

AgriMatters

AIB supporting the Irish Agricultural Industry



Spring 2008



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WTO negotiations / Less volatile dairy markets

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Welcome to the spring edition of Agri Matters

Michael Dowling, Head of Agri Strategy, AIB

In this edition we reflect on what was an exceptional year in 2007, especially in the cereal and dairy sectors, and are looking at the trends developing in 2008.

This year is seeing an upsurge in beef prospects and is likely to see the turning of the tide for pig farmers. The tillage outlook is very favourable and milk, even if falling back from the highs of last autumn, may still enjoy average prices close to the 2007 average. There is, of course, the first quota increase for many years but, unfortunately, also the near certainty of a superlevy bill from last year. All in all, 2008 should be very interesting.

There is much else besides – a general economic overview, notes on the Health Check and on the WTO, pointers to financing farm development work and to farmers considering switching enterprises from beef to milk and an interview with Bryan Daniels, the 2007 young farmer of the year. I hope you will find this edition of interest and I wish all our readers a very successful farming year. The next edition will be published to coincide with the Ploughing Championships.

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Dairy prices to stabilise

The dairy market has been extremely volatile over the past 15 months or so, but current price levels should be maintained

The 2007/2008 price developments were due to some supply shortfalls and increasing demand throughout last year and in recent months, to the decline from 2007 peak prices exacerbated by a sharp fall in the value of the US dollar.

The dollar is now (April 2008) 18% weaker than in January 2007. European price developments followed a similar pattern, although the peak domestic and export prices for EU butter were considerably higher than the peak world price.

Generally speaking, prices for butter and skim powder peaked in the autumn, whey in the spring and cheese at the end of the year. In terms of gross milk price, at peak world market prices were equivalent to about 45c/litre (26c in January 2007) and at present are some 12c lower. We would expect world prices to be less volatile this year, and, assuming no further major weakness in the dollar, current price levels to be more or less maintained.

European prices should be at something of a premium (EU market price is currently – end April – at about the same levels as in late spring 2007) and therefore, it is not unreasonable to expect producer prices in Ireland to be close to last year's average level (33/34c per litre).

	January 2007	Peak Prices in 2007	Price in March 2008
	€/t	€/t	€/t
Butter	1430	2930	2610
SMP	2180	3545	2300
Cheddar	2105	3740	3300
Whey	985	1430	380

The CAP health check begins to take shape

It was agreed in the context of the mid-term review of the CAP that there would be a health check on the reforms by 2008. The European Commission has not yet made formal proposals in this regard but their likely shape is now clear.

- An increase from 5% to 13% by 2013 in the rate of modulation (i.e. reduction of amounts over €5,000 a year) of the single farm payment;
- Tiered reductions in single farm payments of more than €100,000 a year;
- Encouragement to move from historically based payments to standard payments per hectare;
- Elimination of compulsory set aside;
- Further winding down of the intervention mechanism;
- Consideration of income stabilisation/ risk management measures such as insurance;
- A 2% increase in milk quotas in 2008 (already agreed) and four further increases of 1% a year (2010-2013) prior to the elimination of quotas in 2015.

Increased modulation

While the implications of all this for Ireland are, in general, relatively limited, they could be significant for some individuals or sectors. The increased modulation, if agreed as it stands (which is unlikely) could reduce single farm payments by up to €70m. The 'saving' would be transferred to rural development. If Ireland were to move from historically-based to flat rate single payments, there would, of course, be no further additional reductions in the overall level of payments here. But payments would, on average, increase in the dairy sector and in some livestock

"Given Ireland's relatively favourable position in this, the move towards quota elimination should be welcomed"

systems and fall in the other livestock systems and in tillage. Tiered reductions of payments above €100,000 would again be of little national significance but could, of course, be somewhat more serious for those farmers directly concerned (close to 250 farmers, whose cumulative payments above €100,000 are estimated to be about €6m).

Risk management

Intervention is now playing a relatively minor part in the CAP and some further diminution of its importance would not be significant. The introduction of supported insurance measures could be helpful in reducing farm business risk but, as yet, the thinking on this has been little developed and there does not appear to be great enthusiasm for the concept.

Milk quota

The European Commission estimate that the 6% increase in milk quotas would, by 2014, lead to a 2% increase in production and a

price reduction of 1% below the 2008 baseline figure (and almost 5% below the price that would apply if quotas were extended). The elimination of quotas in 2015 would lead to a further 1% rise in EU production.

Ireland is seen as one of the countries that would increase production much more rapidly. We believe that production here would rise by the full 6% while quotas are in place and could rise by at least a further 10% or so within a short period of their removal. Given Ireland's relatively favourable position in this, the move towards quota elimination should be welcomed. The pace of removal likely to be proposed is, however, surprisingly modest and may not be conducive to the 'soft landing' desired by the Commission.

Food price inflation

The sharp increase in raw material prices in 2007 has generated considerable discussion about food price inflation and its likely economic effects. There is no doubt that current, and likely future, commodity prices do indicate that higher food prices are increasingly likely. Indeed, in March of this year Irish food prices were 9.6% higher than at the same time in 2007.

All this, however, needs to be kept in perspective. Firstly, given the huge increases in some commodity prices last year – 75% in dairying and wheat – food price increases, even if escalating, are relatively low. There are a number of reasons for this: there is inevitably a time lag before commodity price increases translate into higher food prices; raw material costs are a comparatively small element in the cost of many food items; and, the concentration of purchasing power at retail level has a dampening effect on food prices.

Additionally, food price inflation has in the past been considerably below the increase in overall cost levels. Since 1996 food has increased in price by 38%, the general rate of inflation has gone up by 46% in the same period. Since we joined the EU, food prices have risen by some 200 percentage points less than inflation generally (energy costs being the big difference).

For the immediate future that picture is likely to be reversed but, over the longer term, we would expect a greater degree of balance between food price rises and increases in the cost of living generally.



Pictured at the Irish Grain and Feed Association Annual Dinner are Joe Connolly (Chair of IGFA FEED Committee) Marian Murphy (Past President IGFA) John Dalton (President IGFA) & Eugene Sheehy (CEO AIB) who spoke on the night

Dates for your diary

- May 1st Teagasc Slurry Demonstration, Johnstown Castle
- May 8th Teagasc Beef Open Day, Grange
- June 20th Farm Fest '08 and Bioenergy '08, Athenry
- August 10th Tullamore Show / AIB National Livestock Show
- September 23 - 25 National Ploughing Championships, Kilkenny
- October 8 - 11 World Holstein Friesian Conference, Killarney

Looking back to see forward

Before we look forward to what 2008 may bring for the agri-industry, it is worthwhile to reflect on our experience of 2007. By any standards, last year was an unusual one:

- Farm income rose by over 12% (the CSO recently revised their estimate upwards from 7% - ours had been 6%);
- The value of farm production rose by 8%;
- Creamery milk prices were on average close to 30% higher;
- Cereal prices increased by almost 70%.

There was, of course, a less buoyant outcome in the beef sector where the value of gross output fell, despite a marginal increase in production and in the sheep sector where a small price increase was more than offset by a much more substantial fall in production.

The pig and poultry sectors suffered from the obverse of the good cereal prices, as feed costs rose throughout the year. This was particularly serious

in the pig sector where, in addition, prices languished towards the cyclical bottom. Input costs rose by about 7%, with the biggest increase coming in the most important sector – feedingstuffs.

Furthermore, the average figure masks the fact that prices worsened during the year – feedingstuff prices rose on average by 13%, but at the end of the year were over 22% higher (electricity prices were the exception – average increase: 11%; end of year increase: 4%).

Despite the unfavourable cost situation, 2007 incomes did, however, increase by well in excess of inflation and are at roughly the same level as in 2005, when there was a once off windfall subsidy gain of €500m. When that factor is discounted, farm incomes last year were at historically high levels (in current but not real terms). One factor was again very evident in last year's farm income figures – the continued importance of direct payments (almost a quarter of gross farm revenue and over 70% of farm income).

Going forward

The year has started well for most farm sectors but the cost increases of late 2007 have carried over into 2008. Oil price levels remain very high, tempered only by the weakness in the US dollar. Feed prices are unlikely to fall before the autumn. Nevertheless the outlook for most sectors is positive.

Beef prices are (early April) running on a weekly basis over 13% above the same period in 2007. Brazilian beef supplies, even if some further farms are eventually approved for export to the EU, will be well below the levels of previous years and restrictions on Argentinean exports are expected to continue.

With supplies tight in an EU market which is in deficit in terms of domestic production, prices should remain strong through the year. Supplies dropped over 10% in the first quarter of the year and are likely to be down, but to a lesser extent, for the year as a whole.

Sheepmeat has seen a decline in production which will continue, but prices are likely to be up by about 5%.

Pigmeat is currently the sector with the biggest problems. Feed prices are, and are likely to remain, high and prices in the first quarter fell 2c/kg from the relatively low level at which they ended in 2007. This is, of course, a volatile price sector and producers have generally coped well with its ups and downs. The unusually high feed prices are, of course, adding significantly to current difficulties. The evidence is, however, that the problems may have bottomed out and that the second half of the year will see some easing in feed costs and the beginning of a strong cyclical price recovery.

Tillage was the other exceptional sector in 2007. While grain prices may come back somewhat in the autumn from last year's historic highs, they are likely to remain well above any levels seen since 1995. The strong market for vegetables in 2007 should be maintained this year.

While potato prices in the last year were well above the levels of most recent years, they were disappointing compared to 2006 and, generally speaking, it was a difficult year for potato growers. It is too early to predict what the market will be like this year, but, given normal growing conditions, it should be considerably better than last year.

Milk is again something of an imponderable with markets delicately balanced after an exceptional performance in 2007. While it is difficult to be dogmatic about how markets will evolve through the year, we would expect average prices to be close to last year's level (33c/34c litre) but well below last year's peak. Following the agreement to increase quotas output should increase by 1.5% to 2%.

Direct Payments should be somewhat higher than last year due to the payment for the first time of the suckler cow welfare subsidy.

Conclusion

All of these factors combined should result in a very modest increase in aggregate farm income and an increase in family farm income of no more than the rate of inflation.

Figure 1: Cattle Prices



Source : Department of Agriculture, Fisheries and Food 2000-2007
AIB Forecast: 2008

Figure 2: Milk Prices



Source: CSO 2000 – 2006
AIB: 2007 Estimate and 2008 Forecast

Economic outlook remains healthy

Ireland's economic performance remained impressive in 2007, with real GDP growing by 5.3% and employment rising by 3.6%. However, the economy is entering a more subdued period with much slower rates of growth in output and employment prospects for 2008. Real GDP is forecast to grow by 2.2% this year, a sharp deceleration from previous years. Meanwhile, it is anticipated that employment will slow to 1%. The main factor behind the slowdown is the slump in new housing output.

Housing completions are forecast to fall to around 50,000 this year, down over a third from last year's level of 78,000. This drop, combined with a fall in housing transfer costs, will knock close to 4% of GDP in 2008. The external environment is also likely to prove more challenging this year, with a slowdown in Ireland's key export markets and a strong appreciation in the euro impacting negatively on export demand.

There has been much talk of late about how the economy has become overly dependent on housing in recent years. However, the reality is different. Excluding housing, GDP growth exceeded 5% in each of the last three years. Even with new housing declining by 12% last year, the economy still grew by 5.3%. Given this performance, we see no reason not to expect a resumption of strong growth once the sharp downward adjustment in housing activity is complete and the global economy returns to a firmer footing.

Thus, GDP growth should pick up again in 2009 and 2010 as the downturn in new housing activity starts to level off and no longer acts as a major drag on GDP growth and the global economy recovers. It is anticipated that GDP will rise by 3.2% in 2009 and 4.2% in 2010. Even if these forecasts prove overly optimistic, the downturn in activity is unlikely to derail the economy completely. The economy will still hold onto virtually all the substantial gains in output, employment and living standards achieved since 1993.

Irish inflation has picked up a lot in the last two years, especially the headline CPI rate. It averaged 4.9% last year after 4.0% in 2006, well up on its 2005 level of 2.5%. Much of the rise, though, is due to increased mortgage costs. Excluding mortgages, CPI inflation averaged 2.6% in 2006 and 2.7% last year. The gap between inflation in Ireland and

the eurozone has narrowed over the course of the past year as taxation impacts have fallen out of the local index and inflation rates around the world have been adversely affected by rising energy and food prices.

The annual rate of inflation fell back to 4.3% in January of this year, down from 4.7% in December and 5.0% in November. However, it has since resumed its upward trajectory, rising to 4.8% in February and 5.0% in March. The 4.7% average for Q1 was higher than anticipated and reflects not only the ongoing pressures on food and energy prices but also the impact of higher mortgage repayments. This is despite the fact that the ECB has not increased interest rates since June of last year. However, this not only suggests higher wholesale rates due to the problems on credit markets but also reflects the lagged impact of higher house prices.

Given the higher than anticipated outturn for the CPI in Q1, headline CPI rate is now likely to average 4.3% this year, while the HICP rate is forecast to average 3.5%. We expect headline CPI inflation and the HICP rate to fall back in 2009 but to still remain above long term average rates.

Economic Forecast Table

(% annual change unless stated otherwise)

	2006	2007 (f)	2008 (f)	
2009 (f)				
Real GDP	5.7	5.3	2.2	3.2
Real GNP	6.5	4.5	2.0	3.1
Consumer Spending	5.7	5.4	3.5	3.5
Fixed Investment	3.1	0.2	-10.5	-3.5
Government Spending	5.3	6.6	4.0	2.2
Exports	4.4	8.2	5.3	5.0
Imports	4.4	6.4	2.7	3.5
CPI (%)	4.0	4.9	4.3	3.0
Unemployment Rate (%)	4.4	4.5	5.7	6.3
General Govt. Balance (as % of GDP)	2.9	0.5	-1.5	-2.0

Source: AIB Economic Research Unit, April 2008



Representatives of the 2007 AIB/Macra na Feirme Club of the Year, Mountmellick, pictured with Tadhg Buckley, AIB Agri Advisor and Catherine Buckley, President Macra na Feirme

Positive outlook from young farmer



Bryan Daniels, 2007 Young Farmer of the Year, farms in partnership with his parents at Kilmoganny in Co. Kilkenny

How long have you been running your own farm?

I have been running the farm full time since I finished my formal agriculture education in 2001. In 2005 my father and I entered into a private partnership where I'm paid a full time wage.

What was your biggest challenge when starting out?

I've been very lucky since I started farming that my father has been very supportive and willing to let me take over the running of the farm. The only thing that has held both me and the farm back is the lack of access to milk quota. I would be of the mind set that any challenge or problem is a test. And it is to be over come.

What has been your biggest success and your biggest mistake to date?

When I first went home to farm I set out a number of targets that I wanted to achieve. Every target that I've reached and passed I count as a success. The big ones that stand out when I look back would have to be winning the Teagasc student of the year in 2001 and, last year, winning the FBD Young Farmer of the year as the skill level of the other farmers are just so high. I have made many mistakes in my life but I can't count them as mistakes because each of them has taught me something or has made me stronger. If I was to pick one thing that I did do wrong when I started farming it was that I didn't think big enough and under estimated the benefits of being a dairy farmer.

What advice would you have for young farmers starting out?

The best advice that I could offer young people starting out would be to educate themselves to the best they can, wherever they can, in the basics of what they want to do. To mix with the best and most positive people/farmers they can meet (join a discussion group). To travel and open their minds. But, most importantly, to think big and never be happy with average.

What is the biggest issue facing young Irish farmers today?

As I see it, the biggest issue that concerns young people in agriculture today is that there are so few ways to allow them to start farming. The only real way for a young person to start is through a family business. The partnership rules are too restrictive. The dairy industry has been locked up since 1984. If Ireland wants young people to go into farming they must allow them to farm at every level.

What is your outlook for the Irish dairy industry going forward?

I would be a strong believer in the Irish dairy industry going forward. The outlook for dairy products is looking good with demand remaining strong. We, here in Ireland, have a natural advantage over other countries due to our ability to produce high quality milk products cheaply from grazed grass. There are some things that will have to be tackled going forward especially on the processing and marketing side to capitalise on this advantage.

What, in your view, is the biggest threat to Irish agriculture in the medium term?

The biggest threats to Irish agriculture in the medium term would be the uncertainty of getting into markets and price volatility. Planning will help to carry us over this.

If you were Minister for Agriculture, what one change would you implement?

If I was the Minister for Agriculture I would be stuck between speeding up the removal of milk quotas and putting in place the set up to allow freer use of partnerships to get young people farming. Something like share milking in New Zealand.

What ambitions do you have for your own farm?

My ambition for our home farm is to ensure its long-term survival. I see this in dairying and both my father and I are currently planning to increase cow numbers and milk output over the next few years.

Have you started planning for your own future? Have you a pension/ investments in place?

I am a firm believer in planning, and before doing anything I will think it through and put it down on paper. It is this that has got me to where I am today. I want to ensure that in years to come I won't have to worry about money irrespective of what might come along. I do have some small pensions and investments to date. I am investing in our farm at the moment as I see it as the main driver of my future security. As the farm starts to build surplus cash some of it will be used to start other projects and investments.

Who in the Irish agriculture/farming industry do you most admire and why?

There are many people that I have met since I started farming that I admire and each of them has helped me in some way. To name them would be unfair as there are so many. I would have to mention my parents as they inspired my interest in farming and they have supported me every step of the way.

Farm development work costs exceed estimates

With the boom in the on-farm construction of animal housing and farm waste storage facilities, driven by the attractive grants that are available, a significant amount of AIB's Agri Advisors' time is currently spent working with farmers who are carrying out this on-farm development work

This year in excess of 50% of the Agri Advisors time is spent with financing the on-farm construction of animal housing and farm waste storage facilities.

As you might imagine, we are getting to analyse a huge range of proposals. The experience to date has highlighted a significant variance in the cost of similar type developments. In general, those who are pricing around are getting better value.

In general farm waste management development costs are exceeding initial estimates and cost over runs are frequent. This can be caused by a variety of factors - carrying out additional work, hitting rock, higher spec of building or in some cases not budgeting for all the costs - e.g. filling, plumbing, penning etc. To avoid this, farmers should complete a detailed budget and allow leeway to cost for over-runs. From a business point of view, it is much better to come in on or under budget than to return to your bank seeking additional finance.

Customers often enquire about the best structure for their finance. As cashflow is generally tighter when development work is taking place it is often recommended to place the total development cost on interest only until grant and VAT rebates are received. At that stage, you will know what the net cost is and can decide what term will best suit your needs.

In summary:

- Shop around to get value (please note that the lowest cost quote isn't always the best value!);
- Complete a full budget for the development, allow for over-runs expect delays - completing the work, receiving VAT and grant rebates;
- Take pressure off your cashflow, explore the suitability of placing the development on interest only until the grant and VAT are paid; and,
- Start the work as soon as you can, especially for those developments that need to be completed this year.

WTO negotiations at critical stage

The WTO negotiations are (as of April) at a critical stage which could see agreement on agriculture and non-agricultural market access (NAMA) before the summer, with other aspects (e.g. services) effectively left over until later (in that scenario, all elements would, however, come into force together). Agreement on WTO is closer than previously expected, but there is, on the other hand, at least an equal chance that nothing will be agreed at this stage and everything left over until well after the US elections

In February, the chairman of the agriculture negotiating group outlined draft compromise proposals (as did the chairman of the NAMA group) which would have the following implications for the EU:

- Domestic Support – cut by 70%;
- Products falling into the Green and Blue Boxes would be exempt from cuts, but, in the case of the latter, the exemption would be subject to a new limit of 2.5% of the value of agricultural production. It is expected that the EU single farm payments would be classified in the Green Box and its coupled payments are already included in the Blue Box;
- Export Support – eliminate by 2013 (already agreed to be implemented as part of an overall settlement); and,
- Market Access – average tariff cut of over 50%, with cuts in some tariffs (in principle including beef and butter) to be cut by 70%.

Commitments

The commitments would be phased in over five years (beginning probably in 2010) in six instalments. In the case of export support, however, 50% would have to be abolished by 2010 and the balance by 2013.

If there is a settlement along these lines (and that is far from certain with a number of participants, including the EU, far from agreement for a variety of, sometimes conflicting, reasons), the EU, and a small number of others (e.g. Japan) face significantly greater commitments than the average. This is because it was accepted early on that those with the highest support and tariff levels would incur the greatest cuts. There are, however, a number of factors that would, or could, reduce the impact in some sectors.

Firstly, what is involved in the commitments on domestic support is trade distorting support and the decisions on decoupling under the Fischer reforms have removed most EU support from that category. Thus, the EU has more or less already met its commitments under this heading.

Secondly, market developments have already seen the elimination of export subsidies, or the diminution of their importance, in the sectors of most concern to Ireland. Nevertheless, depending on future market developments, the elimination of these subsidies could create difficulties down the line, particularly in the case of beef and butter (and possibly pigmeat).

Thirdly, the draft agreement would allow the contracting parties to define

between 4% and 8% of their tariff lines as relating to sensitive products, which would enable them to limit the cuts in those tariffs to between one third and two thirds of what would otherwise apply.

It is believed that the EU will include beef and butter in its list of sensitive products (given expected market developments, there would be no need to list cheese or milk powders as sensitive). Sensitive product status is not, however, an unqualified benefit. In return, contracting parties would have to increase their tariff free quotas by quantities determined by the extent to which they avail themselves of the lower tariff cuts (e.g. up to 70,000 tonnes of butter and 300,000 tonnes of beef).

Concern

There is considerable concern within the EU that the negotiations on agriculture are being pushed very much ahead of the negotiations on the other sectors and that there is pressure to agree a very specific deal on that sector while there is only a very vague outline of what might emerge in regard to, for instance, services.

In regard to agriculture itself, the main EU, and indeed Irish, concern relates to market access. If dairy and cereal markets remain close to where there are now, the proposed reduced tariff levels would not necessarily be that difficult for European agriculture to live with, especially if butter is to be a sensitive product. Further weakening of the world market could, however, significantly change that picture and, given current volatility, this is a concern.

The outlook for beef is, however, much more problematic, even if beef is to be a sensitive product. Higher value cuts from South America are competitive in Europe even imported at the current full tariff. They will obviously be very much more competitive, if the tariff is substantially reduced. The price of South American beef in the EU is currently rising in response to tighter supplies (Brazilian 'ban' and Argentine export restrictions) and rising domestic cattle prices. But the gap between cattle prices in South America and Europe is still 40% to 60%.

The competitive edge is very much with the South American suppliers and likely to increase if the WTO deal is done. Unless there are some offsetting compensating measures, or the outcome is very much different than what is now on the table, the position of European beef producers could be very seriously affected.

IFA/AIB Nitrates Calculator launched

To aid compliance with the nitrates regulations, AIB has recently joined forces with the IFA to produce the IFA/AIB Nitrates Calculator. The calculator will assist you to manage your obligations to record all necessary information under the Nitrates Regulations.

This calculator is available free on line to all AIB customers and IFA members at www.ifa.ie or alternatively by clicking on the link on the AIB farming webpage www.aib.ie/farming. AIB customers who are not current IFA members will need to contact their local AIB branch to receive an access code.



Pictured at the launch of the IFA/AIB Nitrates Calculator are Michael Dowling, Head of Agri Strategy AIB and Padraig Walshe, President IFA.

From beef to dairy – key considerations



Tadhg Buckley
Agri Advisor, discusses the option of converting from beef to dairy farming

Over the past 12 months there has been significant interest from some drystock farmers and in some cases tillage farmers, in the option of commencing a dairy enterprise. This has been driven by a number of developments over the past three years.

Firstly, the introduction of decoupling has given farmers the freedom to change farm system while maintaining their single farm payment. Secondly, the returns from drystock enterprises when direct payments are excluded are low when compared with the dairy sector. Thirdly, the strong recovery in dairy markets coupled with the future dismantling of the EU milk quota regime has made the possibility of conversion into dairy farming a much more attractive option. A farmer considering switching into dairy farming will need to address a number of key issues in order for the venture to become a success.

Milk Quota

This is currently the most fundamental issue. While there has been much debate on the future of milk quotas, as it currently stands they will remain in place until 2015. Any over-quota production runs the risk of a significant fine. The possibility of a superlevy fine should recede in the medium-term as the EU continues its stated objective to reduce the value of milk quota. Nevertheless, there will remain a risk of running over quota.

Therefore, any producer who plans to commence dairy farming and ignore milk quota could end up with large financial penalties as well as severe cashflow problems. Currently, as a new entrant, the allocation if successful will be small. The availability and cost of milk quota through the quota exchange will very much depend on the milk processor you supply.

Infrastructure

This encompasses land, buildings and livestock. Firstly, any new entrant must establish what milk production platform is available to them. This is the area of land surrounding the milking parlour, which can be grazed by the dairy herd on a daily basis. This needs to be sufficient in size to support the proposed dairy herd. Other land that is located further away can be used for silage or the rearing of replacements/drystock. The ownership structure of this land must also be considered.

Leased land, if it is integral to the milk production platform, needs to be in a medium-term agreement at a minimum. This land will need to be paddocked and serviced by roadways in order to ensure good grassland management.

Buildings are also a key requirement. The installation of a new milking parlour and dairy along with sufficient slurry storage and calving/calf rearing facilities will form the bulk of the buildings investment. The key considerations here are the location of the milking parlour in relation to the land base and the possible conversion of existing buildings. Currently there is no grant-aid available for this investment, which places the entire cost of development on the farmer. The third part of the infrastructural spend will be the dairy herd. Drystock farmers will have funds available from the sale of their existing livestock.

Labour/Expertise

Dairy farming differs somewhat from drystock farming with more concentrated periods of labour demand, particularly during the Springtime. In addition, it also requires strong grassland management and cow husbandry skills. For any farmer considering entering dairy farming it is advisable to spend a period of time working on a commercial dairy farm prior to making a final decision. Given the investment and labour input required it is vital that dairy farming is something in which the individual has a strong interest and is something he/she enjoys. The only way to discover this is to experience the business first hand on a well-run commercial operation.

Return on Investment

Let's take a hypothetical example of a suckler farmer with 180 acres who decides to convert to dairy farming. He/she currently has a 70-cow suckler herd carrying all progeny to beef and a single farm payment of €40,000 and REPS of €8,500. They now plan to convert to a 100-cow spring-calving dairy herd producing 110,000 gallons/500,000 litres.

Required investment is as follows:	
Infrastructural Investment*	€200k
Milk Quota (25 cent/litre)*	€125k
Livestock (net of sale of existing Livestock)*	€40k
Total	€365k

The figures above are subjective and will vary depending on the particular case in question. For example, milk quota cost will differ from region to region and the farmer may be able to acquire a substantial amount of quota at the priority category rate of 12 cent/litre.

The next question is what return on Investment will the farmer receive? If one assumes Teagasc gross margins** for both farm systems the farmer's gross margin (excl. direct payments) will increase from c. €20,000 to €95,000. Fixed costs will increase with the change in enterprise from €28,000 to €40,000*.

After factoring in the single farm payment/REPS and 15-year repayments on the €365,000 investment, the farmer's farm net margin will increase from €40,000 to €64,000 (after capital + interest repayment on €365,000 investment). This equates to a 16% marginal return on investment in this particular case although it should be noted that part of this 16% may be return on additional labour input. In addition, higher infrastructural investment may be needed in some cases, which would reduce the % return on investment. In this case, it is assumed that the €365,000 requirement is placed on an interest-only basis for an initial two-year period followed by capital and interest payments over a minimum of 15 years. This would give the farmer time to establish the new operation in the first two years of trading.

Conclusion

Switching from drystock to dairying requires significant consideration. It will require a significant amount of research in addition to the time spent acquiring the necessary expertise to run a commercial dairy enterprise. As illustrated, the conversion will require a significant investment. As such, one needs to be committed to the venture and be sure that this is the career they want to pursue for the next 15-20 years. Given a suitable land holding and the required expertise to manage a dairy operation, the above example demonstrates a strong marginal return on investment. On a well-run commercial dairy operation this would be a worthwhile investment. However, it will not be plain sailing by any means. A steep learning curve, particularly in the first two years of the investment is guaranteed.

* Fixed costs and Infrastructure/Livestock spend derived from average costings for Commercial Dairy Farmers.

** Based on €3.10/kg Beef price and 29 cent/litre milk price.

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