Agri Matters

Supporting the Irish Agricultural Industry

2021 Spring / Summer

Welcome to our Spring / Summer Edition of Agri Matters

Shane Whelan

Few of us will ever forget 2020, the uncertainties, challenges and anguish presented by Covid-19 and the unfolding cliff-edge Brexit negotiations.

What emerged, thankfully, was less impactful than what we all initially feared - with aggregate 2020 farm incomes across most farm sectors above 2019 levels, as lower input expenditure and rebounding output prices became a feature.

As the evenings stretch, and new life emerges, hope springs eternal, but requires focus and support to achieve. While there are fundamental issues for the sector to overcome, few can argue against the resilience, commitment, value and strong fundamentals the Agri sector holds, which given recent experiences kept food supply chains flowing and economic activity going within broader rural areas.

In this edition of Agri Matters we take a look at what may be coming down the tracks for the sector, with articles from Phelim O'Neill, Markets Specialist with the Irish Farmers Journal and John Fahey, AIB Senior Economist. We also include an interesting piece on Organic farming from Minister of State for Land Use and Biodiversity Pippa Hackett, while John Maher, Teagasc Grass10 co-ordinator outlines what we can expect from Phase 2 of the Grass10 Programme. The Irish Grassland Association also share some of the key lessons to emerge from their recent AIB supported Dairy Tour.

Finally, Liam Phelan, AIB Agri Advisor takes a look at Farm Finance, while Shane McCarthy, AIB Agri Advisor takes a look at the thorny, often emotive topic that is farm succession.

I hope you find this edition of Agri Matters of interest, and from all on the AIB Agri team, stay safe.

Shane Whelan
Agri Strategist

AIB appoint new Head of Agri Sector

AIB recently appointed Donal Whelton as their new Head of Agri Sector. From a dairy farming background in Cork, Donal joined AIB Bank in 2000 and before taking on this role, was team leader of our agri advisory team in the South of Ireland. Donal holds a Degree in Agricultural Science from University College Dublin and is a Qualified Financial Advisor. Tadhg Buckley, the outgoing Head of Agri, has now taken up the role as Director of Policy/Chief Economist with the Irish Farmers Association.
We wish them both the very best in their new roles.

Evolution through the Revolution – lessons along the way

The removal of milk quotas at the end of March 2015 heralded opportunity for the Irish dairy sector to fully capitalise on constrained potential and our competitive advantages. While a lot has changed since, and advantages gleaned - demonstrated by the phenomenal growth in dairy exports, which now exceeds €5bn - on-farm fundamentals have predominantly remained the same, with family run farms seeking to maximise grass utilisation to optimise returns. The Irish Grassland Association Dairy Summer Tour caught up with three progressive dairy farmers, all previous host farmers of the Dairy Summer Tour, to learn what changes they have made to their operations in recent times, and what they see in the years ahead.

Pictured at the 2020 virtual Irish Grassland Association Dairy Summer Tour, sponsored by AIB, were Tadhg Buckley (then Head of Agriculture, AIB); Henry Walsh, David Kerr and Conor Creedon (dairy farmers) with Stuart Childs (Teagasc & IGA) and Paul Hyland (IGA Chairman)

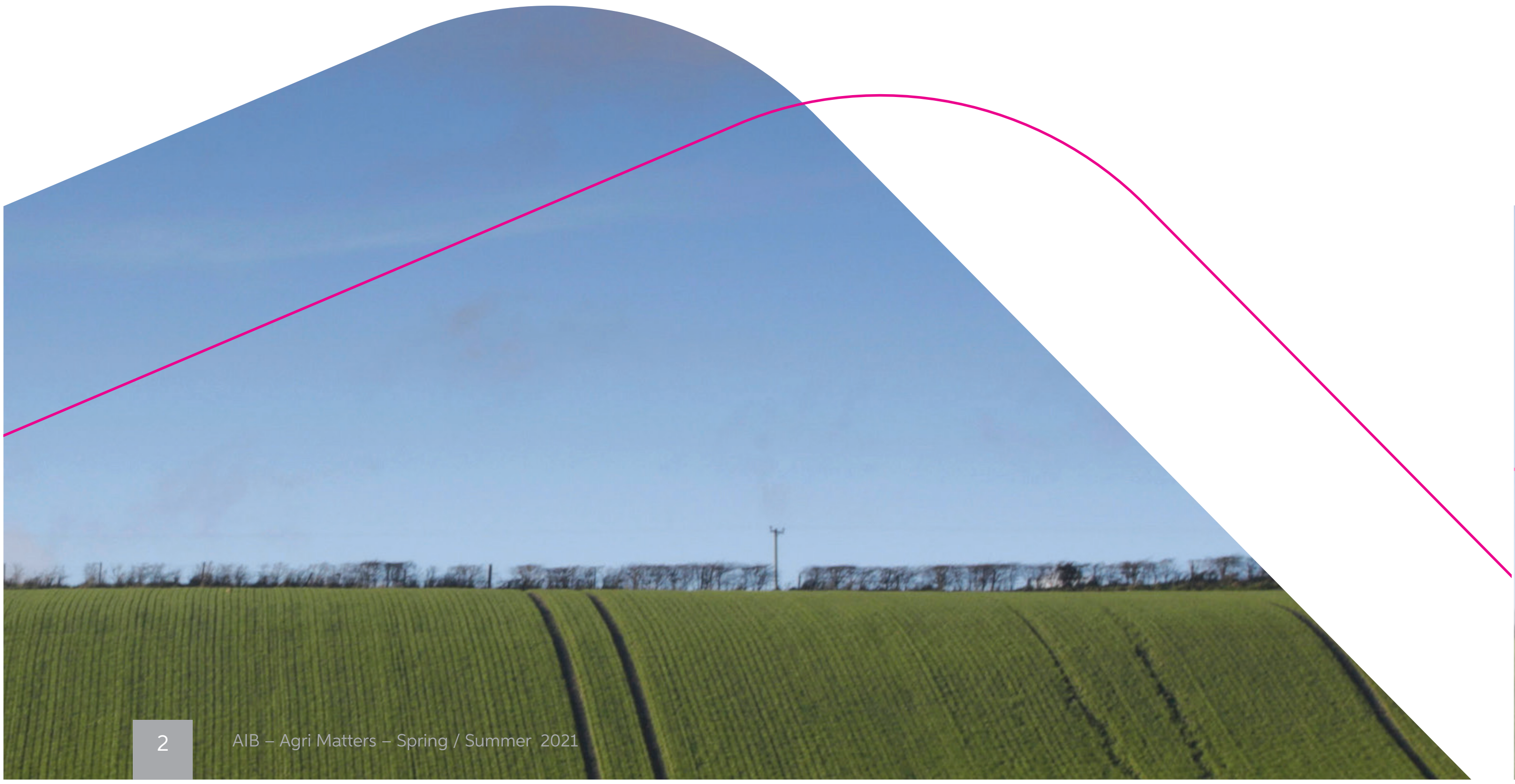
David Kerr from Ballyfin in Co. Laois hosted the IGA Dairy Summer Tour event in 2014, milking 140 cows on his 160 acre farm, with investment undertaken in low cost slurry storage and cow accommodation. Just prior to quota abolition, David reared his replacement heifer calves but the yearling heifers were being contract reared off farm. All are now contract reared, with a significant focus on correcting soil fertility and with a reseeding programme also undertaken, the benefits of which are coming to the fore now.

Farming outside Oranmore, Co. Galway, **Henry Walsh** hosted the IGA Dairy Summer Tour event in 2015 with the farm milking 240 cows on a 76ha milking block of free draining limestone land. In the years since, in partnership with son Enda, cow numbers have increased to 320 cows and a 50 point rotary parlour has been installed. There continues to be a very strong focus on grass, with the objective of maximising the milk production potential of the milking platform, with all winter feed imported from owned or leased out-blocks.

In 2016 **Conor Creedon**, from Rathmore, Co. Kerry hosted the IGA Dairy Summer Tour on his elevated 26ha farm, stocked at 3.73 cows/ha, that while free draining and dry, was hungry for lime, phosphorus and potash. In the years since, Conor has added to the milking platform and increased cow numbers to c.145cows; invested in farm buildings and infrastructure, with full contract rearing of replacements now also in place.

Here are some of the key lessons to emerge from the virtual event:

- Don't tweak a working system for the sake of it – get a hobby to avoid boredom.
- Match stocking rate to the grass growing capacity of the farm, otherwise you are only adding extra cost to the system by way of additional imported feed/reserves without the matching additional return.
- Take care of soil fertility – takes a lot of time and expense to correct. Soil test regularly and act quickly. An essential investment.
- Put a reseeding plan in place – significant untapped potential, particularly for underperforming paddocks.
- Don't forget about liming – it often delivers greater benefit than it gets credit for such as increased microbial activity; drainage; access to untapped minerals/nutrients.
- Consider the role of out-blocks and/or contract rearing in the overall business - they may release resources that could be better used elsewhere.
- Be careful not to spread available resources too thinly - additional cows/second units can put additional pressures on your time, the system and infrastructure – efficiencies can slip quickly. For example a slippage in days in milk; more culling leniency and retention of poorer performing cows; etc.
- Clover has potential to deliver in terms of animal (improved yields and solids); sward (similar output from fewer inputs) and the environment if managed correctly. More persistent varieties and research now available.
- Significant debt can overpower a business. Invest in productive assets (cows; soil fertility; grassland management) and the essentials that deliver for you, not concrete or all the 'bells and whistles' stuff that only consume money.
- Be careful funding investments from cash flow – things can get tight if challenges arise (e.g. herd health problems; low milk price, etc.).
- Be fair and respectful to people that work on your farm (hired employees / contractors etc.) and they will be fair and loyal to you for a long time.
- Farmers are committed to Sustainability and have been for a long time. Lots of options within the farm gate that can deliver for all from economic/social and environmental perspectives – e.g. use of Low Emission Slurry Spreading; using protected urea; incorporating clover in the sward and/or biodiversity on the farm; extending the grazing season and/or herd lactation length; improving herd genetics;



use of sexed semen; using PastureBase Ireland and increased focus on grassland management and utilisation; soil test regularly and apply fertiliser/lime requirements as per nutrient management plan; etc.

- For young farmers/new entrants: travel abroad and work elsewhere (not necessarily within agriculture); get a good mentor; farm because it's your calling, your desired career/ambition, not because you inherit land; invest in assets that generate money, not consume money; and finally don't compromise on herd quality – the cow will be the basis of your herd for the next 10/20 years. Get the right one at the start.

To look back at the full Irish Grassland Association Dairy Summer Tour, sponsored by AIB, please click **https://www.irishgrassland.ie/event-detail/dairy-summer-tour-2020/**

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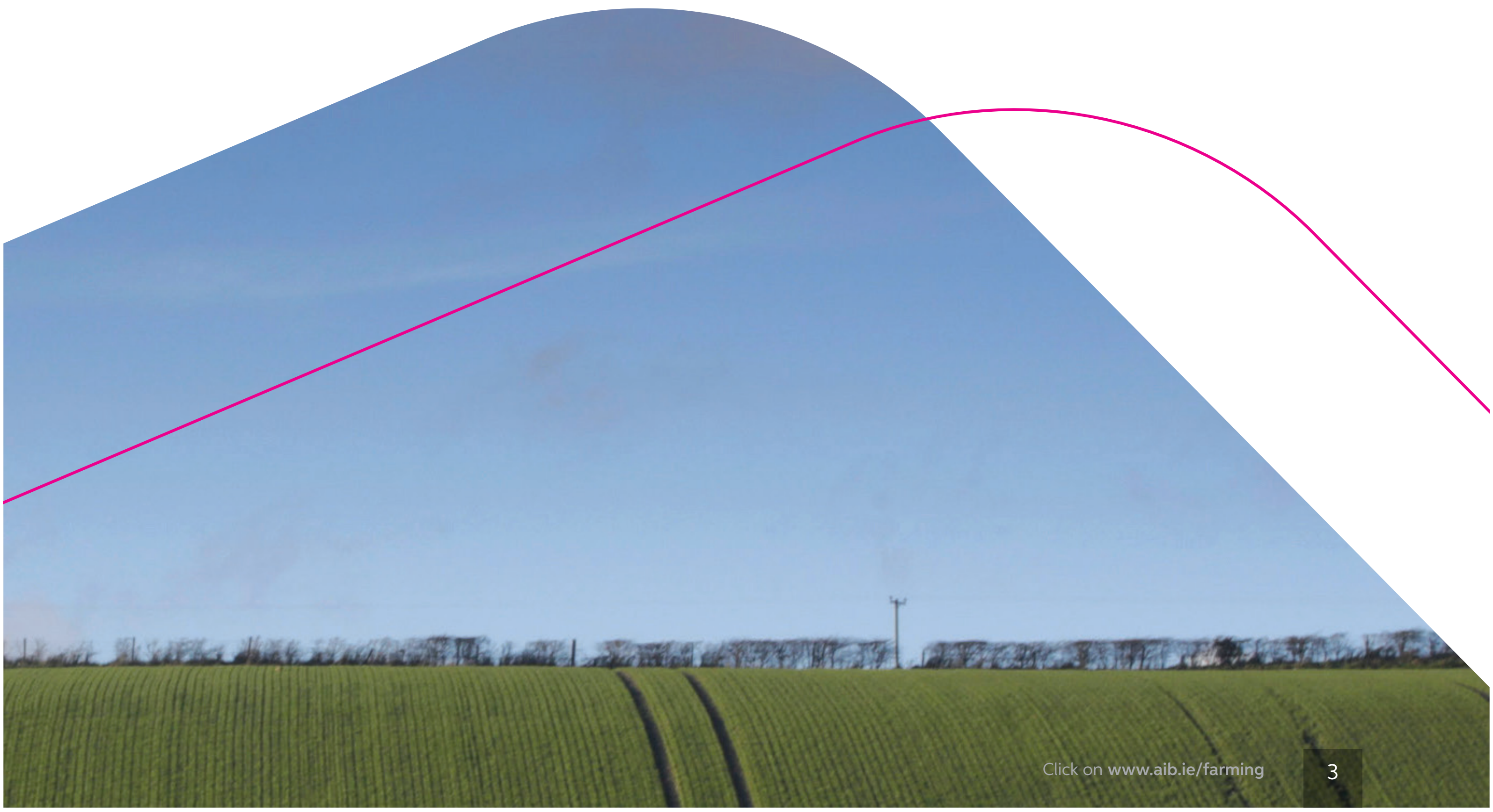


Donal Whelton, Head of Agri Sector, reviews 2020 and takes a look at what's to come for Irish Agriculture in 2021

Donal Whelton

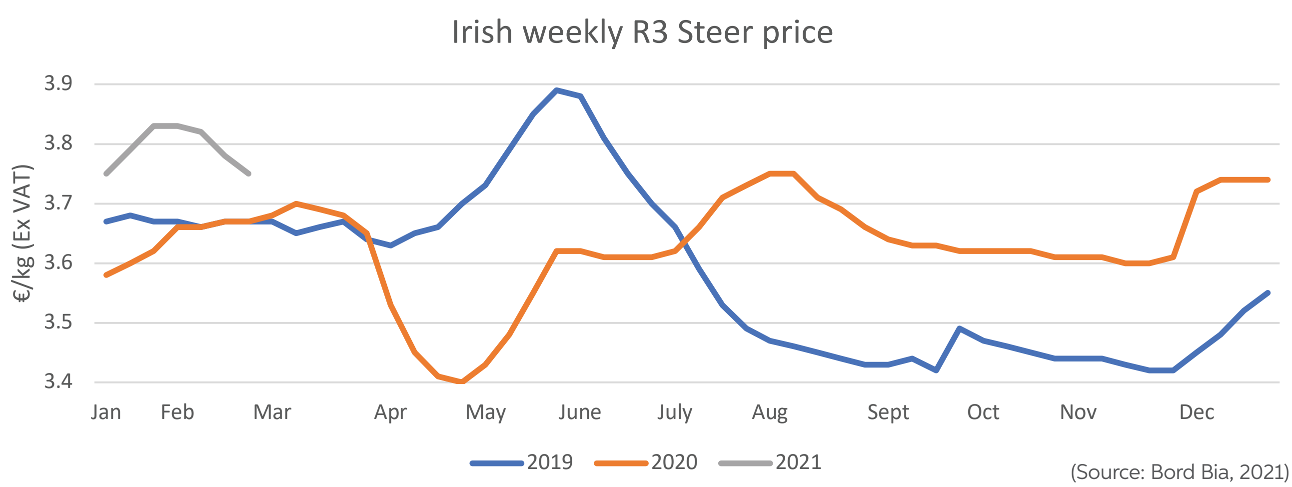
With Spring upon us and many livestock farms engulfed in the challenges, stress and joy that the calving/lambing seasons brings, hopefully weather conditions improve and operationally things come a little easier, sooner rather than later.

As we look back on 2020, it's difficult to truly capture, without contradiction, the year that was for Irish Agriculture. In many respects it was – 'a mixed bag that could have been worse (or better)' I suppose, with variation by sector and indeed by region located.

From a market perspective, pig price aside, the majority of output prices recovered well from the dips experienced through the initial stages of Covid-19. With some of the key farm inputs reporting lower prices – seed (-4%); fuel (-11.7%); fertiliser (-9.7%) – aggregate farm incomes were up c.6% year-on-year.

Demonstrating too the resilience of the sector, Agri-food exports exceeded €13bn - a phenomenal performance all else considered – and from our own perspective, demand for Credit remained relatively strong, particularly among dairy farmers, with overall levels of new money at similar levels to years previous. We didn't see any notable increase in request for cashflow or working capital support from the farming community as a consequence of COVID-19; and current account performance, overall, remains strong; with overdraft utilisation rates marginally improved on previous years across all sectors.

Looking to the individual farm sectors: increased supplies (+3%); lower costs and a relatively strong milk price (31.3c/litre base) boosted average net margins (+5%) on **dairy** farms in 2020. With reduced supplies across some of the larger EU producers, combining with strong import demand and retail sales, the short-term outlook for the sector looks relatively positive. On-farm milk price for the year as a whole should again average north of 31.5c/litre (base), with margins likely to remain at similar levels to 2020 or marginally higher.



(Source: Bord Bia, 2021)

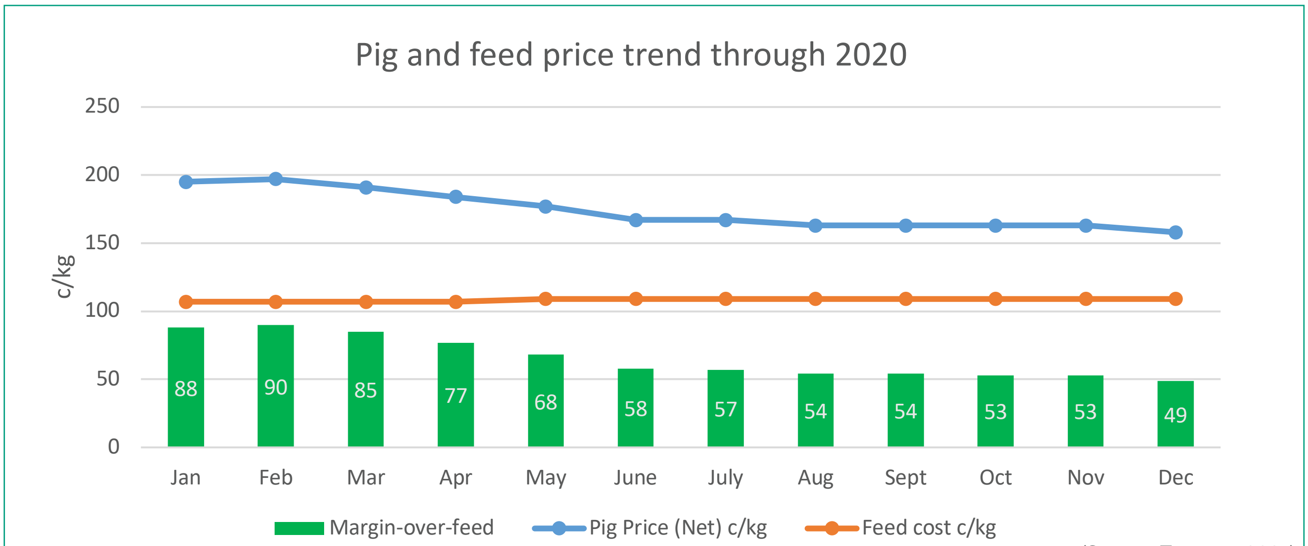
The European foodservice channel, accounting for up to 60% of steak total export, contracted c.35% in 2020 as a consequence of Covid-19, offset somewhat by over 10% growth in retail sales. Reflecting this constrained demand, Irish **beef** price dropped considerably end Q1 2020, dipping to a low of c.€3.40/kg (ex VAT) end April, before beginning its upward trek and finishing the year at €3.74/kg (ex VAT), +19c/kg year-on-year.

The upward trajectory continued into January, with current prices (mid-February) running €3.75 - €3.80/kg (+3.3% YoY). Tighter supplies (estimated 60-80k fewer head nationally in 2021 and overall EU estimated 2021 beef supplies -1.5%) and strong retail demand should help offset any headwinds that may arise as Brexit concessions wean, meaning similar or marginally increased margins are likely on beef farms in 2021.

The **sheep** sector, similar to beef, experienced a hit on price end Q1, however recovered quickly, with prices for much of H2 2020, and thankfully continuing into 2021, considerably above 2020 levels. Aggregate prices for the year as a whole averaged €5.24/kg (ex VAT) (+10% year-on-year), with current prices at €6.15/kg (ex VAT) running 16.5% above 2020 levels. With tight supplies; strong retail demand and an opportunity to increase market share with fewer UK exports into European markets following Brexit, the outlook for sheep prices looks positive, albeit negated somewhat by increasing input costs. Overall it looks like more of the same and modest increases in margins for the sheep sector.

Reduced input costs and higher **cereal** prices weren't enough to compensate for reduced cereal yields in 2020, impacting returns for many. Assuming a return to more normalised yields, and at least similar, even marginally improved prices as forecast, average margins should recover in 2021, albeit from a low base.

After reaching record highs end 2019, **pig** price, and consequently potential margins, fell considerably through 2020, mainly as a result of Covid-19 restrictive measures and an outbreak of African Swine Fever in Germany. The impressive 66c/kg aggregate annual margin-over-feed (MoF) conceals the declining trend encountered as the year progressed, with 49c/kg MoF recorded in December hovering close to mere break-even levels. Indications are that pig price should at least remain at similar levels to the mid-€1.50/kg levels currently experienced in the short-term, with some optimism that they may lift somewhat as surpluses in Germany and surrounding countries return to more normal levels. After recent high years of profitability, a return to more moderate profit margins in 2021 is likely.



(Source: Teagasc, 2021)

Overall, at an aggregate level, the projected uplift in output prices should at least match any increase in input prices, which assuming a normalised weather year should result in a marginal uplift in average returns on many farms in 2021. The persistence of Covid-19, associated restrictive measures, and the speed at which vaccines can be rolled out, nationally and indeed internationally remain somewhat of an unknown, but we can but hope.

Another area of interest that we should get more clarity on in 2021 is re the revised Common Agricultural Policy (CAP). Although a transition period has been agreed through 2021/22, ongoing CAP negotiations are likely to conclude H1 2021. While the overall available budget looks broadly similar to that received in recent years, it will be more difficult for farmers to secure similar receipts, given a significant portion 20-30% of funds (not yet finalised) are being directed towards 'eco-schemes'. In addition, there will be a continuation in the convergence trend (i.e. suggested all would receive a minimum 75% of the national average by 2026) that will see some winners and losers under the new arrangements - estimated c.59.5k would gain; c.54.5k would lose out from such a move. Certainly there will be an increased focus on increasing afforestation rates (requiring infrastructural improvements) and increasing organic production given EU targets of assuming 25% EU agricultural area (currently c.2% nationally) by 2030.

To conclude, the resilience of the sector through 2020 is undeniable, however one area that we cannot take our eye off the ball on, and one which the sector unfortunately has a poor track record on, is our own personal health and safety. During this Covid-19 and busy period on-farm, stay safe and control the controllable. Be mindful of risk, rest while you can, and reach out to others if in need of assistance. There may be increased interest and indeed availability of labour to assist – and take advantage of the various forms of home schooling - but be sure you, and they, don't overstretch in terms of task demands and capacity – be that physical/mental. A moment's reflection or conversation had is perhaps all that's required for greater clarity. Act now not regret later.

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Phelim O'Neill, Markets Specialist with the Irish Farmers Journal outlines some of the key challenges and opportunities facing Irish agriculture in 2021 and beyond

Phelim O'Neill

While the world remains gripped by the effects of the global pandemic, it is as close to business as usual in agriculture as could be expected. The simple reason is that while normal life remains disrupted beyond belief, people still have to eat to survive. How we eat as consumers has changed dramatically over the past year. Demand from the hospitality and food service sector for food has all but disappeared while demand from retail outlets has increased. The route to market has changed but the demand has remained and thanks to the efforts of farmers, factory workers, delivery drivers and shop assistants food supply has been maintained.

Other challenges

As well as the pandemic, Irish agriculture will face other challenges in 2021. A Brexit deal may have been agreed on Christmas Eve but it is only in the second and third quarters this year that the full impact will be felt by Irish exporters. This is because the UK have adopted a phased approach on implementation of sanitary and phytosanitary (SPS) rules. Veterinary certificates will be required from April 1st and physical checks will commence on 1st July.

This addition of red tape to the supply chain will add cost but Irish agri food exporters will hopefully be better prepared than their British counterparts who had to deal with these requirements overnight on 1st January. Major Irish meat and dairy exporters are also familiar with exporting beyond the EU and the requirement for doing business with the UK will now be similar to this.

Avoidance of tariffs but hard border

The basic Brexit deal avoids tariffs and quotas but otherwise it is a very hard border between the EU and Britain. On the island of Ireland, trade will remain uninterrupted with the withdrawal agreement meaning that Northern Ireland remains aligned with the EU and produce can flow back and forward across the Irish border as it has been doing which is good news for farmers and processors.

A consequence of Brexit will be the UK making its own way in global trade deals. They are in negotiation with the USA, Australia, New Zealand and Canada and have announced that they are applying to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a trade alliance of countries that surround the Pacific Ocean. All of this means that Irish agriculture will in future face greater competition in the British market which will be an additional challenge, particularly for the beef sector which is most dependent on that market.

CAP reform

This year will also see the finalisation of the CAP and Ireland prepare its national plan to deliver the EU's Farm to Fork strategy which will be essential for Irish farmers to secure their CAP payments after 2023. This will impact farming practice as the ambition is to reduce fertiliser use by 20%; pesticide use by 50%; and antibiotic use by 50%. In addition there is an ambition to have 25% of EU land use in organic production by 2030.

This strategy is focused on environmental improvement and reduction of GHG emissions but will have consequences for the earning potential for farmers. The EU haven't conducted an impact assessment of this policy but one has been carried out by the USDA. It reveals that the Farm to Fork strategy will reduce farm output and as a result farm incomes will be down 16%. EU agriculture will operate on a different model to the rest of the world and the impact assessment estimates that if the world was to adopt this strategy then farm incomes would rise but food costs would increase by a dramatic 89%. This would be affordable in the developed world but would have the effect of pushing 185m people into food insecurity in the poorer areas, mainly in Africa and Asia.

Adaptability of supply chain

There are no scarcity of challenges facing Irish agriculture in the year ahead and indeed for the remainder of this decade. However at the beginning of last year if we had been aware of the impact a global pandemic would have on society, we might have thought the loss of hospitality and food service markets would cause serious damage to the sector. As it turned out, the pandemic demonstrated how adaptable the supply chain is. Farmers embraced online mart sales instead of being present in person and factories kept processing going even with disruption caused by COVID-19 outbreaks on the factory floor. This ability to adapt to change will continue to be tested for the remainder of this year and beyond.

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on **Wednesday 7 April 2021 at 8pm**.

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GUEST SPEAKERS:

Simon Coveney,
Fine Gael TD & Minister for Foreign Affairs and Trade

John Jordan,
CEO, Ornua

Donal Whelton,
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Wednesday
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John Fahey, AIB Senior Economist
Brighter Prospects Ahead After Difficult Start to 2021

John Fahey

The global recession, triggered last year by the Covid-19 pandemic, saw the largest contraction in world economic activity since the Great Depression of the early 1930s. Output fell very sharply in the first half of the year, before bouncing back strongly in the third quarter as restrictions were eased. However, the recovery lost momentum in the final quarter as a second wave to the coronavirus took hold. Overall, it is estimated by the IMF that world GDP declined by around 3.5% in 2020.

In Ireland's case, the hit to the economy last year was mitigated to some extent by the continuing strength of exports, most notably from the multi-national sector, in particular Pharma. Data is available for the first three quarters of the year. These show the volume of exports rose by 4.4% year-on-year over the period, while GDP was up by 3.6% GNP, though, which strips out profit repatriations, was broadly flat.

However, there was a marked contraction in the domestic economy. CSO data shows that real modified final domestic demand fell by 6.4% year-on-year in the first three quarters of 2020. Consumer spending took a considerable hit, declining by 10% in the period. Domestic fixed investment also fell by 10% over the period. Meanwhile, the recession appears to have had little impact on house prices, which were broadly stable last year. House building activity also held up better than expected in 2020.

The recession in 2020 saw employment contract and unemployment rise. At one stage early last year, the unemployment rate, including those on pandemic unemployment payments, rose to 30%. However, the official unemployment rate remained much lower, and stood at 5.8% at the end of year.

The Agricultural sector is obviously being hampered to some extent too by the current Covid-19 restrictions, with the extensive closure of food services, both domestically and internationally. The OECD noted in the early days of the Covid crisis in April 2020, of a significant shift in the "structure of demand" for the sector. It referenced the collapse in demand from restaurants, hotels and catering, the closure of 'open markets', versus a surge in demand from supermarkets.

However, despite the challenging backdrop, the Agri sector registered a strong performance last year. Preliminary CSO data for 2020 show that farm incomes rose by a very robust 14%. This was driven by strong contributions from livestock and dairying. Farm incomes also benefitted from a relatively stable cost base, with lower fertiliser and energy costs offsetting rising feeding costs.

Turning to the economic outlook for 2021, it is clear that monetary policy will remain supportive of activity globally over the next number of years, with interest rates staying very low. Meantime, in Ireland, last autumn's Budget has ensured that fiscal policy will continue to provide considerable support to the economy in the coming year.

Meanwhile, the agreement on an EU-UK trade deal removes a large element of uncertainty for the Irish and UK economies in 2021. However, there will still be big changes and increased costs for those businesses trading with the UK this year, now that it is outside the EU Single Market and Customs Union. While it does allow for tariff free and quota free trade with the UK, it poses particular challenges for the Agri-food sector.

This is due to the fact that the UK is the main export market for the sector and the increased regulatory and administrative burden of selling and sourcing produce from our nearest trading partner. Indeed, Covid restrictions and Brexit are creating difficulties and delays in production, transport and logistics for the food industry.

Another factor to bear in mind for the Agri sector as we look ahead, are fluctuations in currency markets. Sterling has recently made some gains against the euro, with EUR/GBP testing below the 88p mark. However, over the medium term, there are some downside risks for sterling arising from the negative consequences of Brexit on the UK economy become more apparent. Elsewhere, we see the potential for the dollar to continue to weaken over the next 1-2 years against the backdrop of a robust recovery in the global economy.

With economies both here and elsewhere going back into lockdown over the Christmas period, it is proving to be a difficult start to the New Year for many businesses. However, the roll out of vaccines in the months ahead should lay the foundations for a sustained and robust global economic recovery to take root as the year progresses.

An unwinding of the large build-up of private sector savings during 2020, together with the supportive stance of macro policy, points to the scope for a strong rebound in activity in the next couple of years as the COVID-19 pandemic is overcome. Most forecasts are for Ireland's economic growth rate to pick up to around 5%. Overall then, brighter prospects lie ahead after what is proving to be a tough opening quarter to 2021.

Pippa Hackett, Minister of State for Land Use and Biodiversity

Organic farming – the potential

Pippa Hackett

With European ambitions of having 25% of EU land use in organic production by 2030 we caught up with Minister of State for Land Use and Biodiversity Pippa Hackett on the potential for Organic farming here in Ireland and her plans for the sector .

My husband Mark and I farm about 200 acres near Geashill in Co Offaly. We made the decision to go organic about 10 years ago. We have suckler cows, sheep, a few horses and some hens, and about 15 acres of forestry. We joined the Organic Farming Scheme in 2013, and after a two year conversion period - essential to rid the land of residue pesticides and fertilisers, and to allow it to adapt to a future without these synthetic inputs - we received our full organic status in 2015. Since then we have seen improvements in our farm income, we have a better work-life balance, and we certainly have a better understanding / connection of our farm's ecosystems – above and below the ground.

The organic sector in Ireland is currently a small component of the overall agri-food sector, with less than 2% of the land area under organic production. This is against an EU average of about 8%. The EU Commission's objective of reaching at least 25% of the EU's agricultural land under organic farming by 2030 is highly ambitious, but this government has committed to aligning Ireland's organic land area with that of the current EU average of approximately 7.5% over the lifetime of this administration. One of my roles as Minister of State is to ensure that my Department does what it can, to meet such a commitment.

There is a growing demand for organic produce across Europe. Bord Bia research shows that there is also a rising preference for organic food over conventional food in the Irish market. Their research shows that over 91% of Irish consumers believe that organic products are generally better than non-organic products.

Apart from the increased consumer demands, organic farming has significant benefits to our environment. Studies have shown that there is significantly more biodiversity on organic farms, emissions are lower, and water quality is improved. Animal welfare also is higher, and all of these aspects are appealing to consumers.

In May 2019, Ireland declared a Climate and Biodiversity Emergency, however it is universally accepted that we have much to do to address this. The current Programme for Government commits to an average 7% per annum reduction in overall greenhouse gas emissions to 2030 - twice the previous ambition. In addition, the European Commission's Farm to Fork and Biodiversity strategies are very ambitious – there are plans to reduce pesticide use by 50% and to reduce fertilizer use by 20% by 2030. More organic farming will certainly help with all of these targets.

It is widely acknowledged that organic farming is the most sustainable method of farming, and our challenge is to get this message out there to both the farming sector and the consumer. In the past there may have been a perception that organic farming was not 'real' farming, yet that could not be further from the truth. In a world that is growing increasingly more challenged with the intensification of agriculture, working with nature will no doubt become a bigger part of farming of the future. We cannot rely solely on technology to fix the problems, we need to use ecology too. Managing the health of our soil biome, using natural pest control, increasing diversity of crops and livestock, and adopting rotational cropping methods, are all part of the solution. Indeed many 'conventional' farmers are using these practices already.

However, farmers do need supports to make the change to organic farming, and I am delighted to have re-opened the Organic Farming Scheme in March. The budget of €4m, should allow a larger number of applications, and all farmers are welcome to apply, particularly young farmers and those farmers who were not accepted onto the Scheme in 2018, but continued to farm organically. Teagasc, Bord Bia and the Organic Certification Bodies (Organic Trust and Irish Organic Association) are also working to develop the sector.

One of the challenges is to align organic production with market requirements and consumer demand. We address this through the National Organic Strategy as it is so important for the long-term growth in the sector. There are strong demands for organic horticulture, dairy and tillage products, but I also believe there are huge opportunities for growth in the export market for beef and lamb, as European consumers become more discerning and selective about the meat they eat.

So all in all, I cannot recommend going organic highly enough. I've practiced what I preach, and can easily say it is the best decision we ever made on our farm. I would be thrilled to see as many of you as possible consider a future in organic farming. Chat to other organic farmers to hear their stories also. The Organic Farming Scheme is there to support you, so please check out the details on my Department's website on **www.gov.ie/en/publication/fc7c8-organic-farming/** for more information.

Shane McCarthy, AIB Agri Advisor discusses farm succession, and shares some practical tips for young farmers

Shane McCarthy

Farming isn't just a job, it's a way of life. It's in your blood and when you like it, you really love it.

Young people who want to be farmers are always thinking to some extent about how many acres they'll farm; how many stock they'll keep, and what they'll do with the family farm when they take it over, but until you actually get tangible opportunity to run a farm business, or at least know it's coming down the tracks – are you really only wasting your time?

Although alternative options are increasingly being utilised by many young farmers, 'taking over' the family farm remains the predominant route into farming.

On many family farms however, while there is very often the belief that a son/daughter will take over the farm business, no communication or discussions around succession or inheritance actually takes place.

The conversation itself is often a difficult one to initiate, and for a young farmer to begin requires considerable courage and a clear sense of purpose.

It's not about a sense of entitlement, it's about getting clarity and avoiding potential stresses/uncertainty relating to the future of the farm business and your role in it.

It's about preserving family relationships too and importantly, giving you opportunity to truly assess whether or not you really want to pursue this route into farming.

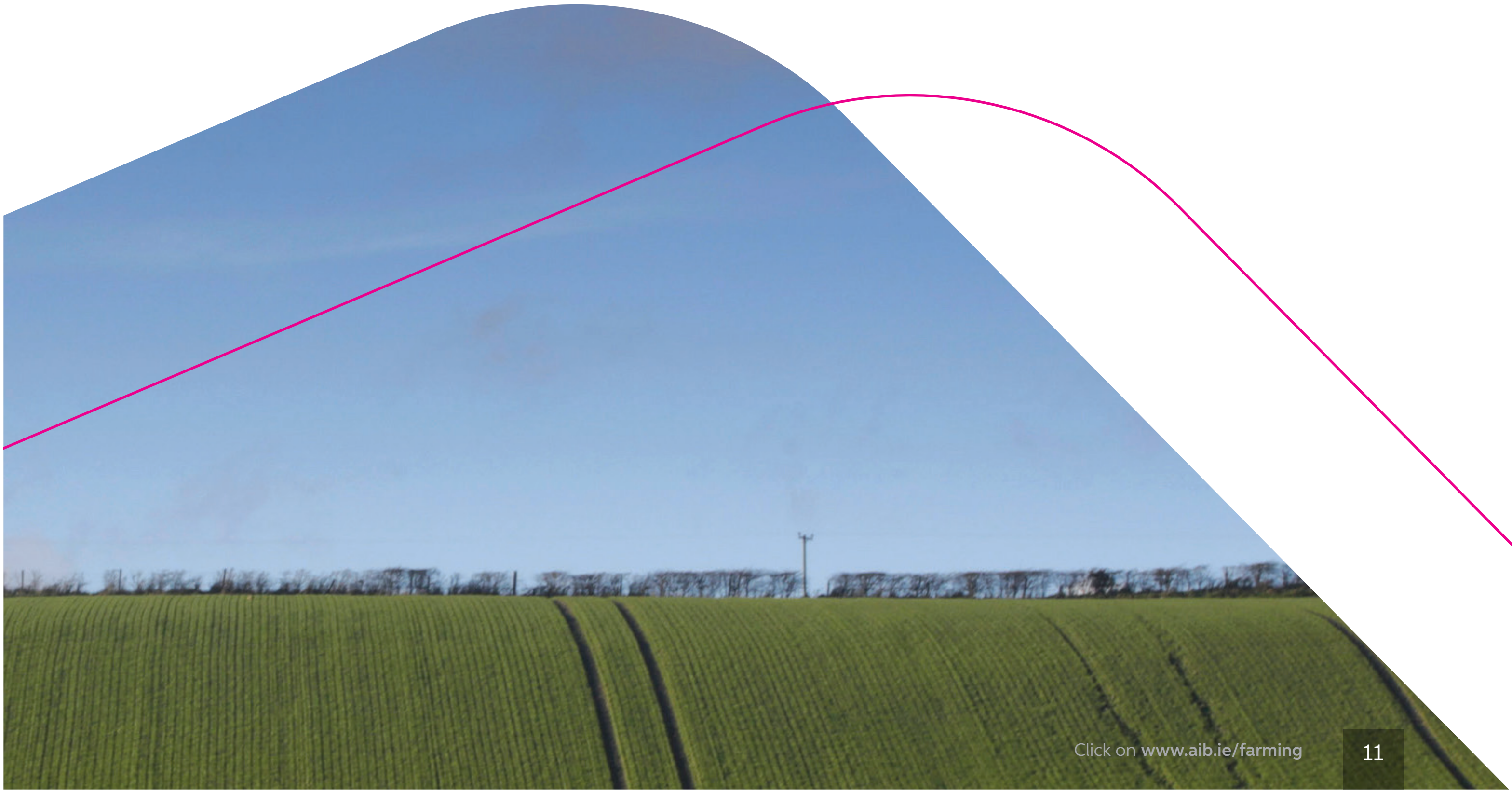
Very often, as a young farmer you dream of being the next generation on the family farm. However additional obligations may be placed on you as future successor and the farm business to support siblings not involved in the farm (education / college payments; site for house); parent day-to-day living & health expenses; and/or family settlements (financial payment; education; site). Given the income generating potential of the farm will it deliver enough for you, your family and allow you reinvest in the farm business?

Whether you are to be the farm successor or not (tough and all as the latter may be to digest), at least you know where you stand. Either way, it gives you time/opportunity to map out and plan what you want to achieve.

In developing your plan of action, don't think about just the stock levels/varieties of crops you will have but the skillset that you will need to succeed. Remember too that financial management and cost control is as important to farm sustainability as technical farm management.

Think long term and outside the farm gate too (e.g. marriage, children, education etc.) as such factors may significantly influence the subsequent path or route you take.

Now is the time to develop your resources. Remember **you** are in control of **your** future – take control of it.



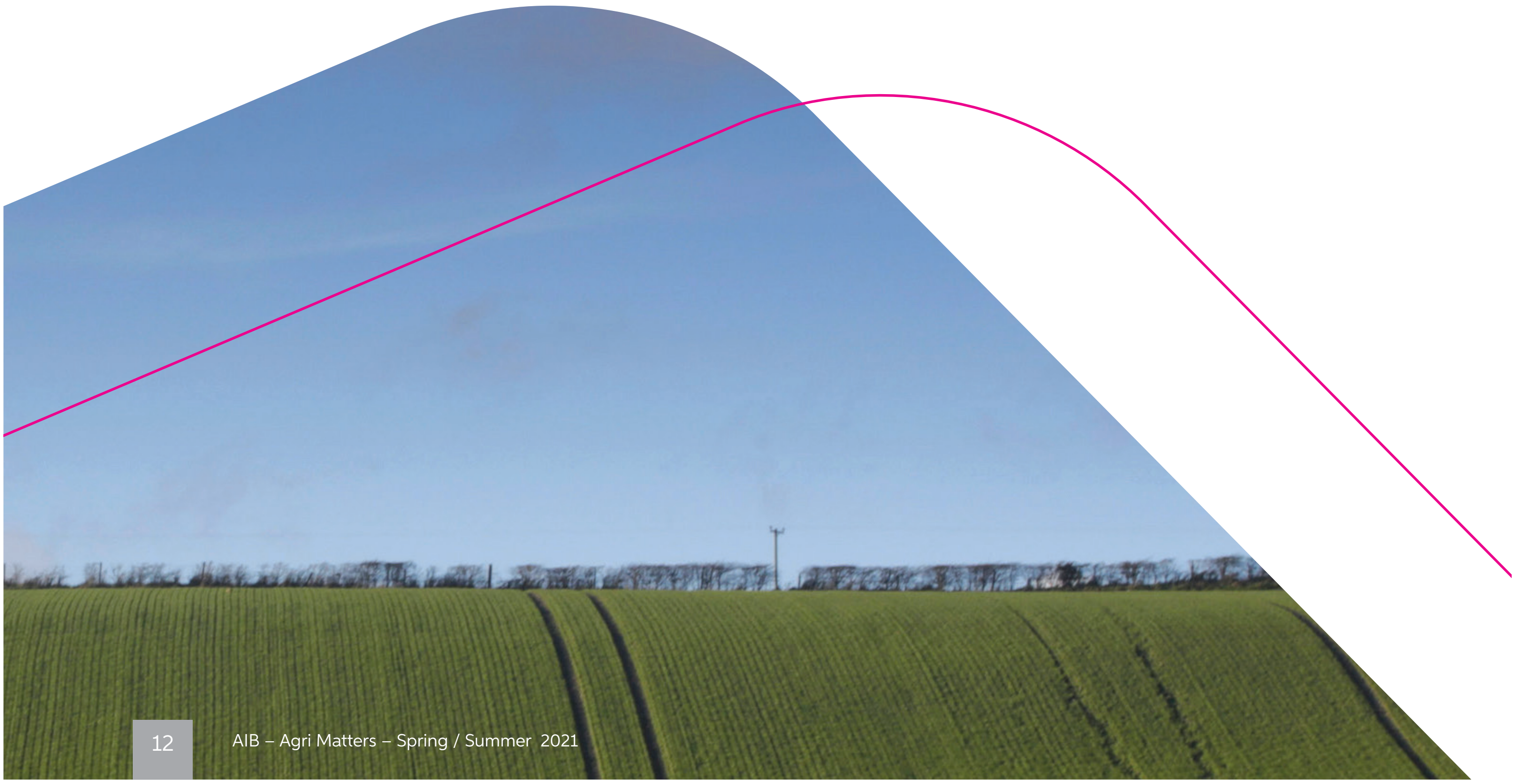
So, going back a little and grabbing the bulls by the horns, where do you start? Below are a few identified triggers by recent farm successors in research commissioned by AIB, which may provide a useful opportunity to probe about farm succession. But it's up to you to identify the right time for your situation and to seize the opportunity when it does arrive:

- Policy initiatives such as the Young Farmer Scheme which offered top-up payments to qualified young farmers involved in family farm activities or established on their own farm holding.
- Media articles profiling successful collaborative / family arrangements. You never know what a 'randomly' opened page on the kitchen table might yield for you!!
- Planned investment decisions requiring long term bank borrowings brings about the discussion on 'who will be making the repayments'.
- Marriage of the young farmer/sibling can bring about changes in the family farm or at least may lead to discussions on the future intentions for the farm.
- Serious illness or accidents involving older generations.

Having the discussion early in play can also have added benefits, not only from a tax planning perspective, which can be significant. The gradual transfer of management responsibilities from one generation to the next provides young farmers with increasing opportunity to gain valuable hands-on practical; managerial experience and indeed confidence.

Our research suggests that approximately one in four Irish farms will change hands in the next 10 years. Are you ready?

[2]Broadmore Research & Consulting. (2016). Understanding the banking needs of young farmers.



Grass10 Campaign - Improving sustainability of our grass based systems

With the 2020 Grassland Farmer of the Year competition completing a very successful Phase 1 of the Teagasc Grass10 programme, we caught up with John Maher, Grass10 co-ordinator to review some of the resources available for Irish livestock farmers and what lies ahead for the Programme

The requirement for resilient sustainable systems of milk and meat production has never been as high. There is continual change in global agriculture due to fluctuation in markets, agricultural policy, societal expectations and environmental constraints. As a result there will be further requirement to increase efficiency and sustainability in Irish pasture based systems.

Given the success of the Grass10 campaign (in which AIB is a partner) over the last four years it is critical to maintain this momentum. The Grass10 campaign is set to continue for the next four years and will continue to focus on increasing grass growth and utilisation of home grown feed on Irish grassland farms. The main focus of the campaign is to ensure the long term sustainability of Irish pasture-based dairy, beef and sheep production systems. The main opportunities to improve the sustainability of our grassland systems are outlined.

Improving the level of grass measurement and management

Currently, there are over 50 Grass10 grazing courses operating across the country and this model of improving the level of grassland management and measurement locally has worked well. This is fundamental work carried out during the Grass10 campaign (details **https://www.teagasc.ie/crops/grassland/grass10/grazing-courses/**) and the plan is to further develop this knowledge transfer model to increase farm level adoption of grassland measurement and management using PastureBase Ireland (www.pbi.ie). Every extra day the animal spends at grass reduces greenhouse gas (GHG) & ammonia emissions. Emissions are primarily reduced by animals feeding themselves and spreading their own slurry but also because the animal is eating a superior diet. GHG emissions are further reduced when the animal grazes the right stage of grass growth. Animals that enter the right sward (1300-1500kg DM/ha) will reduce GHG emissions by 15% compared to a slightly more mature sward (2000 kg DM/ha).

White clover

There is now an increasing demand to include white clover in grazed pastures due to its ability to biologically fix nitrogen making it available for grass growth and thereby potentially reducing inorganic nitrogen fertiliser use, while maintaining or increasing pasture production and improving animal performance and pasture quality. All of these positive outcomes have been observed in Teagasc studies undertaken at Moorepark, Clonakilty and Athenry.

There are challenges in establishing clover in swards at farm level. These issues revolve around time of sowing, soil fertility, herbicide choice and grazing management. There is a huge requirement to focus on educating the grassland industry in the establishment and management of grass/clover swards. Some of the key developments planned in the Grass10 campaign will be:

- Establishing 20-25 Clover pilot farms nationwide, across enterprises, building a knowledge transfer programme around these farms
- Hosting clover workshops in Teagasc Research Centre Farms
- Publication of a Clover Management Guide - Monthly clover updates in the Grass10 Newsletter

Nutrient management

Grass requires a continuous and balanced soil nutrient supply to achieve its production potential. Many farms are capable of growing in excess of 14 tons DM/ha annually. This level of grass production requires reasonable quantities of nutrients such as Nitrogen (N), Phosphorous (P), Potassium (K) and Sulphur (S) supplied at the correct time. The return in grass production from correcting soil fertility is very high. Improving nutrient use efficiency has become a priority due to the ambitious targets to reduce on fertiliser use outlined in the EU Farm to Fork Strategy (2030). PastureBase Ireland can facilitate the process of improving nutrient use efficiency, by providing farmers with up-to-date information on fertiliser use, level of fertiliser requirements and soil fertility. Improving nitrogen use efficiency, along with technologies such as protected urea, LESS, GPS, etc. will assist Ireland achieve its commitments to reduce GHG and ammonia emissions from agriculture. To promote the concept of better nutrient management and nitrogen use efficiency, the profiles of farmers who excel in this area will be disseminated through the Grass10 weekly newsletter (**www.teagasc.ie/crops/grassland/grass10**) and social media platforms in the programme.

Congratulations to Caroline Walsh, 2020 Grass10 Grassland Farmer of the Year

Caroline Walsh from Ballinascarthy, Co. Cork was recently announced as the Overall Winner of the Grassland Farmer of the Year 2020, as part of AIB supported Grass 10 initiative.
The Grassland Farmer of the Year awards, which took place virtually this year as a consequence of Covid-19, recognise and reward those farmers who are achieving high levels of grass utilisation in a sustainable manner.
Milking about 70 cows on a 20 ha milking platform, the farm has reduced stock numbers in recent years, yet Caroline, utilising contract rearing for replacement heifers, aims to make a similar profit level from the farm as less inputs are required. To see more of Caroline’s farming journey click **https://youtu.be/lFjnYihYA1g**

Irish farmers – we need your voice!!

Is On-Farm Sustainability a challenge or an opportunity for Irish Agriculture?

We would welcome a quick 5 minute chat to help guide and support a team of UCD researchers. All responses completely anonymous.

Please call a member of The Bogha Project on **087 686 1496**
or email **innovation.ag2021@gmail.com**

Liam Phelan, AIB Agri Advisor takes a look at on-farm debt, and what are the key bank considerations when applying for farm finance

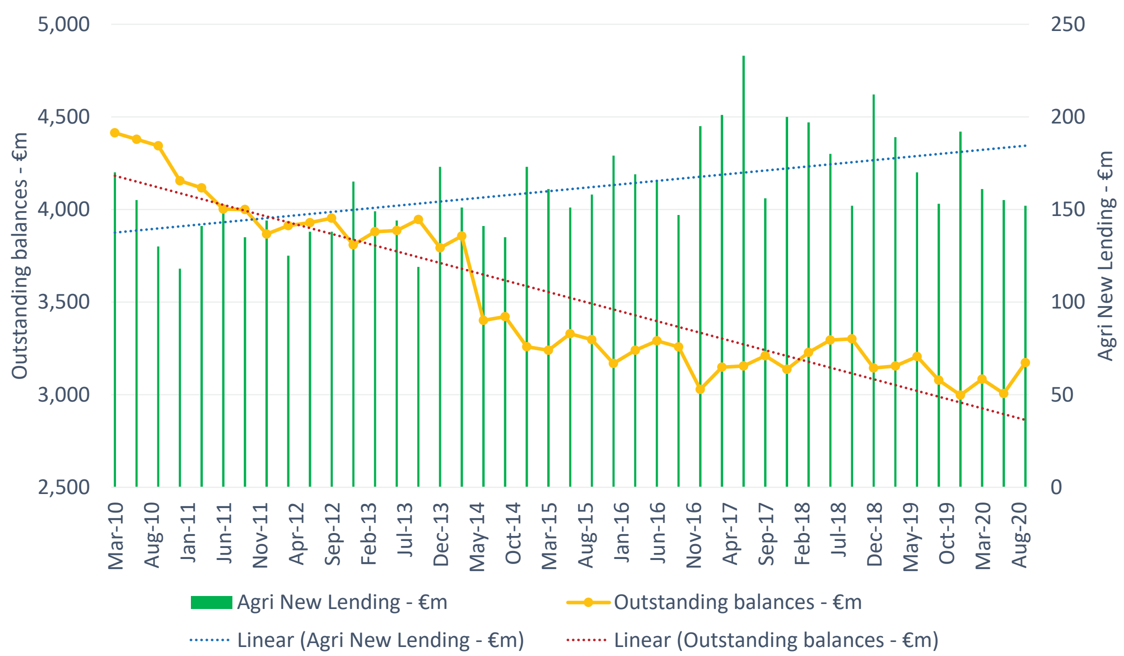
Liam Phelan

As noted in earlier articles, these certainly are interesting times we find ourselves. While not perhaps of our choosing, it is one which the sector overall has shown its strong fundamentals, being able to quickly adjust to sustain operations and continually meet customer needs and expectations.

Of course, it didn't all happen by chance – requiring significant investment and commitment, not to mention increased collaboration, clear communication and swift strategic action to achieve. The interdependent nature of all stakeholders also came to the fore, and it is perhaps from these parameters that we, as an industry, need to bolster and progress in the years ahead as we face into the headwinds of climate change; a reformed Common Agricultural Policy; changing customer preferences and perhaps even increased non-conventional food sources/practices.

As a leading lender to the Irish Agriculture sector, we in AIB remain committed to supporting its continual development, and to serve as a key trusted strategic partner for you, and your farm business in the years ahead, both in times of opportunity and challenge.

Farmers by their nature, are typically risk averse and as a rule don't like taking on too much debt. Despite an upward trend in new money annually to the sector for much of the last decade, overall levels of debt are sub €3 billion currently, the lowest level since December 2003 as farmers repaid debt quicker than they took on additional debt. An amazing three in every five Irish farmers have no farm related debt, and even among those that have on-farm debt, the average is marginally above €60,000. Naturally averages can conceal a wide variation, however In general terms, Irish farms are very lowly borrowed, and this is one of their competitive advantages when compared internationally.



Source: Central Bank of Ireland (Credit Advanced to Irish Resident Private-Sector Enterprises)

Applying for Bank Finance

In our most recent IPSOS MRBI survey, two in every five farmers indicated that they planned on investing in the next three years, with the average loan size projected at c.€67,000. Outlined below are a number of key bank considerations when applying for bank finance if you are one such farmer:

- Engage early with the bank and gather all the supporting financial information – typically three years trading accounts; details of off farm income; details of non AIB financial commitments; other supporting Management info;
- Preparation is key. Sell yourself; the virtues of your business; and the merits of your proposal;
- The main tenants to any proposal are as follows: Repayment Capacity (i.e. ability to make loan repayments in full); the borrowers track record and management's ability; future capital expenditure requirements; working capital requirements (often overlooked in expanding businesses), owner equity and security offered.

How much will the bank lend?

Provided the financials support the proposal, one of the next considerations is the amount of security offered. Banks refer to Loan to Value (LTV) ratios, and while every case will be assessed on its own merits, they like to see loans advanced at a maximum of 70% of the value of the security held. In real terms, this would mean the farmer inputting 30% of the investment. In practise though, many farms have reinvested in their farms and don't have the 30% in the form of cash to input to the deal. In those circumstances, to secure bank finance they tend to provide additional security.

By way of example, Farmer John (33), buys 20 acres of agricultural land for €200,000. There is no stamp duty as he is a young trained farmer. Legal costs are projected at €4,000. John is proposing to finance the legal cost and is seeking €200,000 off AIB, financed over 20 years.

As John is not putting any cash towards the land purchase (other than legal costs), in order to qualify for 70% LTV, he will need to provide combined security valued at €285,000 (€200,000/70%). John would need to reverse in an additional 8 or 9 acres (valued at €10,000/acre) as well as the land being purchased as his equity contribution to the deal. In many cases, this security might already be held by the bank.

Structure of the Loan

It's really important to get the structure of the loan right from day one. Match repayments to peak revenue periods, and don't self-finance debt, or try pay it down over too short a period. Farming is a cyclical business, and those with no reserves/buffers and or aggressive repayment burdens can put themselves under unnecessary cash flow strains during income downturns. Best advice is always to structure loans over the useful life of the assets. You will always have the discretion to lodge lump sums against their variable rate borrowings should cash flow allow.

Borrowing	Rate	Term	Annual Repayment €
€200,000	5%	20 years	€15,800
€200,000	5%	15 years	€18,072
€200,000	5%	10 years	€25,452
€200,000	5%	5 years	€45,264

For indicative purposes only

Finally, from experience, other common pitfalls in arranging finance include:

- Not having clear objectives/goals in place
- Not investing in the most productive assets on the farm
- Expanding too quickly and not fully understanding impact on cash flow
- Project poorly costed- not building in contingency for over runs
- No Planning Permission in place
- Time: Leaving the application to the last minute.

Whilst all businesses face challenging times at present, this is nothing new to Irish farmers, who once again proved their resilience this year. The outlook for the sector is good and farmers continue to back themselves by investing in their businesses.

We in AIB have a longstanding relationship with the Irish Agri sector and remain committed to supporting its continued development into the future. We have a dedicated team of Agri Advisors working across the country – contact details are available at **www.aib.ie/farming** - who bring a unique understanding of your business to our business. If considering future farm investment; requiring additional working capital or seeking to establish a new banking relationship, please talk to us today to see how we can support your finance needs.

AIB Agri Team

We have a dedicated Agri Advisor Team based around the country who work to support the needs of our farming customers.

They are from farming backgrounds themselves, so they have a practical understanding of the sector and bring a wealth of experience when looking at farm finance. Our Team provide strong, objective farm financial and technical analysis on individual farm cases as needed.

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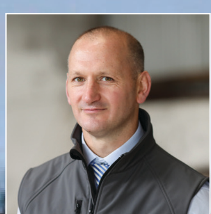

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