AgriMatters

AIB supporting the Irish Agricultural Industry

AUTUMN 2014

Host farmer, David Kerr, shares his expansion experiences with delegates at the Irish Grassland Association Dairy Summer Tour supported by AIB. This year's tour also visited the farm of Paul and David Hyland who outlined the strategies employed on their farm to facilitate a significant increase in cow numbers in recent years.

AIB Doubles Agri Advisor Team / Farm Investment Experiences

Our Agri Team

ANNE FINNEGAN
HEAD OF AGRI SECTOR

TADHG BUCKLEY
AGRI ADVISOR
TEAM LEADER
AIB MALLOW

PATRICK BUTTERLY
AGRI ADVISOR
AIB DROGHEDA

DIARMUID DONNELLAN
AGRI ADVISOR
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BRYAN DOOCEY
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JOHN FARRELL
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BARRY HYLAND
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PATRICK O'MEARA
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AIB NENAGH

EAMONN O'REILLY
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SHANE WHELAN
AGRI SECTOR
SPECIALIST

DONAL WHELTON
AGRI ADVISOR
AIB BANDON

Welcome to the Autumn edition of *Agri Matters*

Michael Dowling, AIB Agri Sector Specialist

Welcome to the autumn issue of Agri Matters.

Farm investment is a very topical subject at present due to the agricultural outlook and the introduction of a new TAMS scheme. In this issue, on pages 4 to 7, we highlight interviews with a number of farmers about their farms and their investment experiences and intentions.

In our last issue of Agri Matters we carried a detailed analysis of the agri markets. Developments since have largely confirmed our analysis. This will be seen as a year of fairly mixed, tending negative, fortunes for the industry. We will have a more detailed look at the agricultural situation in our review and outlook piece in our new year edition.

We indicated in our last edition that AIB had doubled its Agri Advisor team. In this issue we carry pen pictures and details of all the Advisors and the Agri Sector staff. Anne Finnegan, Head of the Agri Sector outlines AIB's outlook and commitment to the Agri Sector.

Finally, Patrick O'Meara, one of our Agri Advisors encourages over quota dairy farmers to calculate their potential exposure to a super levy fine.

We wish all our readers a successful and enjoyable year.

Michael Dowling
AIB Agri Sector Specialist

Overall Male Champion at the 2014 National Charolais Show was 'Bostonia Invincible 2nd' shown by Pat Goulding for breeder Brendan Feeney, Scurmore, Enniscrone, Co. Sligo with Brendan's brother Blair Feeney and Barry Hyland, Agri Advisor, AIB, class sponsor.

Anne Finnegan talks about AIB's outlook and commitment to the Agri Sector

Anne Finnegan, Head of AIB Agri Sector

The past decade has seen significant change in Irish farming bringing both opportunity and challenges in almost equal measure. Farm investment has been a real focus for farmers during this time, driven at first by farm waste management and now investment in dairy farm development and expansion. We have also seen considerable investment by the pig sector, largely, but not exclusively, driven by compliance.

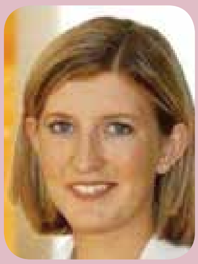
Over this time we in AIB have seen a strong increase in demand for credit from the farming sector and our expectation is that, on average, this will continue. I emphasise 'on average' as we believe demand for credit in any one year will be influenced by farm gate prices, costs and weather. Coupled with strong on-farm investment, we also expect cyclicality in farm income, influenced by commodity price cycles and weather which will undoubtedly pose challenges for farmers and industry alike.

To meet the needs of the sector, AIB has doubled our Agri Advisor team from six to twelve. We are delighted to welcome Diarmuid Donnellan, Bryan Doocey and Barry Hyland to the team, all of whom bring with them strong industry experience and a practical understanding of farming. The team is further strengthened by three recent agricultural graduates, all from farming background with hands on experience. Our service is now structured into three regional teams led by Tadhg Buckley, Patrick O'Meara and Eamonn O'Reilly, all familiar faces in the farming community. In total, we now have a dedicated Agri Sector team, both regionally and in head office, of 16 agriculture graduates.

The team follow in the footsteps of a long line of Agri Advisors that AIB has employed since the early 1970's. While the people have changed over the years, the role of the team as specialist Agri Advisors to our Branches, Business Centres and Credit has remained largely unchanged. The role is not motivated by sales targets but rather to provide strong, objective farm financial and technical analysis in individual cases. They also play a key role in informing the bank's strategy in the sector and our response to both opportunities and challenges as they arise. While it's not possible for our team to meet all farming customers, I know that all will benefit from the sectoral knowledge and understanding that they bring to our frontline staff.

AIB has been a leading bank to the farming sector over many decades and we remain committed to supporting Irish Agriculture. We maintain a positive outlook for the sector over the medium to long term, recognising that there will be cyclical and short term challenges. I hope you have the opportunity to meet with our existing and new Agri Advisors in the future and that you benefit from the knowledge and understanding that they bring to AIB.

AIB appoints National Agri Business Development Manager



AIB are delighted to welcome Noreen Lacey to the AIB Agri Team as National Agri Business Development Manager. From Kilkenny, Noreen holds a degree in Agricultural Science from UCD and a degree in Business Studies from IPA, and joins AIB from ACC bank where she was Senior Agri Banking Manager. Prior to this, Noreen worked in Glanbia in the Agribusiness Division and is well known to many farmers, particularly those in the South East. Commenting on her new role Noreen said: "I am delighted to be joining AIB at such an exciting time for the agri sector and I look forward to working with farming customers in the months ahead."

Paul Hyland

David Hyland

Irish Grassland Association

Irish Grassland Associat

**David Kerr, along with Paul and David Hyland, were host
Over 500 delegates attended the event at which the farm
key priorities when**

David and Paul Hyland are in a three-way partnership with their mother Lucy, on their farm at Ballacolla, County Laois. The farm comprises both owned and leased land with the milking platform of 114 hectares grazing 360 cows. The farm has seen a lot of expansion over the past decade with cow numbers increasing by over 50% in the period, from 236 cows up to 360 this year. Since the mid 1990s the milk output from the farm has increased by more than threefold. Stocking rate is high with 2.75LU/ha. The complicating factor is that the milking block is split in two, with a 1 km stretch between the nearest points of both blocks. The herd is grazed and milked as one unit so the normal grazing rotation is also split between the two land blocks, with the cows walking down the public road about every ten days. Milking is facilitated by two parlours – a 16 unit parlour on one block and a bigger 20 unit parlour for milking the cows on the larger land block.

Expansion through a Partnership

Since 2011 the Hylands have taken the opportunity of increasing the number of cows grazing on the milking platform by entering into a partnership with a farmer some distance away. As part of the partnership, the Hylands milk all the cows while the other partner rears the young stock. This allows the calves to leave the Hyland farm as soon as they are weaned, only returning to the farm just before calving two years later.

Managing Cows and Grass

The overwhelming emphasis on the Hyland farm is to manage grass so that the maximum amount is grown and utilised. Regular soil sampling is used to monitor the soil index and correct deficiencies. The paddocks are walked every week during the grazing season to establish growth rates, record the grass covers and adjust the grazing management as required. Last year the farm recorded grass production at an average of 14 tonnes dry matter per hectare. Even still, the Hylands acknowledge a considerable difference between the higher and lower yielding paddocks. The intention is to increase the overall grass production by lifting the lower yielding swards through reseeding and fertilising according to the soil analysis results. About 10% of the farm is reseeded annually.

The cows on the Hyland farm come from a British Friesian base. Gradually there was a changeover to Holsteins and then, in recent years, Paul and David began to use New Zealand Friesian breeding on the older cows in the herd, with replacements being inseminated with Jersey semen. This year the more Jersey type Friesian heifers are bred to easy calving Friesians with the Friesian types bred to NZ-cross AI bulls.

This year 70% of the herd calved in the first six weeks of the calving season (10% of the herd calves in the autumn to provide fresh calvers for the winter milk contract). The first three weeks of the breeding season saw almost 90% of both the cows and heifers inseminated.

The EBI of the herd is closely monitored. The young stock on the farm have great potential with an EBI estimated at €190 for 2014-born calves. The previous year's crop average is €180. The milking herd average is calculated at €147. Last year a total of 426kgs of milk solids were sold to Glanbia. The herd average protein yield is an impressive 3.58%.

Controlling Costs and Expansion

Priorities for the Hylands are remarkably simple: ''The first is to get the milk into the tank. Compliance is the second most important requirement on the farm." A cash reserve at certain times of the year is another priority for the Hylands. "Things don't always work out exactly as planned and there has to be some cushion, if at all possible, to handle the unexpected."

The maintenance of optimum P&K levels on the farm is another straightforward priority, as is adequate labour to get the work done efficiently. ''Everything else is secondary. You can have very fancy extras, in the parlour for example, but a straightforward unit to get the milk from the cows to the tank is all that is really required."

The Hylands think carefully about the return from any money they borrow and spend. "We differentiate between 'good' and 'bad' debt. P&K is good debt. The same can be said for an efficient milking parlour and a well bred herd of cows. Excess machinery could be considered bad debt. Those are the distinctions we make to operate efficiently."

''Before expanding you need to be operating efficiently already. You need to be able to show the Bank Manager a well developed expansion plan, including full costings, cash flow projections and debt repayment capacity as well as several years farm accounts, if possible."

On our farm Paul explains ''The financial aspect of expansion always took priority. When an opportunity arose we looked carefully at how it was going to be financed. Each project had to stand on its own feet, financially speaking." There is a saying that opportunities come to pass. Unless you are ready to take an opportunity when it arises it will pass you by. That is definitely the frame of mind of the Hyland brothers. ''It can't be impulse investment from cashflow. If the proposition is good enough it should be developed on a long term basis with long term finance."

Paul also highlighted the importance of being involved with a good discussion group. The brothers, interestingly, are members of different groups, with the deliberate intention of maximising exposure to other farmers actions and management strategies. ''There's a multiplication factor in the benefits gained from discussion group involvement." Paul elaborated on an interesting concept of which there is no current example in Irish farming circles. ''Internationally, in business, there is a well developed system of mentoring. That could have a hugely positive impact on young farmers entering agriculture and dairying. The development of a mentoring network among the farming community is something that should be positively considered."

Pictured at the Irish Grassland Association Dairy Summer Tour are (L to R) Eddie O'Donnell, President, Irish Grassland Association; Liam Phelan, Agri Advisor, AIB with David Kerr, Paul Hyland and David Hyland host farmers of this year's dairy summer tour.

ion Dairy Summer Tour 2014

**farmers for the recent Irish Grassland Association Dairy Summer Tour.
ers outlined the expansion strategies adopted on their farms and the
undertaking farm investment.**

Irish Grassland Association


David Kerr

The Kerr farm also played host to the Irish Grassland Association's Dairy Summer Tour a couple of months back. It was an impressive exercise, not least because of the open manner in which David outlined his achievements, his attitude to life and farming, and his plans for the future development of the cow herd and the farm.

David has streamlined work on the farm, to the extent that, even though there are four times more dairy cows on the farm than there were a decade ago, he is satisfied that there is less work than previously. Some would call this working smarter, rather than working harder. David puts it down to common sense. His farm planning has centred around the strategy that the spring-calving dairy unit will be run using his own fulltime input along with some seasonal labour. To achieve that end, most work outside of that directly involved in milking the cows and managing the grass is contracted out. All fertiliser and slurry spreading, along with winter feeding of some of the herd, is carried out by contractors. The added benefit of this strategy is to keep machinery costs on the farm down to a minimum. Contract rearing of replacement stock is another labour saving strategy. It also has an added benefit in that it releases all land around the milking parlour to grow grass for lactating cows.

The farmyard itself is designed and laid out to get the job done efficiently. The 22-unit parlour can milk 140 cows in an hour. That's without cluster removers. It does have a backing gate, allowing the milker to stay in the pit. Extra, empty places allow cows to be lining up for milking and a narrow pit maximises the efficiency of cluster turn-over. Air-operated exit gates again speed up cow movement.

Managing Cows and Grass

David's on-farm investment priorities are clear: ''I made a number of investment decisions looking to the future. My strengths are managing cows and grass. Those are the areas that give maximum financial return for my time and commitment. So those are the areas that I concentrate on.''

David has been measuring grass growth for almost two decades. His farm grew an average of 14 tonnes of grass dry matter per hectare (tDM/ha) last year and is on target to match or improve on that this year. It's a difficult enough farm with some very heavy land. Stocking rate at full capacity is planned at 2.6LU/ha, buffered with 500kg of meal. When stocking rate and milk output is optimised by the end of quotas, David intends to harvest upwards of 1,110kg MS/ha from the farm. This will need the farm to produce at least 13tDM/ha and utilise 11 tonnes of that grass production each year.

David acknowledges that the highest return on investment on the farm is from P&K fertiliser inputs. Low soil test results showed huge potential from investment in that area. The farm achieved up to 14t/ha with relatively low soil fertility, in very good growing conditions, admittedly. "There is room for a lot more when fertility levels are brought up further. When P&K levels are brought up to optimum there will then be scope to reduce investment for a period if and when required by low milk prices."

David has clear goals and objectives for his farm. His more nuanced approach to cow breeding is a case in point: ''I focus more on the sub-indices of the Economic Breeding Index than solely on the headline figures. I target the areas of weakness in the herd where I can drive productivity. Lifting milk solids production is one definite priority. That results in chosen bulls that are not in the highest EBI category but they possess the traits I have identified as my priority breeding areas. High milk solids accompanied by good fertility are what I'm after. Cross breeding is being used for hybrid vigour with genetic improvement coming from the sub indexes of the herd EBI."

Controlling Costs and Expansion

David's farming philosophy is quite clear: ''The way I look at it is we are in a commodity business producing milk and dairy products. There are two areas of cost that you have under your own control – fixed and variable costs. The variable ones by their nature will vary each year depending on factors such as the weather and your ability to control them. But the fixed costs are made at the initial stage and when milk price comes under pressure those fixed costs can have a disproportionate effect on profitability. That situation needs to be focused on more on farms."

There is a lot of investment taking place on dairy farms at the moment and David's perspective on finance planning is clear. ''There is a temptation to spend from cash flow. In an expanding scenario that puts pressure on finances because there are so many calls on cash at that time, including the cost of rearing non-productive replacement stock. Long-term planning should be financed by long-term finance."

Pictured accepting his gold medal at the Tullamore Show and AIB National Livestock Show 2014 is David Pearson, Laois with Mairead McGuinness, MEP; Rodney Cox, Chairman, Tullamore Show; Freda Kinnarney, Secretary, Tullamore Show and Kevin Kelly, Branch Manager, AIB Tullamore. The Tullamore Show and AIB National Livestock Show took place on August 10th, with more than 50,000 people in attendance.

Pat O'Keeffe - Pig Producer

Pat O'Keeffe, pig farmer outlines the importance of regular and ongoing management in a volatile sector.

There are 2,000 sows on the O'Keeffe pig unit in Cork, all on one site. Over 90% of the pigs born on the farm are brought through to the finished stage with the remainder sold on as weaners. The O'Keeffe unit is a fully integrated unit with all feed milled and mixed on site. The ingredients, in the main, are purchased from Dairygold. A staff of 12 operate the pig unit with all transport, including the carriage of pigs, feed transport and slurry spreading, contracted out.

Managing the Key Efficiencies

Feed conversion is the single biggest efficiency factor on all pig farms. 70% of the total production cost is in feed, so feed conversion factors are all-important. The O'Keeffe pig unit has its feed conversion down to 2.4kgs feed per kg pork produced. This is another figure that has improved significantly in recent years, with a reduction from 2.9kgs feed per kg pork from eight years ago. ''Improved genetics as well as better housing has all contributed to the improvements," Pat explained. Better management skills have also contributed to improved efficiency on the farm. Even better genetics are coming on stream that will deliver higher productivity figures again.

Production figures are impressive, with 26 pigs reared from each sow per year. While Irish figures for pigs sold are behind international comparisons the use of improved genetics is allowing Irish producers to catch up very quickly. Pat explains: ''Ten years ago the productivity figure was down around 19 to 20 pigs sold per sow on Irish pig units. Now it's up as high as 28 on some farms. It is more difficult to get higher productivity out of bigger units."

Getting well skilled labour to work on pig units is extremely important. Consultants, Teagasc and feed nutritionists all have an input to the management and efficient operation of the O'Keeffe pig unit. ''Every quarter year there is a review of performance levels for the previous period. The nutritionist and our vet are on site for that. Each section is examined for performance standards and to discuss problems or potential problems that may be developing, with staff members. Challenges to the operation are looked at with a view to where improvements can be made." Disease prevention and bio-security in general are big issues on the unit. ''We are very conscious as to who can enter the premises. We avoid cross contamination from other pig units through vehicles or personnel." There is even a stipulation that the slurry haulage contractors draw pig slurry only from the O'Keeffe unit.

Investment in the Sector

The pig sector has had to transform it's pig management in recent years. The elimination of sow stalls necessitated heavy investment in alternative housing. ''That hasn't destroyed our competitiveness. The best alternative systems were installed while the day-to-day business was still carried on. That was a major challenge for producers''.

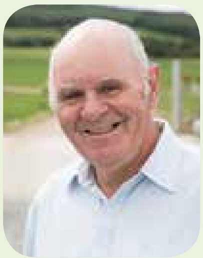
Interestingly, Irish pig units have stabilised in numbers, albeit at low figures. Another positive identified is the emergence of a new generation of younger producers as many stalwarts of the industry hand on to the next generation. ''That has to be good for the sector. They have enthusiasm and high skill levels to survive and thrive in a very challenging food production sector. They are capable of adopting the best international standards. Of the 300 units now producing pigs in Ireland, there may be a few less in future years but productivity will remain at present or higher levels with regular scaling up on existing units."

Coping with Price Volatility

Price volatility is an ever present aspect of the pig business. ''We handle it by being fully aware that this a volatile business. It's a global market and operators need to manage their cash flows and borrowings, at all times aware of possible price fluctuations. You need to be in a position that when things go wrong in terms of price there is a reserve there to cope." As a result all financing has to be on a longer term basis to cater for the ups and downs of the business.

Pat acknowledged "the only positive from low prices is that it drives efficiency and productivity so that the business is in a better position when prices rise. The business is constantly examining ways of taking out costs without lowering efficiency."

Other animal production sectors could learn a lot from the pig producers. ''We produce regular management accounts and cash flows, and our staff training is a model other sectors could employ."



Tom Murphy - Beef Producer

Tom Murphy, beef farmer talks about his approach to farm investment

Tom Murphy is a beef farmer based near Portlaw in County Waterford. He has a suckler herd and brings all the progeny to beef. The farm runs to almost 100 hectares and caters for 160 suckler cows with half of them calving in the autumn and the remainder calving down in springtime. The farm is stocked at 2.8 Livestock Units per hectare. Live-weight output is 896kgs per hectare.

Simmental-cross and Charolais-cross make up the backbone of the suckler herd. There are some Limousin bloodlines in the herd and Tom's intention is to switch over mostly to Limousin cross cows in the time ahead. The lack of milk in the Charolais and Simmental breeds is driving Tom's breeding decisions. ''I need a cow that can give enough milk to drive on the thrive in the young calves. I'm also bringing the autumn calving forward so that most of the cows are in calf again before housing." Charolais bulls are used to mate the cows while a Limousin bull sires the heifers. While Tom pays attention to the performance figures for the bulls used, he also places great emphasis on their actual physical appearance.

The cows are wintered on slats with a fall-back straw bedded area available for the calves. The calves are creep fed initially and then fed through a diet feeder wagon away from the cows. Previously, Tom had allowed access to grass by day for the calves during housing. This practice was curtailed somewhat last winter. An ongoing issue with pneumonia means that the Portlaw beef producer carries out a preventative vaccination programme that also includes an IBR vaccine.

Production system

The male offspring from the suckler herd are mainly finished at 16 months of age. The heifers are kept on to finish at 18 and 22 months depending on the individual animal and market requirement. All bulls are finished on ad-lib meal feeding and are housed on slats and bedded areas. The heifers are fed upwards of 5kgs of meal as well as high quality silage to finish. ''It's easier to get the autumn-born bulls to the required weights and grades at 16 months. The Spring born bulls are more challenging to get to age, weight and grade at the same time", Tom explains.

Coping with Uncertain Profitability

Profitability in the beef sector is notoriously uncertain. Apart from management practices, a huge amount hinges on end price as to whether a profit can be made or not. Tom Murphy acknowledges the issue: ''Profit is always tight. In suckler farming, cash flow is a regular problem. You are constantly waiting for the next load of cattle to keep the business ticking over."

In terms of deciding on investment priorities Tom takes a pragmatic approach. ''I do need to make extra investment in shed capacity. I held off on that but may decide to go ahead next year depending on whether the beef market delivers enough profit to justify the investment." Overdraft and term loan facilities are used to provide the necessary ongoing finance to operate the beef farm.

With up to 160 head of stock being finished each year, this is a business with a lot of investment capital tied up in it. All of those finished stock grade R's and U's but the high inputs required to finish these cattle at 16 to 20 months means that there is also a lot of cost involved. Apart from ad-lib meal feeding, there is a lot of straw used which is an added cost to the system. Tom is considering a long term investment in rubber mats on the slats to cut down on straw cost as well as increase comfort, cleanliness and productivity in the stock.

Looking to the future

Tom keeps up to date on the latest developments in beef production by regular attendance at beef farm walks and is very impressed at the strides being made on Teagasc's BETTER Farm walks. He is a member of the Drumlohan beef discussion group and finds the interaction with other beef farmers enormously useful to his own business.

Looking to the future of his beef business, Tom would like to contract some of his production but this has not been possible up to now.

Larry O'Reilly - Tillage Farmer

Larry O'Reilly, tillage farmer discusses investing in machinery and the importance of managing machinery and costs

Larry O'Reilly is a tillage farmer, based just outside of Ballyragget in County Kilkenny. Five blocks of land, both owned and leased, are managed by the O'Reillys. While one of Larry's sons, James, is not involved full time on the farm, he is nevertheless well up to speed with everything that is happening in the tillage operation. There is one fulltime labour unit employed. This is a well run and very efficient tillage unit by any comparison.

Yields on all crops were exceptionally high on most Irish tillage farms this harvest. The O'Reilly crops were no exception. The wheat averaged over four tonnes, which was impressive given the fact that there is still a lot of continuous wheat in the system as the strategy of crop rotation kicks in. A 1.9 tonne per acre on oilseed rape was a very good result. Spring oats averaged 3.4 tonnes per acre. All of these crops came in at exceptionally low moistures matched by very high quality.

Keeping an Eye on Costs

Machinery on the farm is kept to the minimum necessary to get the work done efficiently and on time. There are two tractors, a Fendt 936 and a 724 Vario and one Claas Lexion combine with 25 foot header. A chaser bin fills grain directly into trucks for transport to Red Mills. A Bredal fertiliser spreader, a six-metre Horsch seed drill, a 30-metre Amazone sprayer and a Horsch five-metre tined cultivator make up the entire machinery profile.

It's all about productivity. Productivity is high, as Larry explains: ''We aim to get 100 acres harvested each day that the combine operates. That assumes that the weather is good and the crop is fit for harvesting." The farm is divided into five blocks and each is cropped according to a well laid out rotation. ''All of the land is cultivated after harvesting the crops, using one of the tractors. The other is used at that time to pull the chaser bin servicing the combine. After sowing and rolling there is really only a need for one tractor in operation most of the year for fertiliser spreading and spraying." James O'Reilly outlined the policy adopted for changing machinery and deciding on what is necessary to get the job done. ''The combine is 12 years old. The target is a 16 year life span. The capital cost of replacement, even with a good trade-in is such that you have to get extended machine use to justify the initial investment. That keeps the cost per acre down."

The same attitude is adopted towards all machinery on the farm. The seed drill was changed last year. ''Every machinery purchase has to be justified financially. That decision was driven by advancing technology which allows the new model to place phosphate and other fertiliser elements just under the seed at drilling. That in turn results in significant savings (30% reduction in phosphate input) as well as much more efficient utilisation of the fertiliser by the plant. The saving in phosphate will actually pay for the new drill in less than four years." The sprayer was changed after seven years in use. ''We went for more modern sprayer technology with GPS turning on and off of the sprayer as required. The cost saving on chemicals from more efficient use and less wastage justified the expenditure. GPS is also used to ensure that the tramlines are exactly 30 metres. There's no overlapping in sowing or spraying or fertilising. That technology justifies itself very quickly with savings on inputs. The cost savings from the elimination of a 5 or 10% overlap can mount up very quickly."

Crop Rotation

The crop rotation on the O'Reilly tillage farm includes oilseed rape, followed by wheat, oats, wheat, winter barley and then back to oilseed rape again. The greening rules imposed on tillage farmers this year as part of the new CAP will have little impact on the O'Reilly farm as they are already operating an extensive crop rotation system. The original decision to diversify crops was in part because of the increasing problem of sterile brome. The herbicides available were not effective. Also, there was a significant cost on preventing Take-all in wheat crops. ''The crop diversification coincided with the introduction of the new 'three-crop' rule so we don't have any issues with it."

There has been no ploughing carried out on the O'Reilly tillage unit for the past 14 years. The system in use is classified as 'maximum till'. For oilseed rape the ground is cultivated to a depth of nine inches. For the other grain crops the cultivation goes down six inches. ''The depth can be varied as required. This avoids any 'panning' under the surface."

Reducing the Risk

The O'Reillys sell all of their grain to Connolly's Red Mills based in Goresbridge and consider the 45-year relationship to be mutually beneficial.

Larry acknowledged that while grain prices can occasionally deliver handsome margins, most of the time prices fluctuate just above or below a level that allows a profit to be made from the enterprise. "This year is a classic case in point. Because of a surplus on the world market, prices at the farm gate are at the lowest levels in a generation. If it were not for the fact that yields this harvest were among the best on record, with high quality and low moisture levels, the impact on growers would have been even worse."

A large proportion of the grain is forward sold and, as Larry explained, that system doesn't always deliver the top of the market prices, but, crucially, it avoids the very low prices that are sometimes on offer at harvest time. ''It is a means of having some degree of certainty as to the returns we can expect from the work and investment we make each year in planting the crops. Forward selling doesn't beat the market but it does lower the risks attached to sowing grain."

Larry O'Reilly is clear about the future of the grain sector: ''To survive in the future, tillage farmers will need to become even more efficient, especially in their use of inputs.''

Know the cost of super levy

Patrick O'Meara, AIB Agri Advisor encourages over quota dairy farmers to calculate their potential exposure to a super levy fine and consider the financial impact any fine could have on farm cash flow.

It is an exciting time for Irish dairy farmers as they gear up to produce milk in a post quota regime. Farmers are re-investing significant money in developing and expanding their farms. This investment started a number of years ago but has picked up pace in the past twelve months and is likely to continue in the immediate term. This investment is being funded by a combination of farmers own funds (savings and cash flow) and bank borrowings.

With only six months remaining in the milk quota regime, supplies of milk are close to record highs, up by over 6% in the first five months of the quota year. As a consequence, Ireland is facing a significant super levy bill. This will be the 17th superlevy fine incurred by Ireland since the introduction of the quota regime. The large increase in supply is being driven by a number of factors including relatively high milk price, favourable weather conditions, increased dairy stock and a carry over of milk from March 2014.

In Ireland's previous super levy events, the majority of Irish dairy farmers avoided paying a super levy fine and the majority of super levy fines incurred were relatively modest. However, it is likely that this year, some farmers who previously never paid a super levy fine will incur one for the first time.

With less than 200 days to go to the end of the milk quota regime, farmers who are likely to incur a super levy fine should examine how they can minimise their over quota exposure and consider the potential financial impact any fine could have on farm cash flow. There are a number of options available to minimise a potential super levy fine and these generally include once a day milking, drying cows off early, reducing concentrate feed, leasing cows out, feeding high levels of whole milk to calves and/or culling certain types of cows. These options could make a significant difference to the profitability of the business, particularly in an environment of a reducing milk price.

Some farmers have taken the conscious decision to exceed their milk quota. This decision is often based on the assumption that they will incur a super levy fine at the standard rate of 28.7c/litre. However, the superlevy fine is not a flat rate penalty, as an adjustment is made for the level of butterfat compared to the butterfat reference of a farmer's milk quota. (For every 0.01% of butterfat produced in excess of a farmer's reference, his quota volume will be reduced by 0.09%).

As a result farmers need to be conscious of this when they are calculating the potential margin to be made from producing milk in excess of their milk quota. I have calculated a table which adjusts the super levy fine based on a range of butterfat levels. As outlined in the table below, every 0.4% rise in butterfat %, increases the super levy fine by 1.033c/l , where quota volume and butterfat reference are exceeded.

Table 1 - Adjusted super levy fine based on a range of butterfat levels

% Butterfat	3.6%	4.0%	4.4%	4.8%	5.2%	5.6%
Adjusted Superlevy fine (c/l)	28.7	29.7	30.8	31.8	32.8	33.9
Difference from standard fine (c/l)	-	1	2.1	3.1	4.1	5.2

Calculations are AIB estimates. Calculations assume a butterfat reference of 3.6%

To inform the decision of whether or not to exceed one's milk quota with supply at this time of the year, I think it may be beneficial to look at the marginal litres of milk being supplied (milk in excess of quota) and calculate the super levy fine on these litres of milk rather than the annual supply. I view the marginal litres of milk as being the milk typically produced in October, November and December on a spring calving herd. It would be misleading to simply subtract the standard superlevy fine from the milk price received as the butterfat percentage in milk increases at the latter end of a cow's lactation. While it is true that farmers with a higher percentage of butterfat receive a higher payment per litre, they will also get penalised to a higher extent under the milk quota regime. Farmers will usually factor the higher price they receive for the milk into their plans but I would also encourage them to calculate the actual superlevy fine on the same litre of milk. In the above table a farmer achieving a butterfat of 5.2% would incur a superlevy fine of 32.8c/litre on that litre of milk, over 4c/litre above the standard superlevy rate.

On the basis of existing EU milk policy and current supply trends, Ireland will certainly incur a surperlevy fine in this the final milk quota year. Any farmer who is likely to supply more milk than his/her milk quota should evaluate their position, and enlist the support of their Teagasc Advisor or Agricultural Consultant if necessary. A good starting point would be to quantify the likely over supply, evaluate options to manage milk supply and quantify the impact on cash flow in spring 2015. Armed with this information, you will be well placed to put a plan in place to manage your position to the end of the milk quota regime.

Pictured making the presentation to Dara Mulligan, winner of the inaugral AIB / Teagasc Best Farm Business National Award are: Professor Gerry Boyle, Director, Teagasc; James McDonnell, Financial Specialist, Teagasc; Tadhg Buckley, Agricultural Advisor, AIB; Edmond Connolly, CEO, Macra na Feirme and Mike Pearson, Principal, Gurteen Agricultural College.

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