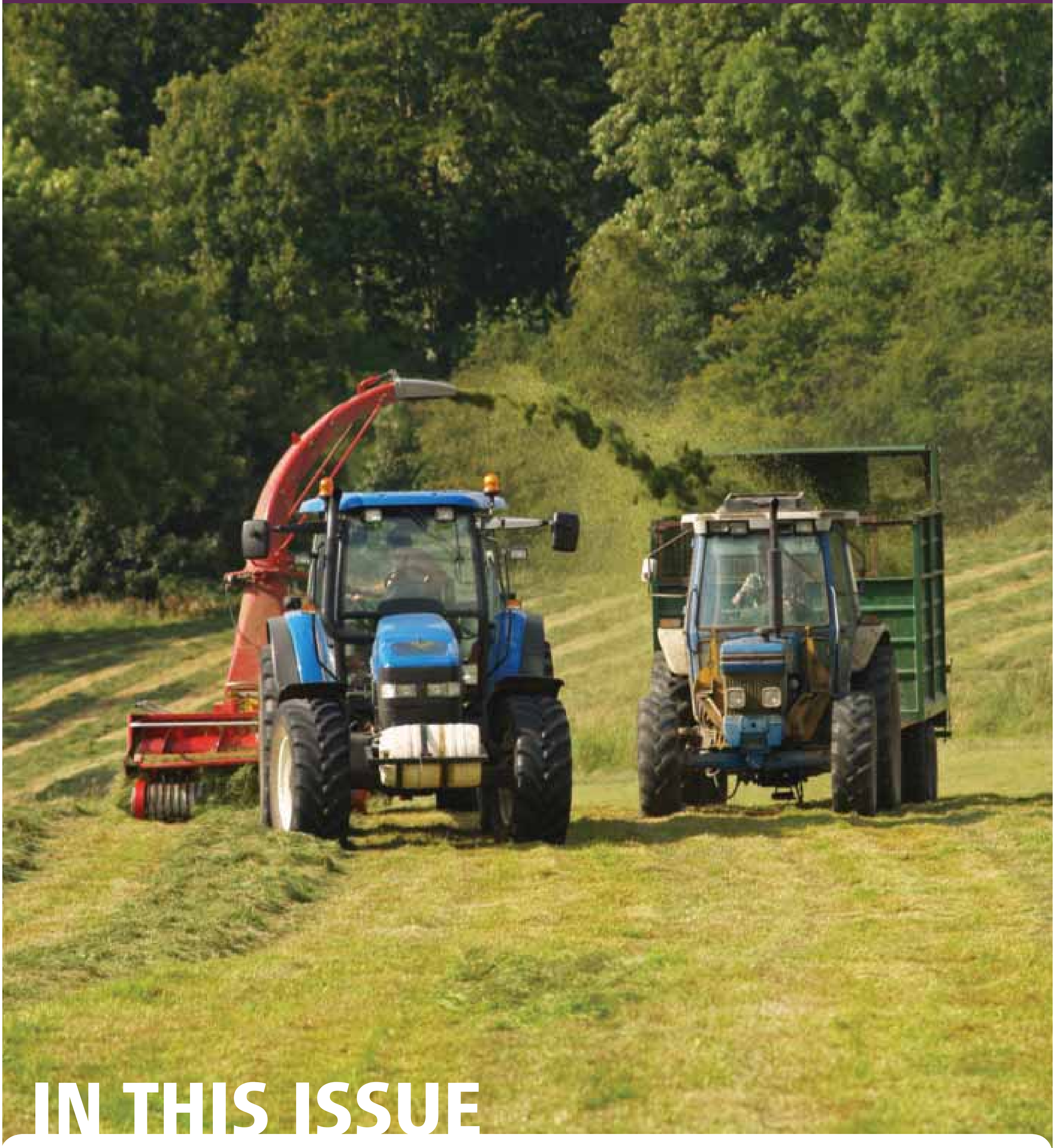
# AgriMatters

AIB supporting the Irish Agricultural Industry

AIB

Summer 2010



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## Our Agri Adviser Team

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AIB DROGHEDA

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AIB MALLOW

# Welcome to the Summer Edition of Agri Matters

## Michael Dowling, Head of Agri Strategy, AIB

This edition is being published as the agri industry is recovering after one of the most difficult and volatile periods that any of us can remember. Dairy and grain farmers in particular have gone through an extraordinarily traumatic time. Recovery is well under way for the former; it is only in the distance for the latter.
We take a more detailed look at these, and the other sectors in our overview section. We also have an article by Tadhg Buckley, Agri Adviser, on the lessons that might be learned from the recent dairy market volatility.

This edition also includes:

- An article by Dr. Padraig French on the new Teagasc dairy programme which is aimed at farmers intending to commence or expand milk production in a post quota world.
- A note by Dr. Anne Finnegan on farm safety.
- A look at the current state of the agri banking market.
- Our usual economic commentary.

As the year has gone on, the situation in most sectors has improved. By the time we publish our next edition to coincide with the Ploughing Championships, I would hope that, assuming the clerk of the weather is more benign than in the past two years, this will have become much more obvious. In the meantime, I wish all our readers a successful and enjoyable summer.

Michael Dowling
Head of Agri Strategy

# Credit Review Office

The Credit Review Office has been established by the Minister for Finance to provide an independent review process for Small and Medium Enterprises (SMEs), including sole traders and farm enterprises, who have had their applications for credit (from €1,000 up to €250,000) refused, reduced or withdrawn. Full information about the Credit Review Office and the process can be located on www.creditreview.ie

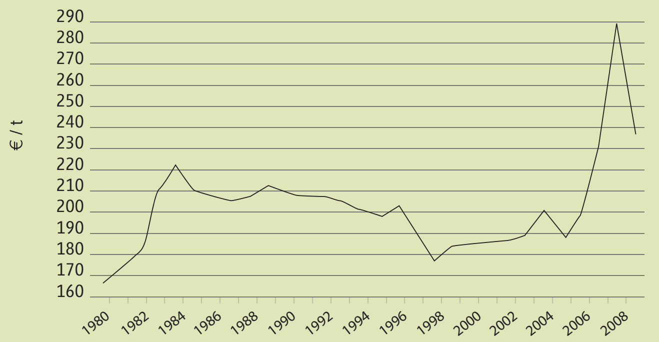
If you wish to have a lending decision made by AIB reviewed by the Credit Review Office, you must first appeal the decision to AIB in writing. This should be addressed to the **Credit Appeals Officer, P.O. Box 11826, AIB, Bankcentre, Ballsbridge, Dublin 4.**

If your appeal is unsuccessful, you may then refer the decision to the Credit Review Office.

# The agricultural year - an overview

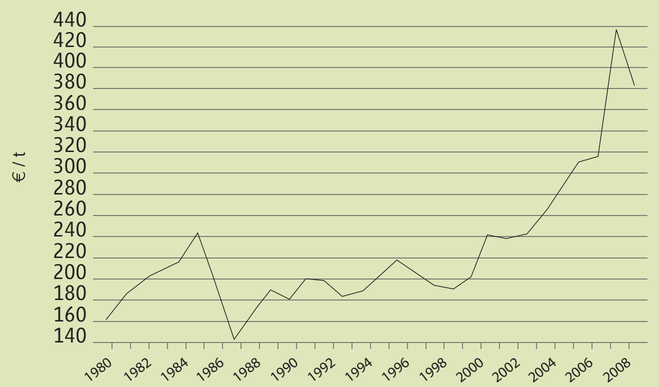
It is clear that we have come through two very difficult years for the agri sector. 2008 saw reasonable prices but extremely high input costs, a combination that led to a significant drop in farm incomes. Last year brought input costs down somewhat towards 'normal' levels, but a fairly general reduction in prices in the livestock sector and a collapse in dairy and grain prices led to an even more significant further fall in incomes. Extraordinarily unfavourable summer and early autumn weather did not help. Farm incomes are down over 40% in the two years combined. Much – but by no means all - of this income loss will be recovered this year.
The fall in input costs has continued (see Figures 1 and 2), although they remain relatively high by historical standards and the early year weather has added somewhat to costs. Dairy market prices and, after a lag, farm gate milk prices have rebounded sharply. Direct payments will not be significantly different to recent years. Livestock prices are forecast to be generally similar to 2009 but grain remains a serious worry.
All in all, it is somewhat of a mixed bag, as is clear from the individual sections below, but nonetheless a big improvement on 2009.

**Figure 1: Rolled Barley Prices (€/t) 1980-2009**




*Source: CSO 2010*

**Figure 2: Urea Prices (€/t) 1980- 2009**




*Source: CSO 2010*

**Beef:** Cattle prices in the first quarter of the year were about 5% down on the same period last year. Nevertheless, there were only two years in the last 10 when prices in the first quarter were higher than this year. The gap with last year's prices is narrowing as the year progresses and we would estimate that the position in the year as a whole will be very similar to 2009, which had the second highest prices in the past decade. Throughput is well up (about 15% to date). That increase is, however, likely to moderate as time goes on and finish the year ahead of 2009 but somewhat behind the average of the previous decade. Live exports last year were the highest since 2000 and are currently (early May) running more than 50% ahead. This is tending to put some upward pressure on prices.

**Sheep:** Lamb prices are running some 10% ahead of last year and, while this gap may reduce later on, the outcome for the year is likely to be significantly better than that for 2009. Throughput is, however, over 15% down on last year and, while that situation is likely to improve somewhat later, it is clear that output will be down substantially in the year as a whole. This will be the fifth year in succession in which sheep output has declined, which is further evidence of the relentless decline in the national sheep flock since the mid 1990s. Indeed, slaughterings this year may well be some 40% lower than in 1995.

**Pig:** Prices are about 7% less than in 2009 and are only just above the bottom of the cycle. The market generally is, however, firming and we would expect Irish prices to firm with it. Average prices for the year should at least reach last year's level (€1.38/kg, VAT inclusive). Throughput will be 3% to 5% up, due to the post dioxin restocking.

**Poultry:** Prices held up while the prices of most other meats fell last year. In the expected stronger meat market in the second half of this year we would expect that poultry will at least hold its own.

**Dairy:** Last year prices were expected to continue their decline from the heady heights of 2007 but not to anything like the extent to which they fell in practice (lowest level since the late 1980s). From the third quarter on, however, the dairy product market began to recover and, after an inevitable time lag, this was reflected in farm gate milk prices. Except for a slight dip early in the year, that recovery has been sustained in 2010 and, as a result, we are seeing a significant, and growing, improvement in returns to producers. The table below shows the current farm gate equivalent of the European market prices for butter and skim milk powder in mid May compared to the same period in each of the past four years.

**Table 1: Estimated Farm Gate Price (c/litre)**

| 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| 24 | 33 | 26 | 19 | 33 |

The indications are that, due to recovering demand and tight supplies, prices will remain strong throughout the year, even if there is some downward pressure in the second half. The medium-to-longer term outlook is also favourable.
The collapse in price, and the appalling weather, resulted in a substantial drop in milk output last year, with the quota being undershot by 10%. Even allowing for the late spring, conditions this year should facilitate a strong recovery in milk output. There must, however, be some question as to whether that will be sufficient to have us achieve the full quota, which is, in effect, 6% higher (4% quota volume increase and the equivalent of a further 2% from the fat adjustment) compared to the period prior to 2008. Certainly, if it is to be achieved we will need much more favourable weather conditions in the summer and autumn than we had last year.

**Tillage:** Last year was a mixed one for the sector. Potato prices were, on average, reasonably high by historic standards but input costs, while declining, were still well above normal and weather conditions made harvesting very difficult. Much the same is true for the vegetable sector. This year the outlook is more promising as input costs have continued to decline, prices are at reasonable levels and there is an expectation that weather conditions can only be better.
The outlook for **Grain** is much more uncertain. Last year's prices were the second lowest in the past 15 years, harvest conditions were as poor as any in living memory, and the cost of inputs, especially of fertilisers, remained relatively high throughout much of the period from autumn 2008 to spring 2009. This combination of factors created huge profitability problems, especially for those growing cereals on leased land. The futures market, up to recently, was indicating no improvement in prices this year but this is beginning to change. Input costs are substantially down and conacre prices are also very much reduced. Nobody at this stage can predict what harvest conditions will be but they are highly unlikely to be as bad as in 2009. All in all, there should be some low level profitability in grain this year, particularly where there is little leased land involved.

# Economic outlook

The Irish economy contracted by 7.1% last year on a GDP basis. Outputs as measured by GNP show an even bigger contraction of 11.3%, with the marked divergence in the two reflecting the impact of large net factor outflows that are included in GNP but not in the GDP measure. This downturn in activity reflects a sharp decline in terms of housing output but the economy also had to deal with other significant headwinds, including the marked slowdown in the global economy, a higher exchange rate, ongoing problems in the financial sector (which has resulted in tightened credit conditions), rising unemployment, weakening business and consumer confidence and fiscal tightening.

The pace of the downturn in economic activity was at its most intense late 2008 to mid 2009 with data showing that the scale of the deceleration in output has eased since then. Indeed, the annual pace of contraction in the economy had eased to 5.1% by the end of 2009, compared to a rate of 8.7% in the first quarter of the year. Leading indicators are showing a further gradual improvement in the economic environment going forward and the general view is that the worst of the downturn is now behind us.

The manufacturing and services PMIs (which measure the rate of activity in individual sectors) have been trending upwards for some months now. The manufacturing index is now above the 50 level, indicating a move back to growth territory and is well off its cyclical low of 33.2 seen in March 2009. The services PMI index, meanwhile, has also moved above 50 and is at its best level since January 2008. Activity in the building sector remains very depressed but the construction sector PMI has picked up appreciably over recent months. The downturn in retail sales looks to have bottomed out as the rate of increase in unemployment moderates and consumer confidence stabilising. Heavy discounting on the high street and the car scrappage scheme are also helping. There is also evidence of a recovery in the industrial sector, with Irish exports proving to be relatively resilient during the global downturn. On a quarterly profile, positive GDP growth could well be seen this year, though not at a rate strong enough to return the annual growth rate to positive territory. Thus, GDP is forecast to contract by another -0.5% in 2010 as domestic demand and in particular the construction sector remains weak.

Although the recession looks to have ended, the economy still faces many challenges. The unemployment rate has already climbed to above 13% and could inch even higher over the coming quarters. Meanwhile, in addition to the tough measure already announced, the Government has indicated that further corrective fiscal measures are set be introduced over the next four years to reduce the budget deficit to 3% of GDP by 2013. Nonetheless, the Irish economy is expected to return to positive annual growth from 2011 onwards as the global economy swings upwards and the impact of the sharp adjustment in the housing sector wanes. Economic data from the major world economies are already showing that the global economy is over the worst, with demand conditions set to improve further over the forecast period.

Irish inflation has been on a sharp downward trend for some time now as lower commodity prices, significant cuts to interest rates and easing price pressures as a result of the downturn in the economy have impacted. The headline CPI rate averaged -4.5% in 2009, compared to +4.1% in 2008. Given the scale of the downturn in the pace of economic activity subdued prices are expected to be a feature for some time yet, which is good news from a competitiveness point of view. The CPI is forecast to average -1.2% this year before rising modestly over the course of 2011.

**Table 2: Economic Forecast – Ireland**
**Annual % Change Unless Otherwise Stated**

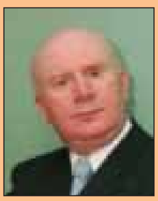
| | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| **Real GDP** | -3.0 | -7.1 | -0.5 | 3.0 |
| **Real GNP** | -2.8 | -11.3 | -1.0 | 2.5 |
| | | | | |
| **Consumer Spending** | -1.0 | -7.2 | -1.0 | 2.0 |
| **Government Spending** | 2.6 | -1.3 | -3.0 | -0.5 |
| **Fixed Investment** | -15.5 | -29.7 | -24.0 | -2.0 |
| | | | | |
| **Exports** | -1.0 | -2.3 | 3.0 | 4.5 |
| **Imports** | -2.1 | -9.3 | -1.0 | 3.0 |
| | | | | |
| **CPI (%)** | 4.1 | -4.5 | -1.2 | 1.7 |
| **Unemployment (%)** | 6.3 | 11.8 | 13.5 | 13.6 |
| **General Govt Balance (as % of GDP)** | -7.2 | -14.3 | -11.5 | -10.2 |

*Source: AIB Economic Research Unit*

# Recent Appointments

## John Bryan

John Bryan has recently been elected as the 13th President of the IFA. John is a native of Inistioge, Co Kilkenny, where he and his wife run an intensive suckler beef farm. John started his career as a Gárda in 1977, based in Dublin, before moving back to full-time farming after three years. John was IFA National Livestock Chairman from 2004 to 2008 and IFA Kilkenny County Chairman from 2008 to 2010. AIB would like to congratulate John on his appointment and we wish him every success in the future.



## Jackie Cahill

Jackie Cahill has recently been re-elected as President of the ICMSA. He will now serve an additional term of two years as president, allowing him to lead the 16,000 strong specialist dairy organisation for the maximum possible term of six years. Mr Cahill studied accountancy before returning home to take over the family farm at Killinan, outside Thurles. He currently milks 80 cows and rears 220 other stock on a 220 acre farm. Mr Cahill is an advocate of a flexible supply-management system of EU dairy production.

# New Teagasc dairy programme

**Padraig French**
**Head of Dairy Production**
**Research Department, Teagasc, Moorepark**

The abolition of milk quota by April 2015 is expected to allow a significant increase in Irish milk production through expansion on existing family farms in addition to new farm conversions from alternative enterprises. For the first time since the early 1980s, this will enable Irish producers to increase production without incurring additional milk quota costs. There will be significant opportunities for Irish dairy farmers to profitably grow their farm businesses: however it is only those who fully capitalise on the inherent competitive advantages associated with grass growth and utilisation that will benefit most in this deregulated production environment.

This increase in milk production will be realised on existing family farms in addition to new farm conversions from alternative enterprises. With this in mind, Teagasc has set about developing a new project in dairying in conjunction with key stakeholders Glanbia, the Agricultural Trust (Irish Farmers Journal), AIB, FBD and dairy farmers.

**The key objectives of the project will be to provide family dairy farms who intend increasing in milk production or entering milk production with the necessary skills and technologies to deliver satisfactory financial return on the resources employed.**

The programme will encapsulate three different models of expansion, each incorporating low cost, high productivity grass-based technologies. It incorporates two family owned farms, implementing a five year expansion plan, demonstrating how best to maximise financial returns on capital employed within a family farm model. Under the programme Teagasc will assist the 70 new entrants, who were each allocated 200,000 litres of milk quota by the Minister of Agriculture, Fisheries and Food in late September 2009, to develop a successful dairy farm business.

### Greenfield Dairy Farm

The third model is the development of a greenfield dairy farm, which will be technically and financially transparent, incorporating key technologies including low cost infrastructure. A suitable farm for a dairy conversion was identified in Co. Kilkenny, which the owners were willing to rent for a period of 15 years. A new limited company was set-up in which the three shareholders - Glanbia plc, the Agricultural Trust and the farm owners - are equal partners. The new company has leased 117 hectares from the farm owners. The farm was in continuous cereal production for a number of years. A low cost, labour-efficient farm infrastructure was developed. A herd of approximately 250 cows has been established and over time this will increase to 300. The approximate capital requirement to set up the farm infrastructure and stock the farm is approximately €1.1 million, of which 70% is being borrowed from AIB and the remaining 30% funded equally by the three shareholders. Teagasc Moorepark will provide management services to the project, which will include business planning and intensive technical support. In return for these services, the farm will be used extensively as a platform for the dissemination of information to the wider Irish dairy farming community through the Teagasc advisory services as part of the BETTER farm programmes. The profit generated from the operation of this business will be used for debt pay down, to reimburse the three equity partners' investment and defray the additional expenses associated with the dissemination of information from the farm.

This dairy farm will provide clear information for those considering either the rationalisation of existing dairy operations or new dairy farm conversions. It is hoped that this information will be of significant help to those suppliers who are planning a long-term future in profitable, low cost milk production.

### Demonstration Family Farms

The predominant model of expansion for the foreseeable future will be from existing family-run dairy farm units. On the basis of a case study of such situations, two commercial, family-owned farms have been selected to demonstrate how to maximise financial returns on capital employed within the family farm model. The farmers involved have agreed to allow their farms be used to facilitate this work programme over an initial period of five years. The farms identified are representative of the national dairy farmer population in respect of current land area farmed, land type, scale and farmer intentions regarding business growth. Over the next five years Teagasc will provide intensive technical support to these two farm families. The farmers have agreed to implement all aspects of the mutually agreed plan incorporating all the on-farm investments necessary to accommodate the scale growth planned. All such investments are financed exclusively by the farmer in a realistic, well structured and manageable manner.

**'There will be significant opportunities for Irish dairy farmers to profitably grow their farm businesses'**

**Daniel O'Donnell**

Daniel runs a typical family dairy farm that has been handed down through several generations. He is in his early thirties, married and in full ownership of the farm. His farm is located at an altitude of 700 ft in the foothills of the Knockmealdown Mountains. With soils of a peaty nature, it is a wet farm with a low level of development, poor drainage and in an area of high rainfall. The current farm operation is a totally devoted dairy enterprise. The farm business has been slowly expanding in milk production in recent years and currently comprises 65 dairy cows. Daniel aims to increase to 100 cows within his current land base as a one-person operation.

**James Walsh**

This farm is similar to the Daniel's, having been handed down through several generations. James is also in his early thirties, married and in full ownership of the farm, which is located in south Tipperary with free draining acid brown earths soils. The farm is run as a typical family farm with assistance from his father and a casual part-time employee on an occasional basis. The non-dairy land is used as a beef enterprise, which has been reducing over the last five years and will cease this year. James aims to increase from the current 110 cows to approximately 200 cows.

### New Entrants

As part of the 'Health Check' agreement in November 2008, the Council of Ministers agreed to increase Member States' milk quotas annually by 1% over the period 2009 to 2013. This was to ensure a 'soft landing', as milk quotas will expire by April 2015. The first of these increases came into effect on April 1, 2009. One-quarter of the 1% increase was allocated on a permanent basis to 72 new entrants to dairying who each got a quota of 200,000 litres. A further 50 new entrants are expected to be allocated quota in a similar fashion with effect from April 1, 2010 when the second Health Check increase is distributed. These sets of applicants include new entrants and those converting from existing beef/sheep/tillage enterprises. Teagasc will assist these new entrants in developing a successful dairy farm business. This will include:

- Financial short- and long-term planning
- Adoption of key technologies: grass measurement and budgeting; animal breeding and reproduction; and animal health/milk quality
- Farm infrastructure development and labour use

The information from the milk expansion project described above will be of particular benefit to these new entrants. Teagasc is undertaking a research programme that will examine the transition to dairy farming by these young farmers. This research is being co-funded by Teagasc and AIB.

# Farm Safety is a Real Issue

**Dr. Anne Finnegan works in Agri Strategy in AIB. After completing a Degree in Agricultural Science in Agri Business, she completed a PhD in farm safety management at the UCD School of Agriculture jointly sponsored by a Teagasc Walsh Fellowship and the Health and Safety Authority.**

All jobs have peaks and troughs of activity which need to be worked through: this is manageable for most of us in employment as our job roles are fairly well defined. We don't have to concern ourselves with every function, issue or problem in the business or organisation in which we work.
However, typically the farmer is in charge of every function in the farm business, from purchasing to sales and financial control to manual handling and farm labour. It's a big ask that requires a vast array of skills. Most Irish farms are now reaching peak activity level, time is becoming precious and the pace of work is intensifying.

The farm workplace has changed significantly in the past 20 years, with increased mechanisation, increased scale and, certainly, increased pressure. The demands placed on farmers at times appear unrealistic to those of us not actively farming.

It is, therefore, not surprising that Irish farms pose particular safety challenges and have a high level of injury risk, particularly given the level of hazards present in the workplace. We are all aware of the high level of injury that occurs on Irish farms, from the very minor to major injury and fatality.

Health and safety on the farm is a real issue that does require particular attention and specific action. It also pays. The financial cost of injury is significant due to lost days at work, additional paid labour and, in many cases, family members taking time off from their own jobs to support the farm. This is not to mention the severe emotional and psychological costs and impacts associated with injury.

There are many myths associated with farm health and safety: below are some of the most common:

- **'Accidents are a measure of the risk on your farm' - Not true**
  Accidents are not a measure of risk, they are a consequence. Not having an accident does not mean the farm is safe. It is really important to understand the process through which your individual farm is made dangerous. This involves: the technology (including animals, machinery, chemicals, equipment etc); the people present (how they perceive safety and how they behave); the farmer; farm workers, other family members, children, elderly, visitors, contractors etc; and the environment - the physical surrounds in which farm activity takes place, farm yard, sheds, cattle crush, fields, water/slurry tanks etc.

- **'Farming is a dangerous occupation, but my farm is safe!' - Not true**
  This thinking is a risk in itself. Where animals, machinery and other technology are present and interact with people, safety cannot be assumed. Workplaces, including farms, must be made safe and this is an ongoing management function. How people behave and act in the workplace and interact with the hazards present has a major impact on the safety of the workplace.

- **'Accidents are something over which people have little control' – Not true**
  All accidents are preventable and can be prevented by taking the correct measures.

### So what can I do?

- Complete the Farm Safety Code of Practice Risk Assessment document. It is a statutory requirement to have a Safety Statement, which includes a risk assessment for your farm. If you have three or less people working on your farm you can use the Farm Safety Code of Practice to comply with your legal requirement. Use this opportunity to really assess and audit your farm. Challenge your own behaviour and that of others working and living on the farm. Take action where necessary. This is not just a legal requirement, it really is a valuable opportunity to critically address safety on the farm.

## AIB/Macra na Feirme Club of the Year Competition 2009

*Pictured at the final of the AIB/Macra na Feirme Club of the Year Competition 2009 are members of Athboy Macra (AIB/Macra na Feirme Club of the Year 2009) Donal Whelton, AIB Agri Adviser and Michael Gowing, Macra na Feirme National President.*

**'Health and safety on the farm is a real issue that does require particular attention and specific action. It also pays.'**

- Tidy up the physical farm environment: the yard, buildings, storage sheds etc. In general, maintaining good house keeping principles enables greater control within your work environment.

- Make facilities fit for purpose and plan how best to use your facilities to maximum advantage. For example, consider your safety and that of others when housing bulls, cows during calving and maintaining machinery. Consider the space you are using. Challenge whether it is really suitable, assess the hazards it presents and consider whether these can be managed and, if so, how. Don't just make do.

- Take particular care where children and elderly people are present and interacting with the farm activity. Children's experience of safety is learned and, thus, influences their safety perception and behaviour in later life. Children do not have the same ability as adults to analyse situations and make appropriate decisions and thus need to be given clear instructions. Where children are present on a farm it is important to prioritise safety and discuss safety issues in a positive way with them.

- As we age, the ability to manage and maintain the same workload decreases. It may become difficult to carry out certain tasks, while in other cases it may take much longer to complete tasks. In addition, our responsiveness diminishes. In effect, we cannot respond as quickly or with the same agility to situations as we could when we were younger.

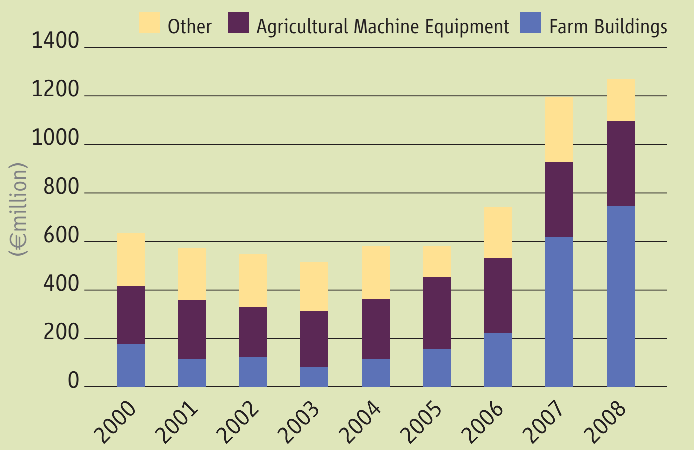
- Plan tasks ahead in order to manage time and labour effectively. This offers you some scope to deal with unforeseen circumstances that may arise. It also gives you the opportunity to consider the safety issues which may arise at the outset.

# Farm Banking and Investment

Capital investment in agriculture increased significantly during 2007 and 2008, during which time significant investment was undertaken in farm buildings. This was largely as a result of the scheme of investment aid in farm waste management. However, according to the Teagasc National Farm Survey, capital investment in agriculture in 2008 was in excess of €2bn, significantly more than that reported by the CSO as below (Figure 3). Analysis of capital investment in 2008 based on the Teagasc figure indicates that when grant aid received and the increase in bank borrowings are accounted for, farmers invested approximately €950m from their own funds, which is equivalent to 41% of the aggregate 2008 farm operating surplus.

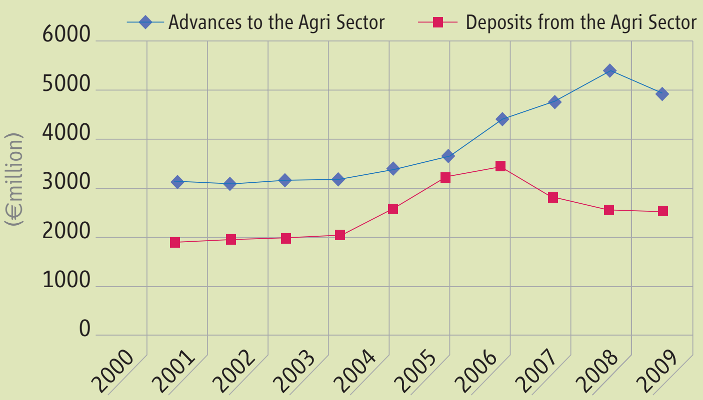
Advances to the agri sector peaked during 2008, following the significant increase in on-farm investment (Figure 4). As expected, the level of advances to the sector declined during 2009 as the rate at which farmers paid down debt outstripped the demand for new lending. This was anticipated following the significant investment undertaken during 2007 and 2008 and consequent increase in bank borrowings. The decrease in deposits from the sector during 2007 and 2008 is a likely consequence of the increased capital expenditure during these years. Many farmers utilised their own resources, including bank deposits, when undertaking this expenditure. The depressed farm income situation during 2009 put further downward pressure on farmers' bank deposits.

**Figure 3: Gross Capital Invested in Agriculture**




*Source: CSO*

**Figure 4: Agriculture Sector Aggregate Advances and Deposits**




*Source: Central Bank of Ireland Quarterly Bulletin (Various)*

## Tullamore show

*Pictured at the launch of the 2010 Tullamore Show and AIB National Livestock Show are Freda Kinnarney, Secretary Tullamore Show, Michael Dowling, Head of Agri Strategy AIB, George Gill, Chairman Tullamore Show and Michael Marren, Head of SME and Agri Market AIB. This year the show sees the introduction of a Gold Medal for all National Livestock Show Champions.*

## Dates for your Diary

**June 15:**
**Beef Open Day, Grange Research Centre, Co. Meath**

**June 24–25:**
**Agri-Environmental Policy Conference Series, Dublin**

**June 26:**
**National Sheep Event – 'Sheep 2010', Lyons Estate, Co. Kildare**

**August 8:**
**Tullamore Show and AIB National Livestock Show, Butterfield Estate, Tullamore**

**September 21–23:**
**National and European Ploughing Championships, Athy**

# The lessons we can learn from recent dairy volatility

**Tadhg Buckley, Agri Adviser at AIB, outlines what Irish dairy farmers can learn from market conditions over the past three years**

2007-2010 has been the most volatile period for Irish dairy farmers since Ireland joined the EU in 1973. Thankfully, there are now signs of real recovery in international dairy markets and, with a normal weather pattern, 2010 should yet turn out to be quite a good year for Irish dairy farmers. However, continued volatility in milk price is inevitable in the medium-term given the limited market support that will be in place at EU level. Therefore, it is important that as we look back at the recent past, we take heed of the valuable lessons that we can learn. This will prepare us better for any future market downturns.

### What goes up…

Price volatility in commodity markets is here to stay. This is a relatively new phenomenon for Irish dairy farmers who, since 1984, have been selling into a market that was heavily market-managed through milk quotas, intervention mechanisms, tariffs and export refunds. The EU is now gradually running down these market management instruments. Therefore, it is important to take a long-term view on milk price and base any investment decisions on a budget price of c. 26-28 cent/litre rather than a price of 34 cent/litre (2007 average price) or 23 cent/litre (2009 average price).

### Early intervention is vital

2009 has illustrated the importance of identifying any cashflow problems as early as possible. This allows your bank relationship manager to facilitate you in taking remedial action at an early stage thus reducing the negative impact any downturn will have on your farm finances.

### Save for the rainy day

With a much more volatile milk price it will become more and more important to capitalise on the good times and, if possible, build up a buffer fund for a downturn. This will be a new way of thinking for Irish dairy farmers, who previously have received a very stable output price. To this end, some encouragement at State level could be given to allow farmers to build up this buffer fund through innovative use of the farm taxation system as has already been done in other countries.

### Cash is king

With the impending phase-out of milk quotas, many dairy farmers are, and have been for the past three years, in an expansion phase. This, in many cases, has been done internally by substantially increasing the number of breeding heifers reared. During an expansion phase of this sort there is a substantial demand on capital from the replacement heifer enterprise and, while on paper the farm is increasing profitability, these heifers do not generate any cash until they commence producing milk. This can cause a substantial cashflow problem on farms and is usually significantly underestimated by farmers. There is a major difference between net cash margin and net profit from a cashflow point of view.

### Be careful what you wish for

The milk price spike of 2007-2008 gave a welcome fillip to Irish dairy farmers. However, the price spike had consequences also. Input prices increased substantially and higher-cost milk producers of the US and Central Europe significantly increased production. Given Ireland's position as a relatively low-cost milk producer, there is a 'happy medium' milk price at which Irish producers can make a significant positive margin while higher-cost producers elsewhere do not have the stimulus to significantly expand production. This price level depends to a certain extent on feed price but is probably c. 30 cent/litre.

### In conclusion

The future for Ireland's dairy farmers is positive. We remain one of the most competitive producers at primary level. While there are many challenges facing the wider industry, this competitive advantage will continue to ensure that Irish dairy farmers are among the most profitable in Europe. There are, however, lessons to be learned from the recent price volatility. These lessons need to be recognised and understood – doing so will make any future downturn much more bearable for all involved in the industry.

*Paul Bowden, National Winner of the Green Dragon Innovation Challenge is pictured with Anne Finnegan, Agri Strategy AIB; Mairead Lavery, Chairman Agri Aware; and Teresa Brophy, Ireland Market Manager, Bord Bia. The initiative was co-sponsored by AIB and Bord Bia.*