Agri Matters

Supporting the Irish Agricultural Industry

Spring / Summer 2019

Launching the 2019 Irish Grassland Association (IGA) Dairy Summer Tour (DST) were recent new dairy entrants and host farmers Robert & Mervyn English and Peter Hamm with Tomas O'Rourke, AIB Business Advisor, Westmeath, and Bernard Ging IGA. The IGA DST takes place on 23rd July in Athlone, Co. Westmeath. For further details see www.irishgrassland.ie or call 087 962 6483.

Welcome to our spring / summer edition of Agri Matters

Shane Whelan

After a challenging 2018, the favourable weather conditions brought welcome relief and improved mood throughout the busy calving / lambing / sowing seasons. It looks however like that positivity may be tested in the months ahead amidst continued Brexit uncertainty; increased input costs and depressed output prices in a number of sectors. Our Market Review and Outlook article examines in more detail.

With sustainability a frequent discussion topic in recent times, in this edition we focus on perhaps one of our greatest competitive advantage – grass. Bryan Doocey, AIB Agri Advisor shares some insights on what the top grass producing farmers do best. In addition, Donal Whelton, AIB Agri Advisor examines the New Zealand dairy industry and questions whether the level of dairy expansion has added to on-farm profitability; while Dr. John McNamara, Teagasc discusses the importance of health and safety at this busy period on Irish farms.

Finally, the significant cost and challenges of securing a family home, particularly within urban centres, have been well documented. Bernadette O'Shea, AIB Homes Advisor in her article, discusses self-builds, and shares for our young farming customers some of the key aspects to consider.

We hope you find something of interest in this edition. As we are in the midst of the busiest and often most stressful period on Irish farms, we urge all our readers to farm safely.

Shane Whelan
Agri Strategist

John Mcnamara and family, Knockainey, Co. Limerick pictured receiving the overall Grassland Farmer of the Year Award from Minister Michael Creed in Teagasc Moorepark alongside Tadhg Buckley, AIB Head of Agriculture Sector and Grass10 sponsor representatives.

2019 – An Uncertain Outlook writes Tadhg Buckley, AIB Head of Agriculture Sector

The exceptionally benign weather conditions that have been prevalent to date in 2019 has provided a welcome boost for Irish farmers, allowing earlier turnout of stock, and helping significantly in reducing costs particularly when compared to Spring 2018. While the weather is a welcome boost, it is needed with output prices under pressure in a number of sectors while the price of some of the main inputs have also increased. And this is before we even consider the impact Brexit could potentially have on the sector. At the time of writing there remains considerable uncertainty as to the shape and nature of Brexit but it is safe to say that, whatever the outcome (unless it remains similar to the status quo), it will have a negative impact on Irish Agriculture.

The increase in input prices over the past 12 months has been significant for Irish farming. Based on Central Statistics Office (CSO) data, agricultural input prices have increased by almost 6% over the past 12 months driven mainly by a substantial increase in fertiliser (+9.1%) and animal feed (+10.1%) prices. Coupled with this, farm output prices are on average almost 3% lower than this time last year. While this trend is of concern for overall farm incomes for the year, it is important to note that we are still in the early stages of 2019 with many twists and turns likely before year end.

Taking a closer look at the individual sectors, **beef** price didn't rise through the Spring as has been the norm, and is currently c. 7% lower than 2018 levels with aggregate prices for R3 steers currently c. €3.66 excluding VAT. This, coupled with higher feed costs and delayed slaughter, has impacted margins on cattle finishing farms. The outlook for 2019 will be heavily influenced by the outcome of Brexit negotiations given how heavily exposed the sector is to the UK market. The **sheep** sector is also experiencing downward price pressure (7% year-on-year early April), however with both the Easter and Ramadan festivals coming end April / early May, a welcome rise in price is likely.

Turning to the **dairy** sector, milk price, at 30-31 cent/litre excluding VAT is currently running c. 10% lower than 2018. The milk price outlook for 2019 could best be described as neutral with increased skim milk powder prices offset by reduced butter prices. The favourable weather conditions have been of particular benefit to dairy farmers with Teagasc Pasturebase estimating that farms had, on average, 20% more grass at the end of February 2019 versus 2018. This level of grass availability gives dairy farmers the opportunity to reduce feed and fodder usage and accordingly significantly reduce production costs. Similar to the Beef sector, the outcome of Brexit could also have a negative impact on the dairy sector which is also significantly exposed to the UK market (although not as heavily as Beef).

2018 saw a welcome increase in margins for **tillage** farmers following a number of difficult years. Currently, cereal markets point to a green harvest price of c. €145-€150/tonne however, as 2018 proved, it is very early days and this guide price has the capacity to change significantly between now and harvest.

To finish, looking to the **pig** sector, there are finally signs of improvement in prospects for Irish pig farmers following a very difficult year in 2018. While current pig price, at €1.46/kg excl. VAT early April, is similar to 2018 levels, the outlook for pig prices is positive for the remainder of the year with increased demand for pigmeat anticipated from China.

To conclude, the outlook for 2019 is heavily predicated on Brexit, the outcome of which may well present challenges to some sectors of Irish Agriculture. We understand that these challenges may mean some of our customers will experience cashflow difficulties. We are here to help farmers overcome these challenges by working together to find a solution appropriate to each farmers' needs.

Source: Market data is sourced from Bord Bia and the Central Statistics Office.

Health and Safety is crucial for Farming Sustainability

Nothing has the potential to jeopardise the livelihood / sustainability of a family farm more than a serious farm accident or ill health. Dr John McNamara, Health and Safety Specialist, Teagasc discusses farm health and safety and encourages all to be vigilant at this busy time of the year on Irish farms.

Nationally, and indeed internationally, it has been well documented that farming is one of the most hazardous occupations one can be involved in, accounting for numerous work-related fatalities and accidents annually. In 2018, 15 people lost their lives on Irish farms, which follows 25 farm deaths in 2017. Farm fatalities, while each tragic, are but the tip of the iceberg, as an estimated 2,500 serious farm accidents occur annually in Ireland.

Recently, the UN included Good Health and Well-Being among its Sustainable Development Goals. Securing health and safety on Irish farms requires sound management; appropriate farmer health and safety behaviour (including all who work and live on the farm) and potentially implementing infrastructural elements on farm to reduce potential hazards. Below are some considerations:

Family Safety

The safety of all members of the family needs to be considered. Childhood safety is paramount, particularly as summer approaches. Ensure that young children have a safe play area and cannot gain access to the farmyard on their own. Among older farmers there has been an increasing level of fatal accidents, so encouragement is needed to avoid high risk tasks. The working generation on the farm need to keep a balance between work, rest and leisure and ensure safe and healthy conditions for all on the farm.

Farmers Health

Farmer health issues can come from work related sources such as musculoskeletal disorders and respiratory conditions. The key to prevention is to remove the source of the hazard e.g. not heavy or awkward loads, having a tidy and well maintained farm. Stress can be avoided by recognising the symptoms and taking steps to remove the cause. As recent study has shown that, long term, health is 75% associated with health behaviours, social, economic and physical environmental factors.

Undergoing a regular health check, getting aerobic exercise, eating a balanced diet, quitting smoking and limiting alcohol all strongly enhance health.

Farm Management

Managing farm health and safety is a crucial component of farm management. This entails constantly including health and safety measures in both the physical layout and work practices of the farm. Farm facilities in particular should match workload. Considerable capital grant aid is available from TAMS II to modernise farms, including the health and safety dimension.

Risk Assessment

Irish research has found that farmers who regularly identify hazards and remove them have high health and safety standards. Put another way, if hazards build up on a farm the risk of accidents greatly increases. A second important point about Risk Assessment is that it should be all encompassing, not just focused on physical or tangible on-farm hazards. Research indicates that Controls for Children and Older Farmers in addition to operator health often get overlooked by farmers.

A newly revised Code of Practice (available on the H.S.A. website) and a Risk Assessment Document came into force on 1st January 2019. These green coloured documents replace previous white coloured ones. Completion of the up to date Risk Assessment Document is required for Food Assurance Schemes. Completion of a Half-Day Training course on the Risk Assessment Document within the previous 5 years or completion of the Certificate in Farming on the Risk Assessment Document is necessary to draw down TAMS II grant payments. Risk Assessment training is available from Teagasc, accredited Consultants and FRS Training.

In conclusion, as the silage and harvesting season approaches, it's important that we are all particularly vigilant to the potential dangers on our own farms, and that we act at an early stage to avoid becoming another statistic. Ensuring safety controls are in place and in working order may cost a few euro – but can you afford not to? The emotional and financial cost of ill-health / injury is significant. Act now, not regret later.

From Stacking Bales to Stacking Blocks in the front field

All your ducks seem to be lining up nicely - you have your dream home in mind and have been gifted your favourite field on the farm to build it. But where to next? Bernadette O'Shea, AIB Homes Advisor shares some of her experiences to help make this dream a reality.

How much can you borrow?

There are many elements that need to be considered when making the decision to build your home, but probably one of the first actions that I would encourage is to organise an initial review with an AIB Homes Advisor to discuss your different loan options and how much you may be eligible to borrow. At least then you will be able to assess whether it's aligned with your planned design spend.

The eligible loan amount is dependent not only on your income but more importantly how much of your monthly income is available to meet loan repayments after personal and business financial commitments are accounted for.

Does the site for a self-build count towards your deposit?

Another key consideration (from the Banks perspective) is how much equity you have available to put into the loan proposition. If you own or are gifted a site, the good news is that this can act as your input/deposit. We can then offer up to 100 per cent of the construction costs as long as the value on completion of your home does not exceed 90 per cent for First Time Buyers (FTB) or 80 per cent for all others. This is in line with the Central Bank rules. If you are purchasing the site we can also take this into consideration. We recommend you engage with your Solicitor as to the point of gifting the site and the implications under Gift & Inheritance Tax.

What is the Help to Buy scheme?

The Help to Buy incentive helps first time buyers who are buying or building their own home to pay their mortgage deposit by giving them a 5 per cent tax rebate based on the value of their home (up to a maximum of €20,000). First time buyers building a new house with a mortgage that's a minimum of 70 per cent of the house valuation can qualify. The first step is to apply for the tax rebate on revenue.ie to establish your maximum relief.

It should be noted that under the current scheme, an initial stage payment will need to be drawn by 31/12/2019. There is no indication the scheme will be extended.

Is the loan application process more complicated for self builds?

The actual loan application is assessed in the very same way as a purchase of a property, but there are some additional steps and information required. For a loan offer to be issued, you will need to show you have secured full and final planning approval (Grant of Permission) and submit detailed costings drawn up by a suitably qualified architectural designer or engineer with professional indemnity insurance.

Make sure you have your research done and know what your outlays are going to be, from professional fees, including your solicitor, to council levies that need to be paid upfront or water connection fees. The loan is then paid out in stages; your design professional must sign off on each of these stages to say they are complying with the building regulations before the stage payment can be issued.

One of the major differences between a standard mortgage and a self-build mortgage is the way the money is released. With a standard mortgage, the funds are released in one go, whereas with a self-build mortgage the funds are released in stages throughout the construction of your house. You only make repayments on the amount you draw down at each stage.

Fixed price contract or direct labour?

Understand the difference between going the direct labour route versus a fixed price contract and the pros and cons of each. It's more costly to go with a contractor but it'll be project-managed for you and more likely to be delivered on time. If you go direct labour you will need the help of a qualified architectural designer or engineer to guide you.

Managing the budget, keeping receipts and reconciling the spend along the way is vital as is getting the right insurance to protect your construction at the very start, as some providers may not quote when the build is underway.

Conclusion

Building your own home is a key milestone and monumental life decision that shouldn't be taken lightly. There are many aspects that need careful consideration so having the right team in place is everything. Do your research and get recommendations from family and friends for your solicitor, engineer, architectural designer, builder and any tradesmen you might need and most importantly your AIB Homes Advisor who will help you realise your dream home in the field you played in as a child.

Banking the New Zealand Dairy Industry – Donal Whelton, AIB Agri Advisor

With a national dairy herd size of 4.8m cows across 11,700 dairy farmers, giving an average herd size of 410 cows and producing 1.85bn Kgs milks solids/annum, New Zealand (NZ) is the world's largest exporter of milk products and the 8th largest milk producer in the world. Considering cow numbers were c 2.3m in the early 1990's, the NZ dairy industry has more than doubled in the past 20 years and in this article I explore what impact this level of expansion has had on farm profitability and on-farm debt levels.

On farm dairy debt levels

Debt levels on NZ dairy farms (Table 1) have increased significantly over the past 15 years as shown in the table below. For comparison the total level of NZ Agri debt of €33.6 bn compares to a total Irish Agri debt level of c. €3.4bn as per Central Bank data.

Table 1

New Zealand Agri Debt levels	2002	2017	% Increase
Total Agri Debt:	€10.6 bn	€33.6 bn	216%
of which to dairy farmers	€6.6 bn	€24 bn	263%
- Average debt/dairy cow		€5,000	
- Average debt/dairy farm		€2.1m	

There are two significant differences between the NZ and the Irish Agri banking industry. Firstly in NZ, most loans to the dairy sector historically were 'interest only' facilities with no requirement to pay down capital. With land prices appreciating by c. 5% per annum over the rate of inflation between 1998 to 2008, dairy farmers were able to use this increasing equity in their business (i.e. increasing land prices) to expand and fund additional production. However with a slowdown in land value appreciation between 2008 and 2018 to 0.2% per annum over the rate of inflation, the NZ banks attitude to interest only facilities has changed considerably, with dairy farms now having to show the capacity to repay full capital and interest repayments.

Between 2015 – 2017 NZ banks provided an additional €3.5 bn to support the dairy sector (c.€300k/dairy farm), predominantly cash flow support during low milk price years. There is an ask that this money is repaid quickly (i.e. before the next low milk price period), as NZ banks advised that they will no longer support cash flow during low milk price years, requiring dairy farmers to have a more sustainable business going forward.

The other significant difference in banking is the ability of the NZ dairy farmer to use livestock as security when borrowing by way of a chattel mortgage. This facility, has for example, been used by contract milker's to start their career path towards share milker's, and later to land owning dairy farmers if they desire. The criteria however for funding livestock has become more restrictive in recent years, with banks now requiring the farmer to have a minimum 50% of the value of the livestock in their own funds; interest rates are higher than funding land or farm buildings at between 6-8%; maximum terms are 5 years or linked to the term of the share milking contract, with repayments on full capital and interest.

Overall while interest rates in NZ have halved over the past 20 years (cost of funds c. 2% currently), debt levels/kg milk solids produced have trebled in the same time frame. Some dairy farmers now find themselves with a high gearing ratio given stagnating land prices. NZ bank staff advised that 40% of NZ dairy farmers have Loan-to-Values (i.e. loan balance in relation to the value of assets) of higher than 60%, leading to anecdotal evidence that in excess of 1,000 dairy farms are currently advertised for sale.

Costs of production

In addition to rising debt levels on NZ dairy farms, costs of production have also risen in the past 20 years (Table 2), eroding a lot of the competitiveness that NZ dairy farms would have enjoyed. Since 2002 FWE's (farm working expenses) have increased by 49% alongside an 85% increase in interest / kg milk solids, resulting in a 52% increase in the breakeven milk price over the past 20 years. For comparison, the 2017 financial performance of Irish dairy farmers with NZ dairy farms is outlined below:

Table 2: 2017 Financial comparison of Irish and NZ dairy farms

	Ireland	New Zealand	
	2017	2017	
Farm Size (ha)	52	148	
Herd size	117	414	
Stocking rate	2.2	2.8	
Kgs MS sold	52,416	160,302	
	Cent / litre		% Difference
Milk price	37.6	24.7	-34%
Farm working expenses	17.69	15.9	-10%
Drawings	1.2	1.6	+33%
Depreciation	1.86	1.75	-5%
Dairy working expenses	20.75	19.25	-7%
Interest	0.59	5.8	+883%
Total costs	21.34	25.05	+17%

Source: 2017 Teagasc Dairy Profit Monitor & 2016/17 DairyNZ Economic Survey

Conclusion

With high debt levels, increasing costs of production coupled with other challenges – for example increased environmental costs, succession issues given the average age of a NZ dairy farmer is 60 and the potential introduction of capital taxes including stamp duty and capital gains tax - it is hard not to conclude that the scale of expansion in the dairy industry seen over the past 20 years is very unlikely to be repeated and indeed growth in production may slow down in the years ahead.

Lessons from the Grass10 Grassland Farmer of the Year Finalists

The AIB supported Teagasc Grass10 programme seeks to increase grass growth and utilisation on Irish livestock farms (dairy, beef and sheep). A key component of the Grass10 initiative is the increasingly popular Grassland Farmer of the Year (GFOY) competition. In this article, Bryan Doocey, AIB Agri Advisor and 2018 GFOY judge shares some insights from 2018 and what the top grassland farmers have in common.

Judging for the 2018 Grassland Farmer of the Year (GFOY) took place in September over a 3 week period with John Maher (Teagasc), Aidan Brennan (Irish Farmers Journal), Niall Ryan (Department of Agriculture, Food & the Marine), PJ O'Connor (Grassland Agro) and myself hitting the road and visiting the farms of the top graded GFOY applicants all around the country.

We had 5 broad areas that we were assessing farms on:

1. Grass production – grass measurement, fertiliser and slurry application dates, etc.
2. Farm soil fertility / fertiliser plan
3. Reseeding – the method & reason for reseeding; use of Pasture Profit Index (PPI), etc.
4. Infrastructure Assessment – roadways, access points, water troughs, use of back fencing, etc.
5. Environmental & sustainability – use of renewable energy, fertiliser usage, stocking rate, etc.

Often when I think of finalists in a competition, or even the eventual winner, I think that they must have had everything right and make no mistakes. To the contrary. What the finalists of this competition showed is that every farm encounters problems on a daily basis – from fodder shortages, herd health problems, wet land, small and fragmented milking platforms – but what set the finalists apart from perhaps other farms is how they deal with the problems and find solutions.

There were also other common traits that the finalists shared that quickly became apparent:

- Management ability is key. Despite varying underlying land type, there was little difference in the amount of grass produced;
- All did the basics excellently, measured grass regularly and acted swiftly on results;
- The farmers on more difficult land were implementing strategies to avoid poaching and maximise grass utilisation – key for grass growth in subsequent rotations;
- All demonstrated great attention to detail with innovative ideas on each of the farms; and,
- All placed a big emphasis on work life balance and wanted a farming system that allowed them to enjoy their work and family life.

John & Olivia McNamara from outside Hospital, Co. Limerick were the 2018 Overall & Dairy Grassland Farmer of the Year. They grew an average of 16T Grass DM/Ha whilst achieving an average of 8.5 grazings per paddock on their farm in 2017. Whilst they excelled in all areas of grassland management they put particular focus on building their grazing infrastructure and reseeding lower performing paddocks. John is a fantastic advocate for sustainable grassland production while always keeping the environment in mind.

If you are looking to improve grass growth and utilisation on your own farm, it's important to remember that small changes can have a big influence and it's never too late to start. Teagasc have a number of resources available at www.teagasc.ie/grass10, with a number of practical GFOY farms walks also taking place around the country in the coming weeks if you want to make that first step.