AgriMatters

AIB supporting the Irish Agricultural Industry

Autumn 2012

Market Review and Outlook / Dairy Summer Tour Review

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Welcome to the Autumn edition of *Agri Matters*

Michael Dowling, Editor, *Agri Matters*

Welcome to the Autumn edition of *Agri Matters.*

Coming after the exceptionally good year that 2011 was for most agri sectors, this has been a very difficult, and indeed perverse, one for most of them. Prices have remained historically high in the grain and livestock sectors and, despite a sharp fall in milk prices, these have stabilised at levels that would have been considered quite satisfactory only a very few years ago. But the correspondingly high input costs – especially in feed and fertilisers – have taken the shine off the price scene and the atrocious late Spring and Summer weather has added considerably to costs and made farming conditions as bad as most people can remember. All of this is covered in some detail in our market review, as is the more hopeful recent signs of rising dairy commodity prices and the longer term positive outlook contained in the recent OECD/FAO agricultural review 2012-2021.

To get back to the present, or to the immediate future, we recognise that the weather situation may leave many farmers facing, or anticipating, short or medium-term cashflow problems. We would urge those who are in that situation to approach their financial institution as early as possible to review the position and seek to agree on appropriate solutions.

In this issue we also have:

- Mike Brady looking forward to an exciting new era for Irish agriculture;
- Pat Weeks reporting on, and highlighting the lessons learned from, the IGA Dairy Summer Tour;
- Pat Butterly, one of our agri advisors, writing about the Irish tillage sector, and;
- Some analysis of the Teagasc 2011 National Farm Survey.

Matt Dempsey has recently announced his intention to retire as editor of the *Irish Farmers Journal* over the next few months and we are acknowledging his great contribution, not just to Irish agriculture journalism, but to the agri scene generally. We wish Mary, himself and his family, many happy years of retirement.

This edition is published to coincide with the Ploughing Championships. We wish every success to the organisers, exhibitors and competitors and hope all who attend have an enjoyable and instructive time. Above all, we wish that the clerk of the weather will smile on the event. AIB will, as always, be there. If you get the chance, drop in to see us.

Michael Dowling
Editor

Dates for your Diary 2012

October 1	Irish Grassland Association Student Conference, Gorey, Co. Wexford
October 11	Teagasc & ICBF Suckler Cow Breeding Conference, Tullamore Court Hotel, Tullamore, Offaly
October 16	National Rural Development Conference, Johnstown House Hotel, Enfield, Meath
October 17	Teagasc National Liquid Milk Event, Ferrycarrig Hotel, Wexford
October 20	National Dairy Show, Green Glens Arena, Millstreet, Co. Cork
October 26-29	Macra National Conference, Tower Hotel, Waterford
November 1	Teagasc Knowledge Transfer Conference, Aviva Stadium, Dublin

Economic Outlook

There has been a very positive trend evident in a lot of recent indicators on the Irish economy. This suggests continued recovery from recession despite a weak global backdrop. The most recent national accounts data (Table 1) published by the Central Statistics Office (CSO) show that the economy grew by 1.4% last year, a sizeable upward revision from the initial estimate of 0.7%. The main reason for the revision was the fact that exports performed better than previously estimated last year, growing by over 5%. This follows the 6.2% rise they recorded in 2010. Indeed, exports accounted for the entire rise in GDP in 2011, with the main components of domestic demand (consumer and Government spending plus fixed investment) contracting again in 2011 for the fourth consecutive year.

In the first three months of 2012, activity contracted by 1.1% but the economy still grew by 1.2% on a year-on-year basis. Again, this was driven by strong growth in exports, which were up 6.1% in year-on-year terms. The traded sector continues to benefit from a significant real internal devaluation, with a 14% fall in unit wage costs seen over the 2009-2013 period.

The strong export performance is reflected in rising industrial and agricultural output, as well as rapid growth in the services sector. The agricultural sector has clearly benefited from rising prices for major commodities globally, as reflected in rising incomes in this sector last year. This sector has also seen the benefit of changes in the market distribution of Irish food and drink exports, with a reduced reliance on more traditional markets such as the UK.

More timely indicators point to a reasonably robust performance by the Irish economy in the second quarter of the year. In April-June, industrial output rose by a very solid 3.5% over the previous three months, with this trend extending into Q3. According to the latest industrial production report in July, output from the food and beverage sector was up 5.7% in year-on-year terms. Output from the food sector was particularly strong, up 12.9%.

There are also signs of improvement in areas of the domestic economy. Consumer confidence has climbed steadily year-to-date, reaching its highest level in almost five years in August. There are also signs of stabilisation in the retail sector after very sharp declines in household spending over the past four years. Meanwhile, the unemployment rate appears to be levelling off, albeit at a very high level, with evidence of a rise in private sector employment in the past two quarters for which data are available.

All of this means that the Irish economy looks to be outperforming most eurozone economies and the UK. Both the eurozone and the UK economies are forecast to contract by about 0.5% this year, while the Irish economy is expected to grow by close to 1.0%. The weakness globally does possess downside risks but, so far, the Irish economy appears to be coping well with more subdued world demand.

One of the key factors undermining the global economy is the ongoing sovereign debt crisis in Europe. As well as impacting negatively on output and confidence, this crisis has also created problems for the euro, which has seen considerable volatility versus the US dollar and sterling year-to-date (Figure 1). This volatility in exchange rates presents distinct challenges for the agricultural sector, which is also vulnerable to movements in world commodity prices. Adverse price movements impact on the sector's competitiveness, as well as having consequences in terms of input costs, with crude oil prices for example up over 5% year-to-date. The generally weaker euro over much of the last 12 to 18 months has, however, improved the competiveness of Irish agri-food exports on third country and UK markets and *viz a vis* imports from these areas on to other EU markets. The outlook for commodity prices will be very much determined by the prospects for the global economy but the general expectation is that energy prices will remain relatively high.

Meanwhile, as the eurozone sovereign debt crisis continues foreign exchange markets are expected to remain volatile, though the recent positive reaction to the ECB's plans to buy the sovereign bonds of struggling eurozone countries on the open market suggests that the worst could be over for the euro. While there is still much more to be done in terms of finding a long-term solution to the crisis, fears of a breakup of the single currency have eased considerably from earlier in the year.

Table 1: Economic Forecast – Ireland

Annual % Change Unless Otherwise Stated

	2010	2011	2012(f)	2013 (f)
Real GDP	-0.8	1.4	1.0	2.0
Real GNP	0.9	-2.5	0.0	1.0
Consumer Spending	1.0	-2.4	-1.3	0.0
Government Spending	-6.5	-4.3	-3.0	-2.0
Fixed Investment	-27.6	-22.6	-12.6	-2.0
Exports	6.2	5.1	4.0	4.0
Imports	3.6	-0.3	1.5	2.5
HICP (%)	-1.6	1.1	1.9	1.5
Unemployment (%)	13.6	14.4	14.8	14.5
General Govt. Deficit (as % of GDP)* (Net of Banking Costs)	30.9 (10.9)	12.7 (9.0)	8.3	7.5

Source: AIB Economic Research Unit

*** = Includes full upfront support to parts of the banking sector**
(f) = forecast

Figure 1: Euro Trade Weighted Index*

Source: Thomson Datastream

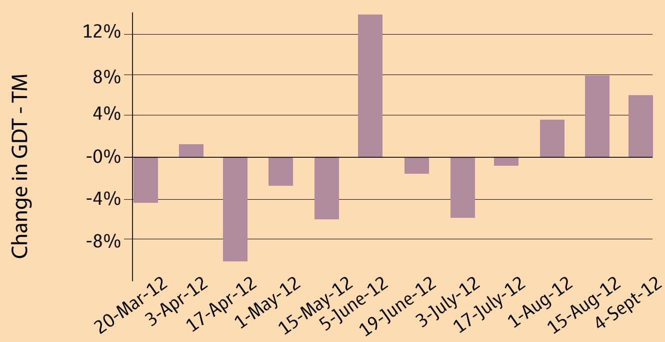
Market Review

With 2011 proving an exceptional year for the agri-food sector, we review the current market trends and assess the long-term view in relation to agricultural commodity prices.

Looking Back

All sources have now confirmed that 2011 was an exceptional year for the agri sector. Agri-food exports at close to €9 billion were a record. At farm level, prices in most sectors were at, or close to, historically high levels and, despite high input costs, farm incomes in nominal and real terms were at record levels. The final CSO data (issued in June) on aggregate farm operating surpluses and entrepreneurial income (i.e. taking rental and interest into account) showed increases of 30% and 38% respectively. The full report on the Teagasc National Farm Survey (NFS) for 2011, published in July, confirmed that family farm incomes rose on average by 30% last year. As usual, the position in relation to income levels and rates of increase varied very considerably between sectors and farm sizes (see separate article). However, the general position that emerged from the survey was very positive. It should be noted that the NFS does not cover the pigs sector (or poultry) and this was another year of pressure on pig producers. Prices were cyclically high but this strength was largely nullified by very high feed prices.

Figure 2: Changes in Global Dairy Trade, Trade Weighted Index



Source: Global Dairy Trade

This Year

The position this year has deteriorated considerably but not universally. Beef prices have continued their upward surge from last year and could show an average increase of some 17.5% over the year as a whole. Beef cattle throughput is, however, likely to be down by 15% or so and live exports are well down again this year. The aggregate value of beef output should, therefore, be only slightly up on 2011 but will be boosted by a significant increase in closing stock values as cattle numbers at year end should be well up on last year's levels.

Sheep prices over the year may be up very slightly on 2011 levels, while output should increase by over 5%, giving an overall modest rise in the value of output. Pig prices are likely to be 7.5% to 10% ahead of last year and throughput will be up by over 5% (unlike elsewhere in Europe where output is down). There should, therefore, be a rise of some 12.5% in the *gross* value of pigmeat output. The story in regard to *net* values is, however, a very different matter (see below).

In price terms, milk and cereals are again the main stories, but from contrasting perspectives. Last year, milk prices reached historically high levels in nominal terms. That fact, plus very favourable production conditions, led to a surge in supply, especially in Oceania and the US that inevitably impacted on demand and prices. In the first half of the year international butter and skim powder prices fell in dollar terms by 30% and 20% respectively. When converted into approximate farm-gate prices (i.e. taking account of processing costs and the relative weakness of the Euro) these market prices represent a drop from 33c to 26c per litre. Evidence that the weakness in market prices continued into the early summer months is clear from the results of Fonterra's Global Dairy Trade (GDT) auction graphically illustrated in Figure 2.

European market prices also fell significantly but not as dramatically for skim powder as for some other products. The consequence for Irish producer prices is that they are unlikely to average more than 30c/L compared to 35c/L last year. Examined over a longer time span, this year's price is on the higher side but needs to be viewed in the short-term against the cost and other difficulties created by the atrocious weather conditions experienced for much of this Summer and, in the somewhat longer term, against the need many dairy farmers have to generate own resources to meet part of the cost of funding their expansion plans. On a considerably brighter note, as shown in the final three GDT auction results in the figure above, recent European evidence and USDA forecasts, the current (early September) indications are that market prices are on the increase again.

A couple of months ago we were predicting grain harvest prices at best just above last year's levels. Much has changed since. Drought in the US and elsewhere, rainfall in much of northern Europe and other factors have dramatically changed expectations of this year's grain supply and its price consequences. Our belief now is that Irish grain prices will be some 25% higher than last year. The difficulty – and it is significant – is that weather conditions will most likely have seriously affected yields (back over 1t/ha on normal but much more on last year's exceptional levels) and quality and added very considerably to harvesting problems. High price levels may not add that much to output value or profitability in many cases and there is the further complication that some farmers who locked in output prices at considerably less than current levels will not benefit from the more recent price hikes.

From a cost point of view, high cereal prices are adding considerably to feed costs. This will be exacerbated by the fact that the weather conditions affecting the global grain (especially maize) harvest are also affecting soya and, therefore, impacting on supply and price. This will continue the pressure on pig producers, which has been part of the scene for most of the past two years. Winter feeders in the beef sector will also feel the impact and, of course, milk and other livestock producers normally dependent on abundant grass and minimum housing during the summer months will have incurred significant extra costs because of the extreme weather conditions. Some individuals, for instance those who have been unable to cut silage, or have silage of only poor quality, have been dramatically affected. Modest savings will, however, have been achieved in the early months of the year due to the relatively mild Winter and Spring weather conditions.

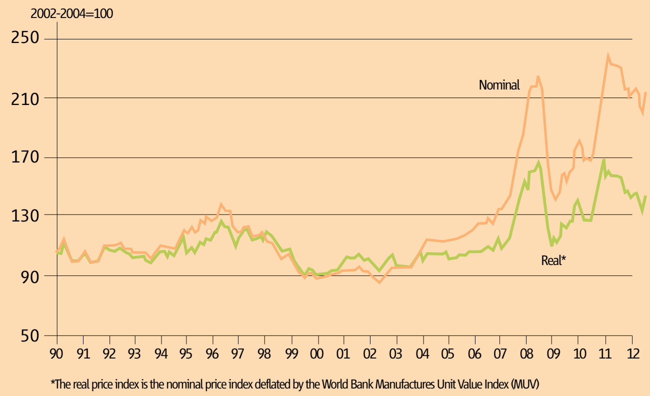
On the other costs front, it is estimated (Teagasc mid-year outlook) that fertiliser prices have risen by 5% and that energy costs will on average be some 8% higher on a year-to-year basis. Agri-diesel prices breached €1/l for the first time ever in recent weeks.

Taking all this together and assuming no further major deterioration in global or national weather conditions, we would estimate that aggregate farm income will fall this year by over 20% compared to the very high level of 2011. This would leave it a little above the 2010 figure and, of course, well above the very poor outcome of 2009. These are national average figures. As is always the case, the outcome at individual farm level will depend on the sector involved, the farm location and the scale and efficiency of the farming business. For virtually all farmers it will, however, have been a difficult year.

The Wider and Longer Term View

There seems little doubt now that we have entered an era of generally higher food commodity prices than we have been used to in the past, albeit interspersed with periods of volatility. The same is true of input costs. In the case of commodity prices 2007/2008 appears to have been the watershed year (Figure 3).

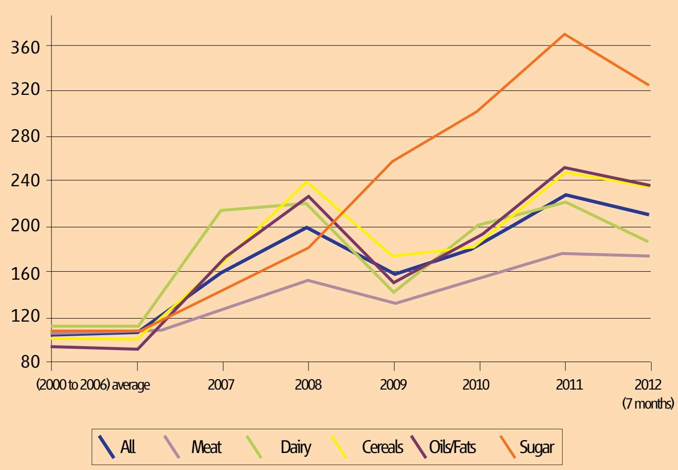
Figure 3: FAO Food Price index



*The real price index is the nominal price index deflated by the World Bank Manufactures Unit Value Index (MUV)

To illustrate that this point is true of all the major commodities we have broken the index down to compare the average figures for the 2000-2006 period with each of the years since (Figure 4). This shows a sea change in price terms between the earlier period and the later years. It also shows clear evidence of price volatility around a higher plateau.

Figure 4: Breakdown of FAO Food Price Index (2002 - 2004 = 100)



Of course, input costs have also moved to a new price plateau. The shift in cereal prices alone would indicate that. This has been mirrored in feedingstuff prices generally, but to a somewhat lesser degree. In Ireland livestock feed prices are estimated to be on average 36% higher now than in the 2000-2006 period. The same is true of fertiliser prices where urea and CAN are estimated to be almost 40% and 75% respectively higher now than in the earlier period. The position is even more stark if the comparison is made with the start of that period – CAN prices are estimated to have doubled since 2000.

The situation of high output and input prices is set to continue according to the recently published OECD-FAO Agricultural Outlook 2012-2021. It sees oil prices remaining high (rising by 2.9% a year on average) and that in itself would tend to indicate higher commodity and fertiliser prices. The other well-known factors, e.g. rising demand in emerging economies, would also be at play.

The outlook report comments that all agricultural commodity prices will average higher in nominal terms in 2012-21 relative to the previous decade. Of relevance to the majority of Irish farmers, it also estimates that, in real terms, livestock product prices (and that includes dairy prices) will show some of the highest gains compared to the previous decade. It also foresees livestock prices generally gaining somewhat compared to cereals and oilseeds, so that the price/feed ratio would be a little more favourable in the next decade than in the previous one.

In terms of the immediate future it does not see the very high price levels of 2011 being maintained, but it does see fairly consistent gains compared to the average price levels of the past three years. The table below sets out the position in regard to selected commodities.

Even allowing for the rise in input costs, high oil prices, volatility due to weather and other factors and, of course, the varying pace of economic recovery, the picture painted by the OECD-FAO is generally a favourable one from the point of view of Irish agriculture and the Irish food industry and indeed of the food industry globally (although higher food prices do cause some short-term difficulties regarding cost recovery within the food chain). The importance of the emerging economies in all this cannot be overestimated and this is augmented by recent evidence that many African economies are now emerging also. On the downside, the continuation of generally high commodity prices will cause severe difficulties for those food importing developing countries where food costs take up a disproportionate share of average family income. This emphasises the continued need in the short-term for food aid but in the mid- to long-term for a much greater proportion of international aid to be devoted to agricultural development.

Table 2: Selected Commodity Price Increases 2021 vs Average 2009/2010-2011/2012

Beef	**%**
EU	**16**
Brazil	**19**
Pigmeat	
EU	**22**
Brazil	**41**
Poultry	
EU	**17**
Brazil	**21**
Sheepmeat	
New Zealand	**27**
Dairy Products	**27 SMP 15 cheese**
Coarse Grains	**8**
Protein Meals	**10**

2012 Dairy Summer Tour

Pat Weeks, Irish Grassland Association

Nearly 400 farmers visited the O'Donovan and Shannon family farms in West Cork as part of the AIB sponsored Irish Grassland Association Dairy Summer Tour on July 26. The theme of this year's tour was 'Growing the Farm Business' and farmers had the opportunity to visit two farms that have expanded significantly in recent years on different land bases. Both farms had a significantly different type of cow, but both grow and utilise a lot of grass and are highly profitable. Numerous insights were attained from both farms' expansion experiences. The O'Donovans demonstrated that family commitment and working together can drive the business forward, while the Shannon's showed that significant expansion and high profits are possible, even with a limited land base.

The O'Donovan story - Expansion on a large land base

The O'Donovans' story started in 1978 when Derry, and his wife Anna, took over the family farm comprising 54.6 hectares and 95 cows, supplying 500,000l to Drinagh Co-op. Farm expansion was always part of the plan, with many parcels of land bought and leased over the years to advance the business. Today, with the addition of sons Norman and Damien to the business, the business consists approximately 400 hectares and 580 milking cows, supplying 191,593kg milk solids.

Padraig French, President of the Irish Grassland Association presents a gift to Derry, Norman and Damien O' Donovan, Skibbereen, Co. Cork at the Irish Grassland Dairy Summer Tour.

Costs

All borrowings toward expansion were cleared in 1997 but the business got caught in a comfort zone and stagnated for five years. At the time the farm had a gross output of 35c/l, however, a significant issue arising was that costs were eroding 88% of same. A subsequent farming trip to New Zealand in 2002 started a major change in direction for the farm. The family decided to exit all year round production, away from purchased feed and maize production, and placed greater emphasis on growing grass and Spring milk production. A clear policy on managing and reducing costs, where possible, was also implemented. For the last three years costs have been maintained at 61% of gross output. Stocking rate currently runs at 2.3LU/ha with a grass utilisation of 9.2t DM/ha.

Cow type

The type of cow on the farm also changed dramatically. In the early 1990s the farm had pedigree Holstein Friesian cows, calving in Winter and Spring on a high input, high output type system. "Herd fertility was poor and dis-improving, while maintaining the herd was costing a lot in veterinary calls." The O'Donovans subsequently started using New Zealand Friesian semen to reduce cow size, improve herd health and fertility, and produce more milk solids. Over the last number of years, Jersey crossbred bulls have been used on the predominantly Friesian herd. The O'Donovan target is to have a cow producing 420kg of milk solids on a grass based diet, consuming less than 500kg of concentrate/year and calving compactly in the Spring. The milking herd currently has an EBI of €113 with a sub index of €54 for milk and €58 for fertility.

Some of the key take home messages from the O'Donovan's experience were:

- Large scale expansion has to be simple;
- Borrowed money helps focus the mind;
- The drive to expand is because we love what we are doing and we love the challenge, and;
- Three people making a decision make a better decision.

Conclusion

The West Cork ethic of hard work is clearly seen in the O'Donovan story. As Norman and Damien committed to the family business it has grown from strength to strength and will expand further when quota is abolished. By 2020 the O'Donovans expect to be milking 1,000 cows, producing over 420,000kg milk solids annually.

The Shannon story - Expansion on a limited land base

Following his marriage to Shirley in 1993, Robert Shannon, originally from Ballydehob, moved to Shirley's home farm in Ballinascarthy, amalgamating their milk quotas to set up one dairy enterprise, where today they successfully farm with their children, Dyane, Claire, Stephen and Sarah. The farm initially had a quota of around 227,000l (30% supplied during the Winter months for the Carbery Winter Milk Scheme) supplying Lisavaird Co-op from 35 cows. This has increased to 590,000l from 80 cows on a grazing platform of 26ha within the last five years. The milking herd primarily consists of pedigree Holstein Friesian cows, with a small number of pedigree Jerseys and Jersey crossbreds. Apart from milk sales, Robert and Shirley also produce a number of high EBI genomically tested breeding stock, along with pedigree Aberdeen Angus breeding bulls. Young stock are contract reared four miles away from the farm.

Robert's dairy expansion strategy will interest a lot of farmers. Constrained by access to extra land the Shannon's increased their stocking rate on the existing grazing platform (currently 3.8LU/ha all year round). Whole crop silage is bought in as the main Winter feed. Robert has been measuring grass for a number of years and last year he utilized 13.5t DM/ha (the national average is < 9 t DM/ha). To ensure constant quality grass and milk supplies, Robert walks the farm weekly, matching supply with Spring, Summer and Autumn targets. Arising deficits are overcome via supplementary feed to his high performing cows.

The herd is split calving, with approximately 40% calving in Autumn and the remainder in Spring. Robert feels that the split calving is very advantageous in terms of grassland management. "The Winter system is driving the Spring system. Dry cows from the Winter milk herd clean up paddocks and deliver the best of grass to the milkers". Robert noted a benefit of +0.15% in protein when grass quality is ideal.

Breeding the right cow

Excellent animal performance was one of the striking features on the Shannon farm, thanks principally to a focused breeding programme. Robert has focused on breeding since he started farming and the herd EBI is currently at €130 (ranked in top 10% nationally) with an almost even split of €58 from milk and €61 from fertility. Cows average 7500l/year at 4.0% butterfat and ≥3.6% protein. To achieve this level of performance, Robert feeds one tonne of concentrate/cow. Overall feeding costs in 2011 amounted to 4.12c/l.

Robert uses only high EBI pedigree Holstein Friesian or pedigree Jersey bulls. When selecting bulls he looks for positives for protein percentage and milk volume which in turn leads to a positive for kg milk solids. The bull must be a minus for calving interval and be less than 0.4 for SCC with a good temperament score. Easy calving bulls are essential and Robert looks for a calving difficulty percentage of <4% for cows and <2% for heifers.

Some of the key issues that the Shannons experienced during expansion were:

- Growing the herd from own stock initially put a strain on cash flow, as replacement sales were a big part of the business;
- Complying with the Nitrates Directive was one of the most challenging aspects of expansion. The solution to this for Robert was contract rearing. Land that was being used to rear heifers could now be stocked with cows and used to generate a greater return;
- Existing farm roadways had to be resurfaced to accommodate increased traffic with the larger herd, and;
- Water supply was a problem because of small troughs and piping, and cows were waiting a long time at the troughs. This was addressed by making more water available on the way to the milking parlour and increasing water trough size to give more capacity in the field along with installing higher flow ballcocks.

Robert Shannon, Ballinascarthy (host farmer) is pictured speaking during the visit of the Irish Grassland Association Dairy Summer Tour to his farm.

Conclusion

Many farmers considering expansion will struggle to get their hands on extra land to expand cow numbers. The Shannons successfully demonstrated that expansion is possible on a limited land base. Robert feels that 3.8 cows/ha (similar to 3 cows/ha if making Winter feed on farm) is near the maximum he would go. He is a great example of what it takes to make this system work – high EBI cows delivering excellent milk solids, focused grassland management to achieve the most from grazed grass and a strong focus on costs, with the whole system achieving strong profits. Robert's profit measured 25c/l in 2011. This was 20% above the average of the top 10% of Winter milk producers. Attention to detail is imperative.

An exciting new era ahead for Irish agriculture

Michael Brady, President of the Agricultural Consultants Association (ACA) and Managing Director of Brady Group – Agricultural Consultants & Land Agents

The next decade will be a time of great change in Irish agriculture. The restrictions on production caused by EU milk quotas, sugar beet quotas, beef and ewe subsidy limits and set aside will finally be confined to history. Decoupling of subsidies from production is arguably the single most significant change ever to occur in the EU Common Agricultural Policy (CAP). It signifies the start of a new era of market-orientated, profit-driven agriculture.

We regularly hear commentary about the effect on some farm families and farm businesses in New Zealand after the sudden removal of state subsidies in the mid 1980s, involving bankruptcy and rural suicide. Agriculture in New Zealand has however flourished and prospered since that era, even though it did not have a Single Farm Payment type of system as some form of fallback. The question is can Irish agriculture flourish to the same extent in a much more market-oriented system?

I believe Irish agriculture will rise to the challenge and strong efficient farm businesses will emerge. Indeed, this new era of great change will present huge opportunities for efficient farm businesses adopting robust business plans for expansion. Inevitably, some farm businesses will be forced to radically adjust their present farming system, perhaps even cease operations altogether. With regard to the latter, consider the long-term viability of many beef, sheep or tillage farm businesses in the absence of a Single Farm Payment, REPS payment or disadvantaged area payment. Unless net profit increases significantly in these enterprises they will not survive as full-time units in this new era, especially with the lack of off-farm employment at present in our economy.

The proposed slow phased reform of the CAP over the coming years will afford strong and vulnerable farm businesses plenty of time to review, adjust and plan for the future. Both strong and vulnerable businesses will need to plan their land use and enterprise mix to survive in this new era of projected expansion. The big difference between Ireland and the southern hemisphere experience in the 1980s will be access to additional land.

Access to land is, and will remain, the single most limiting factor in the future productivity of Irish agriculture. Greater access to land will inevitably have to come from the ground up rather than from the top down. When land access is discussed it is almost always from the viewpoint of the keen active expanding farmer. Little reference is ever made to what I believe is the more important viewpoint, namely that of the often elderly non-active landowner. Pride and fear are two primary emotions to the forefront in those who own land and are faced with choosing an option to allow another to farm land steeped in family history and is considered part of the blood that runs through their veins. Currently, available tax relief for long-term leases, loosening of partnership rules and other policy change proposals, although important, are really missing the point. The real issue we need to address is: how do we get elderly or non active landowners proud to be involved in a business relationship with an active expanding farmer?

I suggest the following must be in place to achieve this goal:

- A clear agreed farm business plan between the landowner and active farmer;
- Defined income security for the landowner;
- An agreed maintenance schedule for land (i.e. regarding soil fertility, building and fence maintenance);
- A dispute resolution clause;
- An exit clause, and;
- Recognition of the non-active landowner in the success of the overall farm business.

The structure of such a business relationship may take the form of a conacre agreement, a short or long-term lease, a joint venture, a share-farming agreement, a partnership or a limited company. The correct structure will depend largely on individual circumstances.

Whatever direction your farm business takes in the next decade there will certainly be financial and physical challenges. That is what makes farming and running a business exciting. Applying to banks for finance, dealing with tax problems in good years and cash flow issues in bad years are all part of the game. It is, therefore, vital to have a good team around you to help you make informed decisions of benefit for you, your family and your farm business.

The specific mix of one's team will typically vary depending on individual requirements. However I suggest every team should consist of:

1. A financial institution representative who understands your goals and your business;
2. An experienced agricultural consultant who has successfully advised other clients on similar expansion paths;
3. A tax consultant specialising in farm business, and;
4. A practical solicitor.

These four professionals should all be fully aware of the goals you have set for your farm business. Remember, this is your team. The team should always be stronger than the sum of its parts.

In summary, be well advised and well financed before you take on the challenge of this exciting new era for you, your family and your farm business.

AIB would like to congratulate Dermot O'Connor who was recently named Macra na Feirme's FBD Young Farmer of the Year. Dermot is a dairy farmer from Shanagolden, Co. Limerick.

Matt Dempsey announces his retirement

Matt Dempsey pictured receiving the ASA Distinguished Members Award alongside Karina Pierce, President Agricultural Science Association and Anne Finnegan, AIB.

Matt Dempsey has announced his intention to retire as editor of the *Irish Farmers Journal*. Matt has been associated with the paper since 1973 – first as its EEC correspondent, then from 1988 to 1993 as editor and from 1993 to date as CEO and editor.

Matt, who has farmed in Co. Kildare since 1973, was producer of agricultural programmes on RTÉ radio for four years prior to 1973 and subsequently presented a weekly agricultural programme on that station from 1979 to 1987. He was chairman of both ACOT and An Foras Talúntais prior to their amalgamation as Teagasc. He has been a member or officer of numerous bodies and associations over the years, including the European Agricultural Publishers Association, the Irish Grassland Association and the Agricultural Science Association. Most recently the ASA honoured him with its distinguished members award which is sponsored by AIB. He is currently Chairman of the National Newspapers of Ireland. He has been heavily involved with the RDS, of which he is currently Vice President.

Matt holds Honorary Doctorates from UCD and the Harper Adams University, UK.

Liam Phelan, Agri Adviser AIB with the winner of the two year old Heifer in Milk, Clonpaddin GKS Fame at Emerald Expo, led by Gary Jones with breeders Gary and Mark Hurley and judge Donald Dubois.

John Enright appointed as General Secretary of ICMSA

John Enright's appointment as General Secretary of ICMSA was ratified at the Association's National Council held in Limerick on Thursday September 13. Mr Enright had been serving as Acting General Secretary prior to the ratification and has served for 12 years as Senior Policy Executive with the organisation. He joined ICMSA in 1996 from the (then) Department of Agriculture having entered the Department direct from UCD after graduating with a First Class Honours in Agricultural Science. He's a native of Ardagh in County Limerick and from a farming family. He has already stated that his ambition for ICMSA is to make it the 'go-to' organisation in terms of dairy policy, analysis and farmer-orientated solutions.

National Farm Survey

The recent National Farm Survey published by Teagasc highlighted an increase of 30% in average family farm income, however, there were significant differences between farm systems and farm sizes

Family Farm Income

In July Teagasc published its full report on the 2011 National Farm Survey (NFS). As mentioned in the market review article (see page 4), it indicated an increase of 30% in average family farm income compared to 2010, which was itself a very strong year for farm income. In fact, the 2011 average figure was historically high in both nominal and real terms. As usual, there were very significant differences between farm systems (Table 3) and farm sizes (Table 4).

With the exception of the tillage sector, which suffered a small decline in income, all sectors shared in last year's increases ranging from 35% (sheep) to over 50% (milk). While that is the case, the figures indicate that there remain very significant differences in average income levels between sectors, with dairying and, to a much lesser extent, tillage and mixed livestock (mostly dairy based) well ahead of the other livestock sectors. Such a conclusion appears to hold true, even in the case of mid to larger scale (50-100ha) farms (Table 5).

It is the system of farming (and, of course, within that, efficiency levels) that mainly determines farm income levels. Table 5 indicates that on farms of roughly similar size, average incomes ranged from €24,000 to €90,000 depending on the system of farming. It is clear from these figures that the size of the land asset in isolation is not a true indicator of farm income generating capacity.

There are also very significant differences between the income levels on full-time and part-time farms. Average incomes in the former category were over €56,000, while in the latter they were just under €10,500. Differences in income levels between systems of farming were less pronounced in the case of full-time farmers than in the case of all farms generally (Table 6).

The major difference here is undoubtedly due to the much higher proportion of part-time farmers in the livestock sector than in the dairy sector. While the increases in farm income in the past two years are impressive, they have come after a disastrous year in 2009. Income levels in the sector are increasingly volatile. To give a more balanced view of income from farming over a longer period we have included in Table 3 the average NFS figure for the three preceding years 2008 to 2010. It is clear that the 2011 outcome is well above the average. As pointed out in the market review article, however, we expect average incomes this year to fall by more than 20% and other

Table 3: Farm Financial Results by System of Farming – 2011

	System of Farming						All Farms	Average 2008-2010 All Farms
	Dairy	Cattle Rearing	Cattle Other	Sheep	Tillage	Mixed Livestock		
	(€)	(€)	(€)	(€)	(€)	(€)	(€)	(€)
Gross Revenue	174,071	30,745	41,805	42,093	115,802	103,507	67,375	53,366
***Of which* Direct Payments**	23,361	13,407	16,795	17,490	26,266	21,135	17,929	17,389
Family Farm Income	68,570	10,450	14,573	16,805	35,296	34,902	24,461	15,992

Table 4: Farm Financial Results by Farm Size – 2011

	Farm Size (UAA – Ha)						All Sizes
	2<10	10<20	20<30	30<50	50<100	100+	
	(€)	(€)	(€)	(€)	(€)	(€)	(€)
Gross Revenue	13,472	19,775	32,216	67,454	138,490	304,494	67,375
***Of which* Direct Payments**	4,244	7,546	10,960	19,992	30,059	59,491	17,929
Family Farm Income	3,070	5,716	10,742	26,040	53,529	93,941	24,461

Table 5: Farm Financial Results for Farms 50-100ha – 2011

	System of Farming						All Farms
	Dairy	Cattle Rearing	Cattle Other	Sheep	Tillage	Mixed Livestock	
	(€)	(€)	(€)	(€)	(€)	(€)	(€)
Gross Revenue	223,395	64,435	82,002	78,279	126,363	173,249	138,490
***Of which* Direct Payments**	28,860	26,280	32,170	29,641	32,607	31,286	30,059
Family Farm Income	91,035	24,063	29,309	26,603	45,394	65,802	53,529

Table 6: Relative Farm Income by Farm System and Status - 2011		
	All Farms	Full-time farms
	Ratio	Ratio
Dairy income v All systems income	2.8 : 1	1.25 : 1
Dairy income v Tillage income	1.9 : 1	1.1 : 1
Dairy income v Cattle Rearing income	6.5 : 1	2.1 : 1

estimates put the likely drop at close to 30%. The former would reduce family farm income to just above the 2010 level and the latter to a little above the three-year average.

Furthermore, it is clear from the NFS that income from farming on the majority of holdings remains comparatively modest (Table 7).

Table 7: Distribution of farms by Farm income - 2011		
	All Farms	Full-time farms
% of farms with incomes:		
< €20,000	65	18
€20,000 < €50,000	20	36
€50,000 < €100,000	10	31
> €100,000	5	15

The vast bulk of farmers with low incomes (< €20,000) are in the livestock sectors (e.g. 86% of cattle rearing farms fall into that category as against 6% of dairy farms) and are classified as part-time (only 41% of farmers so classified have off-farm jobs). But even in the full-time category 54% of farm businesses generate an income of less than €50,000 according to the NFS. It needs to be emphasised that this was the survey outcome even in a year of historically high farming incomes.

Direct Payments

Direct payments remained the single most important (albeit somewhat reduced) element in farm income in all sectors other than dairying where they accounted for only 13% of the value of gross output and 34% of family farm income. The importance of direct payments and that of the Single Farm Payment (SFP) in particular, in the different sectors is illustrated in Table 8 below.

Table 8 illustrates that these payments, and especially the SFP, are of critical importance across the board (disadvantaged area payments and REPS are important also in the livestock sectors). It underlines the crucial importance of the negotiations currently taking place in the EU about the future of the CAP in the 2014-2020 period.

Off-Farm Employment

The NFS figures relate to revenue and income from farming. They do not cover income from off-farm sources. The survey does, however, provide information on the extent to which farmers and/or their spouses engage in off-farm employment. Largely due to the recession the extent to which such employment is available has fallen by roughly 2% a year since 2007. In that year 58% of farms reported farmer and/or spouse participation in off-farm employment. Last year that figure stood at 49.5%. Here again there are sharp differences between sectors. While the combined figure (i.e. farmer and/or spouse) was much the same for all sectors (between 40% and 55%), the percentage of farmers who had off-farm jobs varied significantly. For instance, while 32% of all farmers had off-farm employment, the figure for dairy farmers was only 8% and, at the other end of the scale, that for beef rearing farmers was 42%.

Net New Investment on Farms

The level of net new investment on farms peaked about 2008 under the influence of the Farm Waste Management Scheme. Since then it has dropped off sharply, but, on the evidence of this survey, it is beginning to rise again (Table 9), particularly in the dairy sector. We would expect this trend to accelerate somewhat as that sector gears up for the ending of quotas.

Table 9: Net New Investment by System of Farming - 2011							
	System of Farming						All farms
	Dairy	Cattle Rearing	Cattle Other	Sheep	Tillage	Mixed Live-stock	
Year	(€)	(€)	(€)	(€)	(€)	(€)	(€)
2008	40,195	8,231	9,011	9,791	18,180	23,882	15,506
2010	11,516	2,407	2,755	2,309	8,383	8,602	4,618
2011	17,091	2,167	3,365	2,377	9,839	8,533	5,702

Note: It should be emphasised that the NFS covers dairy, livestock and tillage farms. It does not cover pig, poultry or mainly horticultural farms.

Table 8: Relative contribution of Direct Payments, and specifically Single Farm Payment, to Farm Gross Output and Family Farm Income for years 2008 - 2011								
	Direct Payments as a % of:				Single Farm Payment as a % of:			
	Total Gross Output		Family Farm Income		Total Gross Output		Family Farm Income	
	2011	2008-2010	2011	2008-2010	2011	2008-2010	2011	2008-2010
Dairy	13	16	34	54	10	12	26	41
Cattle Rearing	44	53	128	190	26	32	77	113
Cattle Other	40	46	115	155	30	33	85	113
Sheep	41.5	52	104	151	25	29	62	84
Tillage	23	28	74	107	19	24	64	90
Mixed Livestock	20	25	60.5	96	14	19	42	73
All Farms	27	32	73	110	19	22	52	76

Tillage Sector in Irish Agriculture

Patrick Butterly, AIB Agri Adviser

Food Harvest 2020 gives clear direction and expansion plans for the majority of the agri sectors. However, despite being an important and profitable sector, accounting for approximately 6% of Gross Agricultural Output no targets have been specified for the tillage sector.

Profitable sector

Traditionally, tillage returns have been second only to dairying (or largely dairy based enterprises) in terms of profit per hectare. For example, between 2008 and 2011 the average Family Farm Income on tillage farms was significantly higher than those of drystock farms. Tillage farmers have however, tended to receive some of the highest Single Farm Payments (€/farm) (Table 10) and, consequently, may be considerably exposed to the current CAP reform proposals.

Grain Production

The output of the grain sector is essential for the other agri sectors, in particular the pig and poultry sectors. It is estimated that the pig sector uses approximately 930,000 tonnes of feed of which 600,000 tonnes is supplied from cereals. Although grain production in Ireland has averaged about two million tonnes annually over the past 20 years (range: 1.6m to 2.4m tonnes), Ireland is a net importer of cereals, producing little more than half the requirements of its feed and milling industries.

If Ireland achieves a 25% increase in pig numbers and a 50% increase in milk output, along with increases in the other livestock sectors envisaged in the Food Harvest report, there will be a need for a 25% growth in cereal availability, equivalent of roughly 70,000 hectares of additional production. Obviously, meeting this additional demand from native produced grain is of more economic benefit to Ireland than relying on imports. Ultimately, this will be influenced by profitability, the ability to justify expansion and grow grain competitively vis a vis our global competitors and the availability of additional suitable land.

Ireland's island status increases the cost of imported grain. This – coupled with a continuation of higher international grain prices, higher grain yields in Ireland (average Irish wheat yields at up to 10 tonnes per hectare, compared to global average yields of 3 tonnes per hectare), increasing demand for grain and a higher level of farm-to-farm trading – should maintain and increase investment in the tillage sector in Ireland going forward.

Volatility

A feature of recent editions of *Agri Matters* has been that volatility is likely to be a greater feature of all agri sectors in the future. International prices – especially when they are high – are the root cause of volatility. The market experience in the tillage and dairy sectors since 2006 is evidence of this. Unlike the pig and poultry sectors which are managed in controlled environments, other farm sectors must cope with varying local weather patterns, with the result that farm output and profitability fluctuate from year to year, compounding the volatility exhibited by commodity prices.

In the tillage sector, the returns from crop production are inextricably linked to weather conditions in a given year. Poor growing and harvesting conditions in 2012 have seriously affected the yield and quality of finished crops.

Forward Contracts

At farm level, forward contracts are a means of reducing the impact of volatility and have become more prevalent in the tillage sector in recent years. Tying down the price for part of the crop has been recommended as prudent business in the industry, as a means of ring fencing part of the farm income. Some growers may now question this practice given the late season price spike, the lower yields and reduced grain quality and this could dampen the growing interest in forward selling. During the late Spring and early Summer, some Irish grain growers sold their green grain at prices averaging about €165 to €170 per tonne, compared to current prices for wheat at approximately €210 per tonne. However, one thing we have learned from the past few years is that prices can fall as quickly as they rise. This needs to be given significant weight when considering the use of forward contracts in financial planning on farms.

Planning for the future

It is important to ensure that your bank is kept informed of your ongoing business plans so that they can plan with you for your future financial requirements. It is good practice to keep your bank up-to-date on the performance of your farm on an annual basis even if you are not seeking additional finance. This allows the bank to build an understanding of your business and your business needs over a period of time. If short-term cash flow problems do arise, as a result of changes in output prices, input prices or the weather (as may be the case for some farmers this year), you would be in a better position to engage with the bank to minimise the impact on your business.

In conclusion

The output of the tillage sector remains a critical constituent of most farm sectors. Therefore, the future growth and development of these sectors will require simultaneous growth in the tillage sector. Despite the increased volatility, the underlying profitability trend in the Irish tillage sector has been positive in recent years. Agriculture remains an integral part of our ongoing business and we in AIB look forward to working and partnering with tillage farmers in realising the potential of the sector.

Table 10: Comparison by Farming System 2008 - 2011

	Dairying	Cattle Rearing	Cattle Other	Sheep	Tillage	All Systems
Gross Output (€)	137,170	28,215	36,218	33,191	97,087	56,874
Family Farm Income (€)	45,605	7,945	11,188	12,089	26,671	17,798
SFP (€)	15,935	8,095	11,504	9,217	21,734	12,074

Source: Teagasc National Farm Survey