in forestry area in Ireland (less than 10 percent of the land area is forest), the operation of the SPS was subsequently changed to allow up to 50 percent of the eligible agricultural land on a farm to be converted to forestry without effecting the level of the SPS entitlement. The full entitlement is then said to be “stacked” on the remaining eligible hectares.

In 2007 there were 4.375 million entitlements, of which 4.291 million (98.1 percent) were utilised. These entitlements were claimed on an area of 4.627 million hectares. The total UAA in Ireland in 2007 was 4.34 million hectares. The SFP is normally paid in 2 instalments. The first is paid in September or October, while the second instalment is paid at the end of the year.

At present only compulsory modulation of the SPS is operated in Ireland. All entitlements were reduced by 3 percent in 2005, 4 percent in 2006 and 5 percent in 2007 and for each year thereafter. Farmers who have an entitlement of €5,000 or less have the modulation deduction refunded to them. This means there is effectively no modulation for entitlements of less than €5,000.

3.3. Decoupling

All direct payments that could be decoupled under the Luxembourg Agreement were fully decoupled and the decoupling took place from the earliest possible date (2005). None of the decisions to fully decouple CAP direct payments made in 2004 have been reversed. Given that the historic model with full decoupling of all CAP direct payments has been in place since the SPS came into existence, it can be said that there is no trend evident in terms of the way the SPS is being implemented from year to year.

Since the decision to fully decouple was made, there has been no public pressure to “re-couple” direct payments. Prior to the Irish Government’s decision to fully decouple direct payments, one of the Irish farm unions, the Irish Creamery Milk Suppliers Association (ICMSA), lobbied for the retention of a partially coupled special beef premium and/or slaughter premium. Members of this farmer union are predominantly specialised dairy farmers (whereas many Irish dairy farmers also have a beef enterprise) and the price they received for the sale of their male calves was boosted by the coupled slaughter and special beef premiums that existed up to the introduction of the SPS. Despite the fact that specialist dairy farmers had established no entitlements to the payments in the reference period, the ICMSA argued that these farmers faced a likely drop in their revenue if full decoupling was chosen. Essentially these concerns were outweighed in the final Government decision by the perceived benefits from full decoupling to the wider farming community.

Since the decision to decouple payments there has been pressure to introduce new (additional) schemes that would involve a nationally financed coupled per head payments to encourage/maintain numbers of suckler cows and ewes. To date the Irish Government has received authorisation from the European Commission to introduce a coupled payment for suckler cows that is officially known as the *Animal Recording, Welfare and Breeding Scheme*. Over the period 2008-2013 this scheme will provide a coupled direct payment to scheme participants based on their suckler cow numbers,

subject to satisfaction of certain criteria and limited by the national exchequer funds available. This payment is made under the provisions of Article 40 of Council Regulation 1698/2005 and IV.C of Community Guidelines for State Aid in the Agriculture and Forestry Sector 2007-2013 (2006/C 319/07).

3.4. Tradability of Entitlements

Entitlements may be sold with or without land to another farmer in Ireland but may only be sold without land if 80 percent of the entitlements are first activated in one calendar year. Alternatively if 80 percent of entitlements are not activated in one calendar year, the entitlements may be sold without land if the unused entitlements in 2005 are first surrendered to the National Reserve. Activated entitlements may be sold at any time during the year, but must be notified to the Department of Agriculture, Fisheries and Food (DAFF) within a defined period.

Farmers can only sell entitlements without land if:

- a) they have first activated at least 80 percent of all their entitlements in one calendar year

This means that if a farmer for whom 100 entitlements have been established, activates 80 of them in one calendar year, s/he may sell all 100 entitlements without land.

or

- b) where at least 80 percent of the entitlements have not been activated in any one year, the farmer must first surrender to the National Reserve those entitlements that have not been activated in 2005.

Entitlements may be leased out to other farmers in Ireland but they must be accompanied by an equivalent number of eligible hectares. The entitlements and land must be leased to the same farmer. Activated entitlements may be leased at any time during the year but must be notified to DAFF within a defined period. Entitlements may be transferred, with or without land, by gift or through inheritance.

Entitlements can be traded independently or through agents who usually charge a fee of between 3 to 5 per cent of the value of the entitlement. DAFF must be informed when entitlements are traded, rented or gifted (e.g. through inheritance). Purchased entitlements cannot be consolidated, whereas entitlements which are gifted or inherited may be consolidated. Consolidation is explained in further details in the next subsection.

In 2006 about 138,000 entitlements (3 percent of total entitlements) were transferred in Ireland. About one-third of the transferred entitlements (i.e. 1 percent of total entitlements) were market transactions and most of the remainder were transfers by non-market means (i.e. inheritance/gift). The corresponding figures for 2007 are slightly higher, with 154,000 entitlements (3.5 percent) transferred, but the breakdown of quite similar to that of 2006. While no official data is available, anecdotal evidence is that the sale value of an entitlement is about 2.5 times its annual value.

3.5. Consolidation or Stacking of Entitlements

The requirement that individual farmers need to have 100 percent of the average land area that they had during the reference period would have resulted in serious problems for those farmers who, for specific reasons, declare less lands in 2005 or subsequent years, than the average area of land that they farmed during the reference period.

Under the provisions of the EU Regulation a Member State may make use of its National Reserve in order to consolidate payment entitlements for certain categories of farmers on the actual number of hectares of land farmed in 2005. This entails surrendering the original entitlements to the National Reserve in exchange for a lower number of entitlements with a higher unit value. The overall value of the Single Payment is not affected.

The farmer must declare all the hectares available to him in 2005 and the total area declared must be equal to at least 50 percent of the average area declared during the reference period. The farmer may apply for the concession in a particular year provided that he continues each year to declare at least 50 percent of the land area farmed during the reference period. This provision is particularly of benefit to farmers who rented land in the reference period or who are putting land into forestry since 2005.

It should be noted that the concessions relating to consolidating entitlements cannot be applied to any farmer who declares fewer hectares than entitlements because he disposed of land by way of sale or lease. One exception is where land is purchased by a public authority for non-agricultural use (e.g. for road construction). In that case consolidation of entitlement is still possible.

The Department of Agriculture, Fisheries and Food in Ireland indicates the entitlement consolidation provisions may be applied to the following categories of farmers:

- Farmers who have afforested some of their land since the beginning of the reference period;
- Farmers who have disposed of land to a Public Authority for non-agricultural use;
- Farmers who had land leased/rented in during the reference period but the lease/rental agreement has since expired, and ;
- Farmers who declared lands situated in Northern Ireland during the reference period.

Where a farmer benefits from this concession all of his/her consolidated payment entitlements will be regarded as having come from the National Reserve. The entitlements concerned cannot be sold or leased out for 5 years from the year of allocation and the farmer must use all his/her entitlements himself/herself each year for a period of 5 years otherwise any entitlements not used will revert to the National Reserve.

3.6. SPS National reserve

A deduction from the SPS reference amount is made for the 'National Reserve'. The National Reserve was created to provide a fund of entitlements to award to new en-

trants to farming, to make up losses of entitlements in cases of *force majeure* and other exceptional circumstances. The National Reserve was established by a 3 per cent cut in each farmer's entitlements in 2005. Thereafter, a 'clawback' on sales of entitlements may operate. This can be up to 50 per cent of the value of entitlements sold without land in the first three years of the operation of the SPS and up to 30 per cent thereafter. The clawback on the value of entitlements sold with land can be up to 20 per cent of their value but only five per cent if the entire holding is sold. No clawback is permitted where entitlements are sold with or without land to new entrants.

Unused entitlements go back into the National Reserve. It is possible that some very low value entitlements may not be used. After year one, the National Reserve may be allocated and entitlements from the Reserve may be 'stacked' on to a farmer's existing entitlements. Entitlements awarded to farmers from the National Reserve cannot be sold or leased for five years and must be used every year for five years.

3.7. Access to the National Reserve

The Commission detailed rules regulation sets out the categories of farmers for whom entitlements should be made available from the National Reserve. These include:

- Active dairy farmers who, because of force majeure, will be unable to supply milk during the 2004/2005 milk quota year will, subject to the DAFF's approval, be entitled to temporarily lease all or part of their quota and benefit from the decoupled Dairy Premium.
- Farmers who inherit, lease or otherwise receive a holding free of charge. In such cases the farmer from whom the holding is obtained must have retired or died before the closing date for receipt of Single Payment applications in 2005. In addition, the holding must have been leased to a third party during the reference period.
- Certain farmers who made investments in production capacity or purchased/leased land before 29 September 2003.
- Farmers who leased land between the end of the reference period and 29 September 2003 where the lease conditions may not be adjusted.
- Farmers who participated in a National Program of conversion of production, during the reference period or before 29 September 2003.
- Farmers who entered farming for the first time after 31 December 2002 or who, while farming in 2002, did not receive any direct payments in that year.

A Single Payment Advisory Committee (consisting of representatives of the farming organisations, DAFF and Teagasc) was set up to advise the Minister for Agriculture on criteria for calculating the number and value of entitlements to be allocated.

3.8. Cross Compliance

In respect of cross compliance there are 20 standards under Good Agricultural and Environmental Conditions (GAEC). These relates to the three broad areas of soil ero-

sion (6 standards), soil structure (1 standard) and minimum levels of farm and farm land maintenance (13 standards).

For a farmer to farm under GAEC he/she must satisfy the inspector that

- There is no evidence of soil erosion. For example finely tilled soils not sown, severe poaching by livestock, overgrazing of all lands, both enclosed and commonage, and sand dunes.
- There is no evidence of soil structure being damaged by machinery. For example misuse of machinery in waterlogged conditions.
- The minimum level of maintenance has been complied with. For example, that the management regime for permanent pasture (grazing, cutting, topping) is adequate to allow agricultural production to take place the following year.
- Tillage crops are grown under normal husbandry conditions and land under set-aside is managed in accordance with Single Payment Scheme Terms and Conditions.
- There is no damage to habitats designated as NHA (Natural Heritage Areas), SPA (Special Protected Area) or SAC (Special Areas of Conservation) or to monuments or archaeological sites.
- There is no encroachment of invasive species, spread of noxious weeds, burning of growing vegetation between 1st March and 31st August and that external farm boundaries are stockproof where stock are present on the holding.

GAEC Enforcement

GAEC is enforced through on-farm inspections that examine whether farmers are farming in accordance with GAEC and fulfilling the Statutory Management Requirement (SMR) associated with the cross-compliance criteria. It has not been possible to ascertain whether or not fines have been imposed on farmers for non-compliance with GAEC.

The statutory management requirements to farms to be eligible for SPS are as follows:

- SMR1 - Conservation of Wild Birds
- SMR2 - Protection of Groundwater
- SMR3 – Sludge
- SMR4 – Nitrates
- SMR5 - Conservation of Natural Habitats and of Wild Flora and Fauna,
- SMR6, 7, 8 & 8a - Identification and Registration of Animals (Bovine, Ovine, Porcine),
- SMR9 - Plant Protection Products (Pesticides)
- SMR10 – Hormones
- SMR11 - Food Hygiene
- SMR12 – Feed
- SMR13 - Foot and Mouth
- SMR14 - Swine Vesicular Disease,

- SMR15 – Bluetongue
- SMR16 - Animal Welfare (Calves)
- SMR17 - Animal Welfare (Pigs),
- SMR18 - Animal Welfare (General)

SMRs are properly enforced through unannounced inspections of farms by inspectors from DAFF. Information on imposition of fines for non-compliance with SMR and the numbers of farmers fined was not publicly available.

3.9. Other Aspect of SPS operation

There is nothing to indicate that a black market in entitlements exists.

There are no official data available that allows an assessment of whether the entitlement ownership concentration is increasing or decreasing or which type of farms but or sell entitlements

Entitlements that are unused for 3 years are returned to the National Reserve. In 2005 the value of unused entitlements that reverted to the National Reserve was €5m. This amounts to less than one half of one percent of the total value of the single farm payments in that year.

Prior to the decoupling of direct payments the DAFF had developed a well functioning administrative and control system (IACS). This system allowed for the early and smooth introduction of the SPS system to Ireland in 2005.

3.10. Role of the Farm Advisory Services with respect to the SPS

The Irish national farm advisory service (part of the organisation known as Teagasc) predates the introduction of cross-compliance criteria and can be traced back to institutions founded over 100 years ago. There is no necessity that farmers participate in a farm advisory system to be eligible for the SPS. Eligibility is dependent, in general, on submission of Area Aid forms during the reference years 2000 to 2002. In general farmers seek the assistance of advisory personnel in the completion of these forms. It should be noted that in addition to the national advisory agency (Teagasc) private sector farm advisory companies also exist in Ireland and these perform a range of similar services to the state body.

4. AGRICULTURAL LAND REGULATIONS

4.1. Land Purchase Regulations and Practices

Several different taxes and transaction charges can be relevant in the sale and purchase of agricultural land. These include Stamp Duty, Capital Gains Tax, capital acquisitions tax and sales fees.

Stamp Duty: There is a stamp duty (transactions tax) charge on agricultural land sales which is payable by the purchaser of land. The rates applied are those for non-residential property with the top rate being 9 percent for land valued in excess of €150,000. (Lower rates apply at different bands under that threshold, but once each the band is breached, the new rate applies to the entire amount).

Capital Gain Tax: A Capital Gains Tax is payable by the vendor at a rate of 20 percent.

There is no capital acquisitions tax on agricultural land sales. However capital acquisitions tax does apply to land transferred by gift or inheritance. The current rate is 20 percent.

Sales Fees: Sale fees are not regulated but are usually paid by the vendor.

Land Ownership Taxes: There are no land ownership taxes in Ireland.

4.1.1. Land Registration

There is no statutory requirement to register purchased land but is it prudent to do so and it is the norm. The Property Registration Authority has responsibility for the Land Registry and Registry of Deeds in Ireland.

4.1.2. Size of the land sales market

Data on agricultural land sales are based on the legal contracts associated with the sale of land, these must be delivered to the Irish Government's Valuation Office in what is called a "Particulars Delivered" form. There is no restriction on the selling price of agricultural land.

It should be noted that transactions below €500 and above €35,000 per hectare are classified as non-agricultural and are thus excluded from the calculation of average agricultural land sale prices, as are plots of less than 2 hectares and sales of agricultural land in Dublin County. There is anecdotal evidence that some farmers have purchased land for agricultural production at prices in excess of €35,000 per hectare.

Data from the Particulars Delivered forms are compiled and forwarded to the CSO for statistical purposes.

4.2. Land Rental Regulations and Practices

Stamp duty is liable on the execution of a lease at a rate of 1 percent of the annual rent (Once off payment on stamping).

There is no requirement to register leases and as a consequence data on the share of agricultural land that is rented is not available. Again there is no requirement to register rental contract/leases. Short term rental contracts, (typically 11-months in duration) known in Ireland as conacre, are a popular way of renting land. Often conacre prices are agreed orally whereas longer term leases are more likely to be written.

In the past the general view would have been that most rentals are conacre but that situation may be changing since some farms may require so called 'spreadlands' for manure under the Nitrates Directive and increased participation in the Rural Environmental Protection Scheme (REPS). Also some income tax exemptions have been introduced for encouraging long-term leases but again we are uncertain of the up-take of these exemptions.

5. LAND MARKET DEVELOPMENTS

It is notable that there has been strong divergence in the path of agricultural land sale prices and agricultural land rental prices in the last 10 years. This is particularly a feature of agricultural land near cities and towns with potential for rezoning for non-agricultural uses.

Ireland has a highly dispersed rural population. Unlike elsewhere in the EU, rural dwellers are not concentrated in towns and villages and there is a strong desire to build so called "one off" houses (individual houses typically on plots of up to 0.25 hectares) in the countryside. Where farms have access to public roadways, it has not been uncommon for a farmer to sell several such plots over the last ten years.

Ireland is experiencing strong population growth, largely due to returning immigrants who had been based in other English speaking countries (e.g. UK, US, Australia) and due to immigration from other EU MS. This has created pressures for housing and other facilities which has also contributed to increased land prices.

As a general comment the sales price of agricultural land in Ireland has grown very strongly since 1990. The average price per hectare in 2005 was over 214 percent higher than the price in 1990. In the last 5 years for which annual data are available (2001-2005), the price of agricultural land increased by almost 17 percent.

The largest year on year decline in rents over the period 1997 to 2006 occurred in 1998. The key factor behind this decline is not clear (the average 1998 rent was 30 percent lower than that in 1996).

Increases in Irish agricultural land prices have been very strong in the period since 1990. The rate of increase was at its fastest between 1996 and 2000, with the strongest annual increase occurring in 1999 (24 percent). The factors behind the strong growth in land prices are largely unrelated to agricultural market and/or agricultural policy developments.

No official data are collected on the areas of land leased on an annual or any other basis. The total volume of land leased annually would be vastly larger than the volume bought and sold each year.

6. DRIVERS OF LAND VALUES

From the mid 1990s onwards significant infrastructural investments have been undertaken in Ireland particularly in the areas of road and motorway construction. This has led to the purchase of agricultural land by government agencies. The construction of commercial developments has also absorbed a significant amount of agricultural land. These developments must be borne in mind when assessing the observed changes in land sales price and rental values.

6.1. Drivers of Land Sales Values

The impact of the SPS on agricultural land sales is expected to be positive but relatively minor compared with the impact of other factors and especially factors driven by developments outside of agriculture.

The main drivers of agricultural land prices over the period 2003-2007 have been related to the growth of the wider Irish economy, the large increase in house building observed over that period and the large increase in public infrastructure projects particularly motorway and other road building programmes. The development of agricultural land rental and sale prices has diverged enormously over the last 10 years or more. Falling or static profitability on a per hectare basis is reflected in declining agricultural rents, while agricultural land sale prices have increased very strongly.

Table 6-1 shows the extent to which various drivers have impacted on the sale price value of agricultural land in the period 2003-2007. There is no clear tendency as to whether the SPS affects the incentive to own agricultural land.

There are no data collected on land sale prices categorised by use (i.e. by SPS eligible area and non-eligible area). Given that the vast majority of Irish land is classed as permanent pasture most sales are likely to be of this land type and will have an SPS entitlement associated with them.

Entitlements are usually bought with agricultural land. Although it is possible to purchase entitlements alone there are restrictions on their sale.

Most Irish farms are owner occupied and ownership of land is relatively un-concentrated. Generally in Ireland the land owner is the farm operator. Where non-farming landlords exist they are generally very affluent and may retain residences in both urban and rural areas.

Social norms play an important role in the market for land sales. There is a very strong attachment to agricultural land ownership in Ireland. This attachment is reflected in the institutions and customs and practices that prevail in the transfer of agricultural land. Ownership of Irish farmland generally transfers through inheritance. Agricultural land (the family farm) is in general inherited by a single family member (usually the eldest son in the family). Inheritances of agricultural land are, not subject to inheritance taxes if the person inheriting the land attains a specified level of agricultural training.

The transfer of agricultural land ownership is usually accompanied by informal agreements concerning the continued care of the, usually elderly, parents in the family farm homestead. This includes the provision of some form of income to these parents from the farm. In the event of the sale agricultural land or of the family farm, there is

often a presumption that non-inheriting siblings have to be compensated for the “break-up” of the family farm and home.

The impact of the dominance of inheritance as the mode of land ownership transfer in Ireland, the overwhelming pattern of a single family member inheriting the complete farm, and the social norms that militate against the sale of agricultural farmland to non-family members, reduces the volume of agricultural land that comes onto the open market. These factors contribute to the very high agricultural land prices that prevail in Ireland.

6.2. Drivers of Land Rental Values

The drivers of land rental values are somewhat different to those of purchase values, since a change of use in the land (e.g. to non-agricultural purposes) will not be possible in the case where land is rented.

An individual farmer’s incentive to rent land is affected by the share of land rented during the reference period for the SPS. Stacking of entitlements onto owned land is possible where the amount of rented land in the reference period was not greater than 50 percent. Where a farmer had rented 50 percent or more of the land farmed in the reference period, the SPS has created a continuing incentive to rent some land, since the full entitlement cannot be accessed through the stacking facility.

Where a farmer had rented less than 50 percent of their farm area in the reference period the SPS has arguably reduced the incentives to rent land, given the ability to fully stack entitlements earned on rented land in the reference period onto their owned land. In such circumstances the continued renting of land would need to be justified on economic grounds.

Ownership of entitlements rests with the farmer who established and activated the entitlements so the issue of the transfer of entitlements with or without land when a tenancy change does not arise.

There is an absence of official data on agricultural rents for SPS eligible and non eligible area, so it is not clear that there is a difference in price between these different land types.

Table 6-2 shows the extent to which various drivers have impacted on the rental value of land in the period 2003-2007.

Table 6-1: Drivers of Agricultural Land Sales Values in Ireland

Drivers	Impact 2003-2007*	Comments
Agricultural commodity prices	6	Falling commodity prices reduce returns but influence of other drivers are more important
Agricultural productivity	3	Little change in productivity over period
SPS	3	Increases the return to owning land
Coupled subsidies	4	No coupled payments during period
Rural development polices (e.g. environmental payments, LFA)	3	Small positive impact. SPS is more important
Other subsidies	4	No other subsidies relevant
Taxes	4	No change in policies over period
Land sale regulations	4	No change in policies over period
Informal institutions (e.g. norms, social capital, etc)	2	Strong income growth in wider economy, strong desire to purchase land
Farm size	3	Important for farms growing in size
Bio-energy	4	No commercial production of bio-energy crops
Urban pressures (population growth)	1	More than 1 percent per year population growth
Infrastructural expansion (highways, airport, ...)	1	Large increase in spending on infrastructure
Interest rate	4	Limited change in rate over period
Inflation	4	Outweighed by other factors
Other factors (specify)		

Specify whether the driver (impact) has led to a 1. strong increase, 2. medium increase, 3. weak increase, 4. no changes, 5. weak decrease, 6. medium decrease or 7. strong decrease of agricultural land prices!

Table 6-2: Drivers of Agricultural Land Rental Values in Ireland

Drivers	Impact 2003-2007*	Comments
Agricultural commodity prices	5	Falling commodity prices reduce returns
Agricultural productivity	2	Little change in productivity over period
SPS	5	Stacking reduced demand for rented land
Coupled subsidies	4	No coupled payments during period
Rural development polices (e.g. environmental payments, LFA)	2	Small positive impact. SPS is more important
Other subsidies	4	No other subsidies relevant
Taxes	4	No change in policies over period
Rental market regulations	4	No change in policies over period
Informal institutions (e.g. norms, social capital, etc)	4	No change
Farm size	3	Important for farms growing in size
Bio-energy	4	No commercial production of bio-energy crops
Urban pressures (population growth)	4	Not relevant for land rental
Infrastructural expansion (highways, airport, ...)	3	Not relevant for land rental
Interest rate	4	Not relevant for land rental
Inflation	4	Outweighed by other factors
Other factors (specify)		

* Specify whether the driver (impact) has led to a 1. strong increase, 2. medium increase, 3. weak increase, 4. no changes, 5. weak decrease, 6. medium decrease or 7. strong decrease of agricultural land rents!

7. THE DISTRIBUTION OF DIRECT PAYMENTS

Data from the IACS puts the average value of an entitlement in 2007 at €308.76 exclusive of modulation.

The FADN data for Ireland can be used to produce a breakdown of the SPS by farm system. There is variation in the value of the entitlement by farm type and size. Table 7-1 and Table 7-2 below show the average SFP per hectare and the average SFP by farm size and system.

Table 7-1: Entitlement value (per ha) by farm system type in 2007

Farm System	Payment per Ha.
Dairy	296
Dairy and Other	290
Cattle Rearing	333
Cattle Other	349
Sheep	231
Mainly Tillage	363
Total	285

Source: Teagasc National Farm Survey

Using FADN data for Ireland the average Single Farm Payment is recorded as €285 per hectare. However, there is variation across systems. The two cattle systems tend to have the highest SFP per hectare while payments are lowest for sheep farms.

On a whole farm basis (Table 7-2) tillage farmers receive the largest SFP this is mostly due to larger than average farm holdings.

Table 7-2: Single Farm Payment by Farm Size and System in 2006 (in euro)

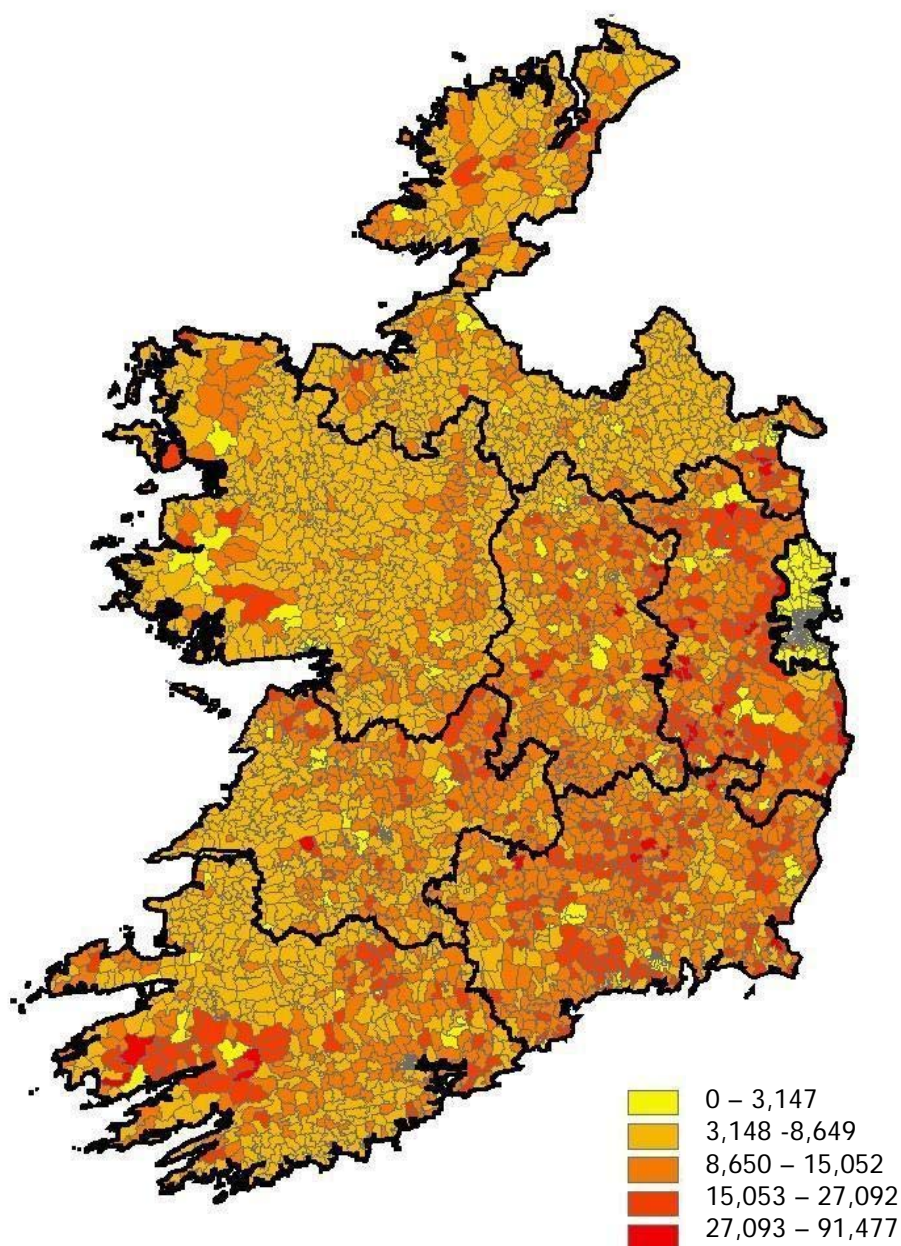
Size (ha)	<10	10-20	20-30	30-50	50-100	> 100	All
Dairy	n/s	4,200	7,500	14,000	22,000	40,000	14,200
Dairy & Other	n/s	n/s	n/s	11,100	24,400	48,700	16,100
Cattle Rearing	n/s	4,300	5,500	10,400	20,000	41,000	7,300
Cattle Other	2,800	5,500	7,900	13,600	25,500	44,000	10,500
Mainly Sheep	n/s	4,700	7,500	12,100	23,500	42,100	9,200
Tillage	n/s	n/s	n/s	14,000	28,800	55,800	20,200
All	3,000	4,600	7,100	12,600	24,000	47,200	11,200

Source: Teagasc National Farm Survey

n/s – sample too small to quote data

The cattle rearing system tends to have the lowest SFP per farm at just €7,300 compared to the national average of €11,200, the payment is consistently low on cattle rearing farms across all size categories. In terms of very large farms, 100 hectares or greater, specialist dairy farms tend to have the lowest SFP at €40,000 compared to the average for the size group at €47,200. As expected the SFP increases in conjunction with farm size across all systems. The map in Figure 7-1 shows the geographic distribution of the SFP across the country.

Figure 7-1: Geographic Distribution of the SFP receipt (Euro per farm)



Source: Shrestha et al. (2007).

It is apparent that the larger, more intensively operated farms in the Southeast region have higher SFP per holding than the smaller, more extensive farms in the West and Border regions. The recipients of the largest SFP are mostly located in the Leinster region (light red and dark red colours) payments per farm here range from €15,000 to €90,000 per farm. This reflects the intensive nature of farming in these regions as well as the larger than average farm size.

8. EFFECTS ON STRUCTURAL CHANGE

8.1. Farmer Entry and Exit

The SPS has little effect on the entry of new farmers. Previous research conducted in the country of study showed that entry into farming is almost entirely by intergenerational transfer and is driven more by macroeconomic factors and the educational profile of the farm heir than farm related factors, (Hennessy and Rehman, 2007).

In relation to exit, it is likely that the introduction of the SPS decelerated the rate of exit from farming. The introduction of the “non-labour” SPS payment has facilitated the continuation in business of loss making farms. Previously farmers had to grow crops or stock animals to receive the payment and therefore labour had to be allocated to these tasks. Now farmers can continue the farm business and receive the payment with very little labour and therefore the SPS has introduced a disincentive to exit. Modelling studies support this hypothesis. However it is too early to provide any supporting data.

The SPS is not in operation for a sufficient period to make a judgement as to whether it changes the behaviour of exiting farmers in relation to willingness to sell versus rent their land after they exit production.

To our knowledge the introduction of the SPS has not affected the operation of informal land institutions in the Irish agricultural sector.

8.2. Farm Production Structure

The movement from coupled to decoupled payments has affected the structure of production. First, incentives to produce certain products, i.e. animals of certain age, in a certain manner, i.e. at reduced stocking rates, have been removed and hence farmers have the freedom to optimise production and respond to market signals. In particular, there has been a destocking of sheep farms and an increased specialisation of production. However, the data suggests that farmers are slow to optimise their production structures.

The effect of the SPS on the change in farm size is likely to be small. In relation to use of labour on farm the impact of the SPS is likely to be greater. In Ireland the majority of farm labour tends to be unpaid family labour. Hennessy and Rehman (2008) find that in Ireland decoupling will lead to a reallocation of labour out of farming and into non-farming occupations as the “coupled returns” to farm labour declines.

The extent to which the SPS might affect other aspects of farm structure is limited. The share of Irish farms that can be classed as commercial (i.e. non-family) is very small. It is not anticipated that the SPS will change in any way the underlying family

farm basis of Irish agriculture. Where commercial farms exist in Ireland they are overwhelmingly in sectors that were not in receipt of coupled payments (poultry and pig) and hence are not in receipt of the SPS.

A shift to a flat rate SPS model in Ireland would lead to the diverting of funds away from intensively farmed regions in the southeast of Ireland to more extensive farms which are generally in the west of the country. This would have detrimental effects on the viability of commercial farming, in particular beef farms, but would have beneficial effects for small, extensive farms. A shift to a flat rate model would most likely impede structural change among small, extensive farms in the west and accelerate structural change among more commercial farms.

There is little evidence to suggest that Irish non-farm groups such as consumers or taxpayers are even aware of the existence of the SPS or have any strong opinions of the operation of the scheme. Hence there is little if no feedback from non-farmer interest groups on any aspect of the SPS in Ireland.

9. IMPACT OF SFP ON LAND VALUES

9.1. SPS and land sale/rental transactions

In Ireland the introduction of the SPS was accompanied by the possibility to stack or consolidate payments. Some farmers are able to consolidate, or 'stack', their entitlements, thus concentrating their payment over a smaller area than that on which it was calculated. They will thus have a smaller number of entitlements than was originally calculated but each entitlement will be of a higher value.

This provision benefits farmers who had farmed rented land over the SPS reference years, but who might otherwise suffer a net loss of land when their lease expires. Without 'stacking', they would have to seek extra land in order to claim all their entitlements. It was considered that a requirement to continue to rent land to receive an entitlement would drive up the rental price of land and this was considered undesirable by policy makers.

To a certain extent the ability to stack entitlements has created a disincentive to continue to rent land, farmers can now receive much of the profit they earned on their rented land, i.e. the coupled payment, through the land they actually own, with no requirement to continue to rent land merely to ensure that the SPS is drawn down.

9.2. The SSP and land sale price and rental rates

Other things equal we would expect the SPS to have a positive relationship with both land sale prices and rents. However, in the case of rented land the impact would be offset, at least partially, by the provisions relating to the consolidation of entitlements on land.

However, the impact of the SPS on sale prices of agricultural land has been dwarfed by the much stronger impact of wider macroeconomic factors on the purchase price of land. These factors preceded the introduction of the SPS in 2005 and which have con-

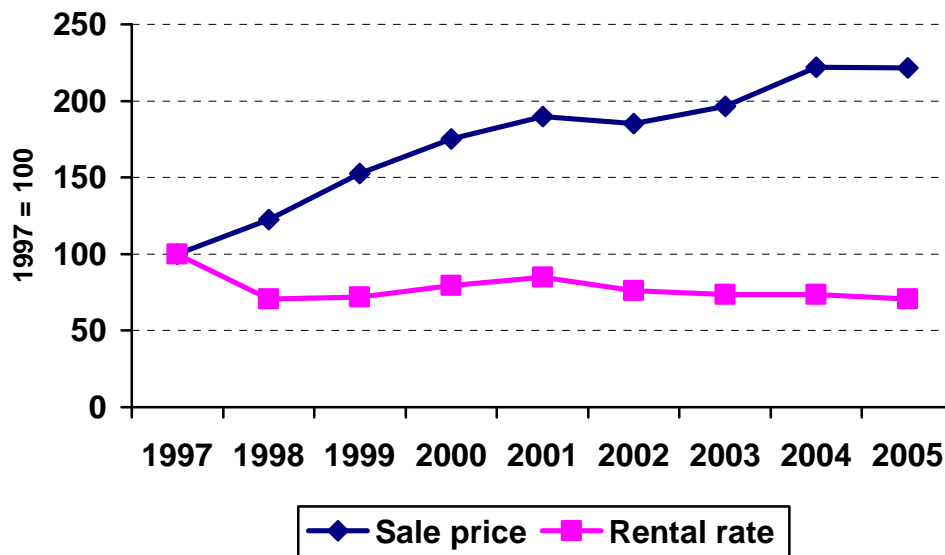
tinued in the years that followed. These macroeconomic factors did not benefit the rental price of land which has fallen over time.

The Irish economy has not entered a period of low economic growth and this may help reveal the extent to which the strong economic growth of earlier years was a driver of high land purchase prices.

Other things being equal, falling commodity prices would lead to lower agricultural returns and lower land prices and rental values. In reality, while lower rental values have been observed, the negative impact which lower commodity prices would have on land values has been more than offset by the positive impact on land values due to infrastructural development. Consequently land prices have risen.

Figure 9-1 illustrates the evolution of agricultural land prices and rental rates since 1997. Agricultural land sale prices and rents have diverged significantly over period 1997 to 2005.

Figure 9-1: Indices of Irish Agricultural Land Prices and Rental Rates



Source: EUROSTAT, NewCronos Database.

Table 9-1 shows the average price per hectare of agricultural land over the period 1990 to 2007 by region and for the State. It is notable that there has been relatively little difference across the regions in the rate of increase. Prices in 200X are generally about three times the price level in 1990. The highest rate of increase has been in the Midlands and Mid-East regions, while the lowest rate of increase has been in the West and South-West Regions

Table 9-2 illustrates the area of land sold as a percent of the area farmed for the various regions and for the State.

Table 9-1: Average Price per Hectare of Agricultural Land in Ireland (Euro Fixed Rate)

Year	Region							State
	Border	Mid-East	Midland	Mid-West	South-East	South-West	West	
1990	4,462	6,069	4,152	4,849	5,686	4,913	4,171	5,033
1991	4,048	5,711	4,313	4,900	5,212	5,321	3,831	4,795
1992	4,221	6,472	3,899	4,109	5,116	4,815	3,927	4,775
1994	4,502	5,781	4,204	4,702	5,625	5,231	3,705	4,967
1994	4,528	6,572	4,748	4,868	6,217	5,560	4,160	5,352
1995	4,759	6,399	5,052	5,553	6,986	5,427	4,887	5,641
1996	5,291	8,133	6,342	6,683	7,950	5,973	4,773	6,548
1997	6,206	9,816	6,298	6,941	9,258	8,757	4,875	6,926
1998	7,848	11,821	8,022	8,034	9,965	8,442	7,737	8,940
1999	8,310	16,380	11,191	9,825	12,165	11,476	8,878	11,264
2000	10,790	18,044	12,295	12,171	13,883	12,502	10,267	12,665
2001	11,544	19,459	13,571	14,018	14,291	14,607	10,351	13,870
2002	11,561	17,338	13,122	13,707	14,784	13,696	11,811	13,486
2003	13,475	18,936	13,857	14,140	16,269	13,356	12,049	14,385
2004	13,038	22,426	17,670	16,532	17,060	16,867	14,268	16,261

Note: Excludes transactions in Dublin, transactions outside the range €500-35,000 per hectare and transactions under 2 hectares

Source: Central Statistics Office, Ireland

Table 9-2: Land sales as a percentage of area farmed by region in Ireland

Year	Region							State
	Border	Mid-East	Midland	Mid-West	South-East	South-West	West	
1990	0.63	1.27	0.83	0.63	0.99	0.53	0.52	0.74
1991	0.68	0.98	1.00	0.76	0.71	0.52	0.52	0.70
1991	0.42	0.85	0.67	0.52	0.40	0.38	0.31	0.47
1992	0.21	0.68	0.35	0.38	0.29	0.26	0.23	0.32
1994	0.30	0.65	0.89	0.39	0.47	0.26	0.24	0.42
1994	0.50	0.78	0.79	0.50	0.48	0.18	0.38	0.48
1995	0.49	0.61	0.73	0.43	0.49	0.14	0.36	0.43
1996	0.39	0.30	0.53	0.24	0.18	0.05	0.31	0.26
1997	0.22	0.34	0.40	0.22	0.24	0.20	0.14	0.24
1998	0.21	0.34	0.42	0.25	0.20	0.26	0.20	0.25
1999	0.29	0.33	0.39	0.30	0.22	0.22	0.20	0.26
2000	0.17	0.24	0.28	0.20	0.12	0.12	0.14	0.17
2001	0.15	0.17	0.22	0.17	0.13	0.13	0.16	0.16
2002	0.17	0.23	0.23	0.26	0.16	0.15	0.19	0.19
2003	0.15	0.10	0.23	0.16	0.13	0.11	0.14	0.14
2004	0.63	1.27	0.83	0.63	0.99	0.53	0.52	0.74

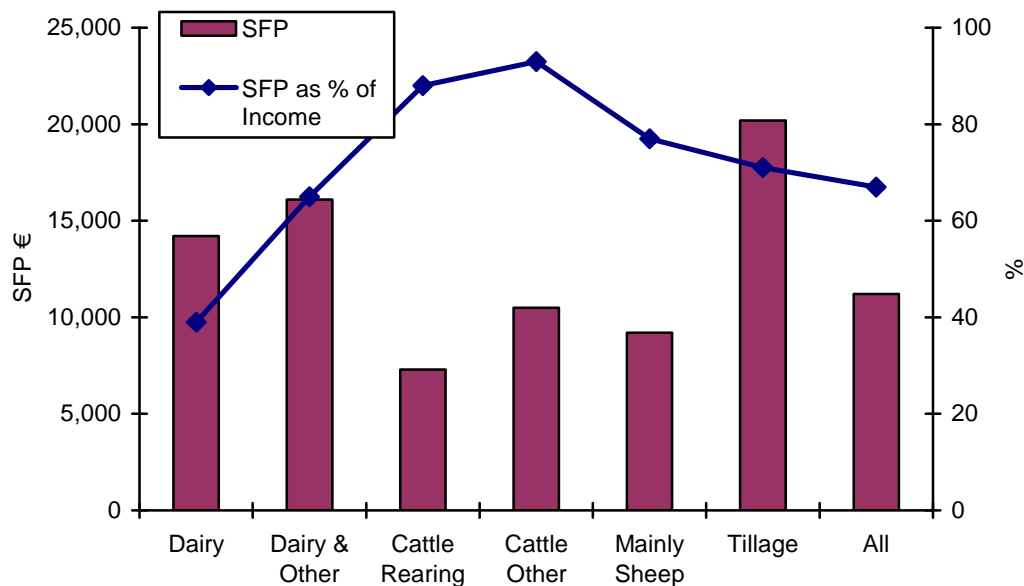
Note: Excludes transactions in Dublin, transactions outside the range €500-35,000 per hectare and transactions under 2 hectares

Source: Central Statistics Office, Ireland

9.3. The SPS and farm income

Since its inception in 2005 the SFP has been a significant component of farm income. According to 2006 NFS data (Figure 9-2) the SFP comprised almost 70 percent of total farm income across all systems, increasing to over 90 percent on the “Cattle Other” farm system, (Connolly et al., 2007). Clearly the long-term sustainability of many farm households hinges on the future of the Single Payment System.

Table 9-3: Single Farm Payment in 2006 and its contribution to farm income



Source: Teagasc National Farm Survey Data (2006)

9.4. SPS and Credit Constraints

Research on decoupling refers to the wealth effect of decoupled payments, (Breen *et al.* 2006), whereby an increase in non-labour income in the farm household, i.e. the SFP, thereby relaxes the budgetary constraint, increases household income and therefore also relaxes credit constraints. In reality, credit markets are very well developed in Ireland and farmers, who generally have substantial assets, would be considered low risk borrowers. The SPS has probably had little impact on Irish farmers’ credit constraints.

9.5. SPS: Owning or renting land

There is no research or other information available to ascertain whether the SPS influences farmers’ decisions on whether to buy or rent land. There are *a priori* reasons to suspect that the introduction of the SPS would affect both farmers’ decisions relating to the sale/purchase of land and its rental.

9.6. SPS: Impact of shifting to flat area payment system

There is almost no political support for a shift to a flat rate model in Ireland. Research conducted by Shrestha *et al.* (2007) shows that under a flat rate model, almost one-third of farmers would experience a change of 20 percent or less to their SFP. A small proportion of farmers, less than 3 percent, would experience very large losses, with reductions in their SFP of 50 percent or more. While about 15 percent of farmers would stand to double their SFP if a flat rate payment model was adopted. Given the significance of the SFP to their total farm income, cattle farmers would experience the greatest changes as a consequence of flat rate payments. Small cattle rearing farms would gain at the expense of large cattle finishing businesses.

From a regional perspective, shifting to a flat rate model would lead to a redistribution of funds away from intensively farmed regions in the southeast of Ireland to more extensive farms in the west of the country. This would have a detrimental impact on the viability of commercial farming, in particular beef farms, but would have beneficial impacts on small, extensive farms. A shift to a flat rate model would most likely impede structural change among small, extensive farms in the west and accelerate structural change among more commercial farms.

10. GENERAL CONCLUSIONS

In general the evidence to date is that

- The SPS has not radically altered the operation of Irish agricultural land purchase or rental markets.
- Over the period concerned the rapid growth of the Irish economy, large scale infrastructural projects and strong population growth have had a major positive effect on Irish land prices.
- The facility to stack entitlements on 50 percent of the land area on which these same entitlements were established has effectively offset the expected positive impact of the SPS on agricultural land prices and rents.
- The operation of the SPS in Ireland has in the main not given rise to any political controversy whatsoever.
- The data that are collected on agricultural land prices and rents are not very detailed. This reflects the relatively unregulated land purchase and rental market in Ireland. From the perspective of economic analysis more detailed rental and price information would be desirable but is unlikely to become available given the current institutional characteristics of the Irish land market.
- Some of the arrangements associated with land rental are informal private arrangements and these hinder the generation of publicly available price and rental data.
- Existing research indicates that any movement towards a flat rate payment model from the existing historical model would give rise to significant winners and losers. Due to such considerations, and general satisfaction with the status quo, it is politically unlikely that any change in the existing payment system will occur.

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