Agri Matters

Supporting the Irish Agricultural Industry

Summer 2018

The 2018 Grass10 Grassland Farmer of the Year competition was officially launched on June 15th on the farm of Ger Dineen, Kilnamartyra, Co Cork - 2017 Beef Grassland Farmer of the year. Pictured are Aidan Brennan, Irish Farmers Journal, Tadhg Buckley, Head of Agri Sector, AIB, Michael Moloney, DAFM, Michael Creed TD, Minister for Agriculture, Food and the Marine, Stan Lalor, Grassland Agro, John Maher, Teagasc Grass 10 Campaign Co-ordinator, Niall Ryan, DAFM, Ciaran Roche, FBD & Billy Kelleher, Teagasc. Applications open until July 20th.

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Agri Matters – Summer 2018 Edition

Spring 2018 will not be easily forgotten by those involved in farming between snow showers; poor grass growth; depleted silage reserves and lower than average livestock performance.

Thankfully things have settled down since and the last few weeks' weather has given a welcome respite and opportunity to get back on track. Grass growth has been exceptional (although impacted in recent weeks with moisture deficits in many parts of the country), and first-cut silage crops are performing better than expected in many parts.

In this edition of Agri Matters we look at the potential agri market dynamics and Brexit processes to come, with practical articles on rebuilding fodder and cash reserves.

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

AIB appoint new Head of Agri Sector

AIB recently appointed Tadhg Buckley as their new Head of Agri Sector. From a dairy farming background in Cork, and actively dairy farming at the minute, Tadhg took up the role on June 1st. He joined AIB Bank in 2000 and prior to taking on this current role, was team leader of AIB's agri advisory team in the South of Ireland. Tadhg holds a Degree in Agricultural Science from University College Dublin as well as a Masters of Business Administration (MBA) from University of Limerick. He is also a Nuffield Scholar, where his study examined the role of dairy futures markets & other price risk management mechanisms in the EU Dairy Industry. Anne Finnegan, the outgoing Head of Agri, has worked on the Agri Sector team since 2005 and has now taken up a new role within the Bank, focusing on Brexit; other sectors and the broader SME agenda within the Bank.

Brexit Lines Drawn in Brexit Trade Talks

Undoubtedly, Brexit is one of the biggest challenges facing the Irish Agri-Food sector. In this article the AIB Treasury Unit provide an overview of progress made to date and what can be expected in the months ahead

The UK and EU have outlined their preliminary positions on the shape of post-Brexit trade. The UK is looking for a bespoke deal, with the flexibility to opt in and out of aspects of the Single Market, which would then give it the freedom to set its own regulations for sectors that don't have full access, as well as negotiate trade deals with other countries.

This is seen as 'cherry picking' by the EU, which has completely ruled out "a pick-and-mix approach for a non-EU member". The EU has indicated that there is "no possibility to have some exclusive form of single market for some part of our economies". It says this is simply not in the EU's interests.

The EU and UK did agree in March on a post-Brexit 'transition' period, though, to run from March 2019 to the end of 2020, during which time existing trade arrangements will largely be maintained.

While there are major obstacles to be overcome, it is hoped an EU/UK withdrawal agreement can be concluded later this year. This is likely to provide for the transition period and also outline the shape of a future EU/UK trade deal.

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Current discussions are very much centred on what the future customs arrangements will be. The UK Prime Minister's preferred solution is a customs 'partnership'. This would see the UK collect tariffs on behalf of the EU on any goods passing through the UK on their way to the EU, though such a system may prove difficult to operate.

There are a number of key events in the Brexit process coming up over the next few months.

- **EU Summit (June 28-29):** The UK and EU leaders hope to progress negotiations in a number of key areas, including the issue of Ireland's border with Northern Ireland and customs arrangements
- **EU Summit (Oct 18-19):** Chief EU Brexit Negotiator, Michel Barnier, has set this meeting as the deadline for finalising the Withdrawal Agreement, which will include the likely shape of a future EU/UK trade deal and customs arrangements. Agreement will allow the EU to sign-off on a transition period to run to end 2020
- **EU & British Parliaments to Ratify Withdrawal Deal (January 2019):** This could pose more of a headache for the UK than the EU. It will be difficult to bring forward an agreement that will garner the support of opponents and supporters of Brexit in the Conservative Party, making it difficult to get the deal through parliament
- **Britain Formally Leaves the EU (March 29 2019):** The hope is that a withdrawal agreement will be ratified by then, which includes the aforementioned transition period.

In the event that a withdrawal agreement is not ratified, then the possibility exists of a so-called 'hard Brexit' scenario. This would see the UK leave the EU without a trade deal. In such an event, EU/UK trade would be conducted under the 'default' WTO rules. This would see tariffs imposed on goods moving between the two jurisdictions, as well as hard borders, including between Northern Ireland and the Republic, involving customs checks.

More of the latest and up-to-date information on Brexit can be found on the AIB Brexit Centre https://fxcentre.aib.ie/resource-centre/brexit

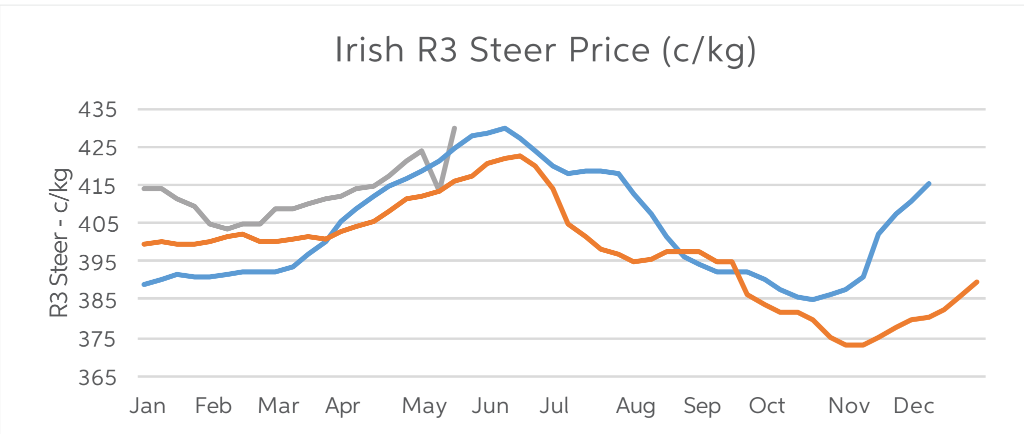
2018 – A difficult start but signs of improvement

The agri sector experienced mixed fortunes in 2017. In this article Tadhg Buckley, Head of Agri Sector, AIB gives a review of 2018 year to date and looks ahead to year end, where again a similar story is unfolding

There are certain years that remain in farmers' memory long after they pass and though we are halfway through, there is little doubt that 2018 is a year that will not be easily forgotten by those involved in farming. Thankfully the last few weeks' weather has given a welcome respite and also offered the opportunity for farmers to get back on track after an extremely difficult 6-month period. Looking forward to the remainder of the year the outlook for 2018, in terms of farm-gate prices, is more positive than initial expectations. However, this is only part of the picture as increased costs will impact margins caused by a combination of weather effects (increased feed use and lower yields) and higher input prices (feed, fertiliser and energy). A big factor in the increase in costs, and indeed output prices, has been the jump in oil price which has increased by c. 50% in the past 12 months. While this is a negative in terms of farm running costs; a higher oil price is a welcome development for a grass-based economy such as ours as the competitive advantage that grass gives us is more pronounced in a higher oil price environment.

Looking to the individual sectors, Bord Bia data suggests that output prices in the drystock sectors have remained relatively strong. **Beef** price has been on the upward trend since mid-February, with aggregate prices for R3 steers to early June running some 2.9% ahead of 2017 levels at €4.15/kg. Similarly, at €5.80/kg to early June, aggregate **sheep** prices are running almost 15% above 2017 levels. These should, notwithstanding the seasonal drop likely to come, at least to some extent help mitigate some of the increased expenditure incurred from the challenging Spring period but not cover it entirely given reduced livestock performance and increased levels of feed and fodder consumed. Consequently, reduced margins on beef and sheep farms are likely.

Although milk price reduced somewhat through end 2017, the year as a whole was a positive one for Irish **dairy** farmers, with average aggregate farm incomes of €86,000 reported by Teagasc. After a period of downward price trend since, sustained demand for EU dairy products and lower than expected milk collection in New Zealand have helped stabilise commodity prices. Increased oil prices has also help firm up demand for product from oil-exporting countries. However, despite the recent improvement, base milk price for 2018 is likely



= 2018; = 2017; = 2016

(Source: Bord Bia, 2018)

to be in the 31-33 c/litre range, 1-3 c/litre lower than 2017. When combined with increased costs due to the inclement weather, incomes on dairy farms will be somewhat below 2017 levels.

A higher oil price is a welcome development for a grass-based economy such as ours as the competitive advantage that grass gives us is more pronounced in a higher oil price environment.

While margins were higher last year on the back of marginal increases in both yield and output price, the **tillage** sector has experienced a number of consecutive low margin years. 2018, thankfully, looks like bucking this trend however with green grain prices likely to be 10%-15% higher than 2017 with higher straw prices probable also. It remains to be seen what effect this spring's weather will have on crop yields but market conditions currently point to a welcome increase in margins for the tillage sector in 2018.

Finally, 2017 was a year of high **pig** prices, well above those of 2016, until the seasonal decline began mid-year. Matching similar EU trends, Bord Bia data suggests Irish pig price, at €1.47/kg to early June, remains c. 13% below the corresponding period in 2017. Increased supplies on EU markets, coupled with strong competition on export markets are likely to put further pressure on price, which, when combined with increased feed prices, will impact margins in 2018.

To conclude, 2018 is likely to be a more challenging year than 2017 for a combination of reasons. We are here to help farmers overcome these challenges which are in the vast bulk of cases, short-term in nature and can be solved by working together to find a solution appropriate to each farmers' needs.

Congratulations to Stephen Kearns, winner of the 2018 AIB / Waterford IT Land Management (Agriculture) Award

Maximising yield of **quality grass silage for 2018**

Martina Gormley

With fodder shortages a common occurrence across the country this Spring, there's a big focus on replenishing reserves for the winter ahead. Martina Gormley, Teagasc shares some practical solutions on making this a reality

The extended indoor feeding period and emergence of regional forage shortages last Spring has led to renewed focus on making adequate silage reserves for this season. Farmers will have to plan carefully to ensure that stocks of adequate quality silage are secured across the summer. This will mean 3 main steps:

Step 1: A plan to maximise silage yield from own land resources- Fertiliser plan

This year it is essential to maximize yield potential from second cut silage. Many farms that experienced fodder shortage last year had failed to make a second cut, due to crops running late and weather breaking before cutting. Aim for a high yielding second cut taken out by 1st August at the latest. This will mean closing area and applying adequate fertilizer to bulk the crop.

P & K applications do not directly affect silage DMD at a fixed cutting date. However, inadequate P & K often results in delayed cutting due to slow growth, resulting in poor DMD and yield. If second cuts are well managed and cut in time, there will be a good opportunity to build autumn grass or indeed take a limited 3rd silage cut on some farms. These will all help to build fodder reserves.

Table 1. Fertiliser requirements for 2nd cut silage

Soil Index	1	2	3	4
P Required kg/ha	30	20	10	0
K Required kg/ha	70	50	35	
N Required kg/ha	100			

(Source: Teagasc)

Don't Forget Sulphur (S)

Sulphur deficiency is most likely to occur on light sandy / free draining soils with low soil organic matter. Grass silage crops have a requirement of 20kg S/ha per cut. The application of S to soils where it is required will improve grass DM yields and quality as it helps to maintain an optimum N:S ratio and N to be used more efficiently.

Step 2: A plan to potentially reduce demand by offloading stock

The question must be asked as to whether it makes economic sense at all to be buying forage to feed late calving cows, problem cows and high SCC cows. These animals produce much less than the herd average milk solids for the year, so the cash margin over feed costs for these individual animals will likely be lower than what is expected.

Table 2. Forage DM required for a May calving cow from calving until different selling dates

Culling Date	Early Sept	Late Oct	Mid Dec	Annual Forage Total
Total Forage DM	1870	2750	3300	4900
Surplus bales equivalent	8.5	12	15	22

(Source: Teagasc)

For a farm already in forage deficit, retaining five such animals from calving until mid-October will increase purchased forage demand by around 60 bales next winter. The purchased forage cost of keeping these extra 5 cows for the year is 110 purchased bales. Depending on stocking rate, total concentrate input per cow in the herd is likely to rise also as more grass deficits will arise. The cash cost of feeding such surplus cows is estimated at €900 to €1000 per annum, before overheads are accounted for.

Step 3: A plan to make up remaining deficits by securing external feed sources

If there is still a deficit after spreading the correct fertiliser and reducing demand from unproductive stock then the next step is to look at securing external feed sources. These feed sources normally include; maize, whole crop, standing crops, renting silage ground, buying standing crops, fodder beet, kale, beet pulp and soya hulls. You must have at least 60% of silage requirements before non-forage crops/concentrates can be used as an option to stretch silage.

Table 3. Considerations of the options to rebuilding silage stocks

	Advantages	Disadvantages
Renting silage ground	Control on soil fertility Control on cutting dates Can be used for young stock	Increase labour Not secure Local availability
Standing crop	Usually have control on soil fertility & cutting dates Less workload	Not secure Availability
Maize	One harvest of high yield High intake potential	Local availability Quality can vary Transport cost
Whole crop	Good intake potential Versatile-can be combined later if needed	Local availability Quality can vary Transport cost
Fodder beet	High quality feed Large DM yield/ha Works for crop rotation	Labour (washing/chopping) Storage facilities required
Kale	Good quality feed Good animal growth rates possible	Nitrate poisoning in frost Becomes toxic from early March
Beet pulp	Good quality feed	Feed space must be adequate Increase labour Storage facilities required
Soya hulls	Good quality feed	Feed space must be adequate Storage facilities required
Increase concentrate	Can buy high Energy/protein feed Readily available	Higher cost per Tonne/DM Increase labour Feed space must be adequate Storage facilities required

On a cost per tonne dry matter these feeds are quite similar with a small range from €160-€180. However there is more than the cost to consider when deciding on which option to choose.

Consideration, particularly on labour, feed space and storage must be taken into account when making your decision. From a labour point of view, buying/harvesting silage and having your total fodder requirement met from silage is the most labour efficient. However, if this is not possible then the most appropriate solution will depend on individual circumstances and may involve a mix of some/all strategies suggested for your farm. If you think you might be running low on winter supplies, I would however encourage you to contact your agricultural advisor sooner rather than later. Solutions are best identified at an earlier stage.

Teagasc are also co-ordinating a short Fodder Survey (https://surveymonkey.com/r/G6QX8M3) to see where we stand nationally. Please complete.

Winter '17 / Spring '18 – Exceptional, Challenging and Recovery

Eamonn O'Reilly

Eamonn O'Reilly, AIB Agri Advisor examines the financial impact of Spring 2018 and offers words of advice to those experiencing / anticipating cash flow pressure as outstanding bills fall due

2017 will be remembered as a good year in farming overall from a financial perspective, but ended on somewhat of a sour note, with farmers, particularly those in the North East, forced to house livestock earlier than anticipated due to poor grass growth and adverse weather conditions – the precursor if you like to the fodder shortages and operational challenges that unfolded nationally through Spring 2018.

From a financial perspective, it undoubtedly resulted in higher costs too, however to date we have not seen a material increase for working capital support and no material pressure on farm current accounts.

At the end of Qtr 1 2018, our internal metrics showed that average cash balances for the agriculture sector were up considerably year-on-year, while average overdraft utilisation for the sector were actually down year-on-year.

We understand that averages can conceal a lot and that there are, and will be, individual challenges as merchant credit, tax liabilities and outstanding bills fall due later in the year.

I would encourage farmers who may need support to quantify the level of working capital they require and make early contact with the bank to consider an appropriate solution to their circumstances.

I've included below an example and some key considerations to bear in mind when quantifying your potential working capital need:

1. Identify the additional costs incurred/potential production losses in 2018 (see example below)
2. Establish your current cash position
3. Identify the level of Creditors/Merchant credit outstanding and the interest being charged
4. Estimate the potential impact on 2018 sales
5. Collate the above and establish if Bank support is required.

This calculation can help your cashflow planning for 2018 and onwards. There is a useful cashlow planner and Winter Fodder planner on www.aib.ie/farming which may be useful and of interest. If you are not familiar with these tools, I suggest utilising your Accountant/Agricultural Advisor for assistance.

In AIB we have a long tradition of supporting farmers through periods of income volatility. Whilst it is not possible to predict the possibility of all externalities including weather, financial planning will help somewhat mitigate against periods of income pressure.

Illustrative example:

Farmer finishing 150 bullocks every year, selling in Autumn. Cattle are usually out to grass from 1st March onwards (mean turnout date 15th March) but this year the cattle remained housed until 16th April (an extra 31 days). The farmer only had silage stocks sufficient to 28th March, which meant he purchased 110 bales silage (average quality) at €30/bale and fed an extra 8t of meal (€220/t). Combined, the total cost for extra inputs came to €5,060 [i.e. 110 x €30) + (€220 x 8)].

However, when you take reduced thrive into consideration for the 150 herd (i.e. 0.6kg/day housed vs. 1.2kg/day at grass for the extra 31 days indoors (18.6kg/day @ €2.30/kg = €42.78 x 150 cattle = €6,417) the total impact increases to €11,477.

Whilst the cost of additional inputs (€5,060) will be immediate, the impact of reduced thrive (€6,417) will not be realised until stock sales in November. By completing similar to the above calculation, the impact of Spring 2018 can be identified.