Agri Matters

Supporting the Irish Agricultural Industry

Summer 2023

Welcome to our Summer 2023 Edition of Agri Matters

John Farrell

As the saying goes 'No two years are the same' and this certainly applies to the Agri sector. Last year the Russian invasion of Ukraine resulted in a significant spike in feed, fertiliser and energy prices at farm level. Thankfully however, output prices for most farm sectors rose throughout the year and higher output prices offset the higher input costs in most sectors.

To date, 2023 has seen further challenges facing the sector. The weather has played a role with record rainfall in March, which impacted the sowing of Spring cereals and the turnout of livestock, and in June the dry spell significantly reduced grass growth which may impact winter fodder reserves on some farms, depending on how the rest of the year plays out. This happening at a time of falling output prices, especially in the dairy and sheep sectors, and input costs, while trending lower than 2022, are still at elevated levels.

In this edition of Agri Matters, Donal Whelton, Head of Agri Sector, AIB reflects on the year to date for each sector and how each is positioned going into the second half of the year. We have our regular feature from Siobhan Kavanagh of the Teagasc Signpost Programme who profiles the new Teagasc targeted advisory programme to support climate and sustainability actions on farms and the new digital Agri-sustainability app 'Ag Nav'.

AIB are delighted to be associated with the Grass10 Programme. I would like to congratulate all the finalist in the 2022 Grassland Farmer of the Year competition but especially to the overall winner Diarmaid Fitzgerald, Cratloe, Co. Clare. We have included an article from Diarmuid Donnellan, who gives his perspective as a judge for the competition.

We also have our usual economic outlook article from Daniel Noonan from the AIB economic research unit and Kelley Lyons, AIB Agri Advisor discusses the key considerations when investing in farm infrastructure.

Finally, to further strengthen our support for our farming customers, Diarmuid Donnellan has recently been appointed as AIB Head of Sustainability for Agriculture, Food and Fishing and we also welcome Clodagh Forbes to our Agri Advisor team.

I hope you enjoy this edition of Agri matters.

John Farrell
AIB Agri Sector Team

Diarmuid Donnellan, Head of Sustainability for Agriculture, Food and Fisheries provides his perspective as a judge of the Grass10 Grassland Farmer of the Year Competition 2022.

Diarmuid Donnellan

Grass 10 – A Judges view.

The Teagasc Grass10 programme, supported by AIB, aims to increase the quantity of grass utilised on livestock farms (dairy, beef and sheep) with the objective of achieving 10 tonnes (t) of grass dry matter (DM)/hectare (Ha) per year utilised with 10 grazing's per paddock per year. The objective of the programme is to promote Grassland excellence on Irish livestock farms.

The judging of the Grass10 competition is an opportunity for myself and my fellow judges to meet the farmers and farm families passionate about farming who are adopting the latest science and best practise to maximise their grass utilisation and overall farm sustainability. The judging took place across 4 days visiting two to three farms per day across the country. This year's finalists stretched from Mayo to Wicklow and Kerry to Meath with a number of stops in between. My fellow judges were John Maher, (Programme Manager Grass10 Teagasc), Liz Hyland (Department of Agriculture, Food and the Marine), Aidan Brennan (Irish Farmers Journal), John O'Loughlin and David Corbett (Grassland Agro) and Pat Gilligan and Colin Heaney (FBD).

We had five broad areas of assessment:

1. Grass Production – tonnes of DM grown and utilised, grass measurement, organic and chemical fertiliser application dates etc.
2. Sward Management and Establishment – reseeding, methods used, varieties and use of pasture profit index (PPI) and Pasturebase.
3. Focus on Sustainability – environmental footprint, stocking rate, use of low emission slurry spreading (LESS), protected urea, incorporation of clover etc.
4. Nutrient Input and Efficiency – Nutrient management planning, soil sampling, lime, Ph, nitrogen use efficiency.
5. Health & Safety – Infrastructure on farm, roadways, access, health & safety statement.

In terms of sustainability, what do I mean when I apply this terminology to farming and Agriculture? Well, I break it down into three specific segments:

1. Economic Sustainability – the activity has to be economic in order to make or sustain a living, otherwise it's not sustainable. E.g. the incorporation of clover to retain stocking rate and output while reducing the reliance on chemical nitrogen (N) input and usage.
2. Social Sustainability – farming is part of the fabric of every community in rural Ireland and as such generational renewal is important to sustain these communities. Succession and encouraging new entrants to farming, fostering more collaboration between land owners and young entrants will aid the sustainability of the sector.
3. Environmental Sustainability – taking care of the environment, being mindful of carrying out farming activities that do not negatively impact on the environment, seeking to improve it from a land use and water quality perspective. As we know, farmers are the custodians of the countryside and the natural landscape.

2022 was a particularly inflationary year in terms of input costs, mainly feed and fertiliser, brought about by the outbreak of the Russian invasion of Ukraine. As a consequence, farmers have recognised the reliance on chemical N as a major cost to their business and a 'kink in the chain' when it comes to sustainable grass growth throughout the growing season. Farmers have recognised the potential financial savings that clover brings to the sustainability of their business and more so the reduction in chemical N usage which has knock on environmental benefits in the reduction of nitrous oxide emissions which is a green house gas (GHG).

A common trait of this year's finalists was their knowledge and understanding of the benefits of incorporating clover into their pasture swards, principally to reduce reliance on chemical N and reduce carbon emissions on their farm holdings. They were all acutely aware of the role agriculture has to play in reaching its carbon emissions reduction target of 25% by 2030 and they are adopting practises to support this ambition as laid down in the Teagasc MACC – (Marginal Abatement Cost curve).

In recent years we have seen more unpredictability when it comes to weather patterns. Droughts and heavy rainfall are becoming more prevalent, while effects in Ireland are moderate versus what we have seen in Europe and South America in recent months –

our unusually dry February was a boon for grassland livestock farmers but was followed by one of the wettest March's since records began over 80 years ago. The trait that represents this year's finalists is their ability to adapt to on-farm problems and find a solution and a way forward.

Some of the other traits common to all the finalists:

- Use of best available advice, open growth mind-set. All were proficient in grass-measuring, the use of Pasturebase to inform them on day-to-day decision making and then acting on the data.
- Management ability is key. All finalists are achieving high volumes of grass grown and utilised per Ha across a mix of soil types.
- Focus on Sustainable farm practises – Inclusion of Clover in pasture swards, nutrient management planning, soil sampling, use of lime to correct PH, use of low emission slurry spreading (LESS), use of protected urea.
- Innovative farm practises – from milking time / labour employed, mapping of holding to Michael McGuigan's innovative grazing creep gate which ensures the suckling calves consistently have the most palatable leafy grass.
- Strong emphasis on family farm with a lot of the finalists in partnerships with their parents and working intergenerationally. Strong emphasis on the importance of family life and achieving a good work life balance.
- Use of technology and infrastructure to improve the safety on farms. Strong awareness of the different generations working on the farm from young to old and ensuring a safe working environment for all.

The overall Grass10 Grassland Farmer of the Year 2022 Diarmaid Fitzgerald farms in partnership with his parents Seán and Deirdre in Cratloe, Co. Clare. They grew 13.5t of grass Dm/Ha whilst achieving an average of 8.75 grazing's per paddock on their farm in 2022. Diarmaid really excelled in terms of the level of incorporation of clover across the whole farm and the resultant reduction in chemical N usage across the farm. On a whole farm basis, Diarmaid used 149 kilograms (kg)/Ha of chemical N to grow over 13t of grass DM/Ha and in 2023 plans to use no chemical N on 27% of the farm, relying on clover to bridge the gap in terms of dry matter production. Diarmaid is a worthy winner and fantastic advocate for sustainable grassland production with strong emphasis on care for the environment.

If you are looking to improve grass growth and utilisation on your farm, there are a number of resources available that can help you get started or support your journey. Teagasc have a number of resources available at www.teagasc.ie/grass10. There will also be a number of Grassland Farmer of the Year farm walks taking place over the coming months which is a good opportunity to learn from peers. As the winner said, the management of the pasture "is constantly evolving" and as research and new methodologies are developed, management practises will be adjusted to forge the best path forward.

Pictured receiving the 2022 Grassland Farmer of the Year Award is the Fitzgerald family. Also included in the picture are (back row from L-R) Donal Whelton, AIB Head of Agriculture, Food and Fisheries; Enda McDonald, Grassland Agro; Michael Berkery, FBD; Charlie McConalogue Minister for Agriculture, Food and the Marine; Aidan Brennan, Dairy Editor Irish Farmers Journal; Liam Herlihy, Teagasc Chairman. Front (from L-R) the Fitzgearld family and Prof. Frank O'Mara, Director of Teagasc.

Donal Whelton, Head of Agri Sector, reflects on the year to date and previews the remainder of 2023.

Donal Whelton

The highly changeable weather conditions, the implementation of new policies and regulations and falling output prices have been the story of the year to date.

The dairy sector is coming off the back of all-time high prices in 2022 with some noticeable weakness in the market in H1 2023. Prices in the beef sector have come under pressure in recent weeks, while the pig sector, which was most challenged in 2022, has rebounded strongly in 2023 with good demand for product but feed costs remain stubbornly high. Policy changes such as cow banding under the Nitrates Action Programme and a new Common Agricultural Policy (CAP) have all posed new and additional challenges for Irish farmers to contend with in 2023.

However, overall, there is positive sentiment in the sector recognising that future challenges lie ahead. There is unprecedented interest in the land market at present, both for con-acre and leased land, primarily driven by policy change under the Nitrates Action Programme and the potential of a reduction in derogation limits from 250kgs organic N/Ha to 220kgs of organic N/Ha.

Cost inflation

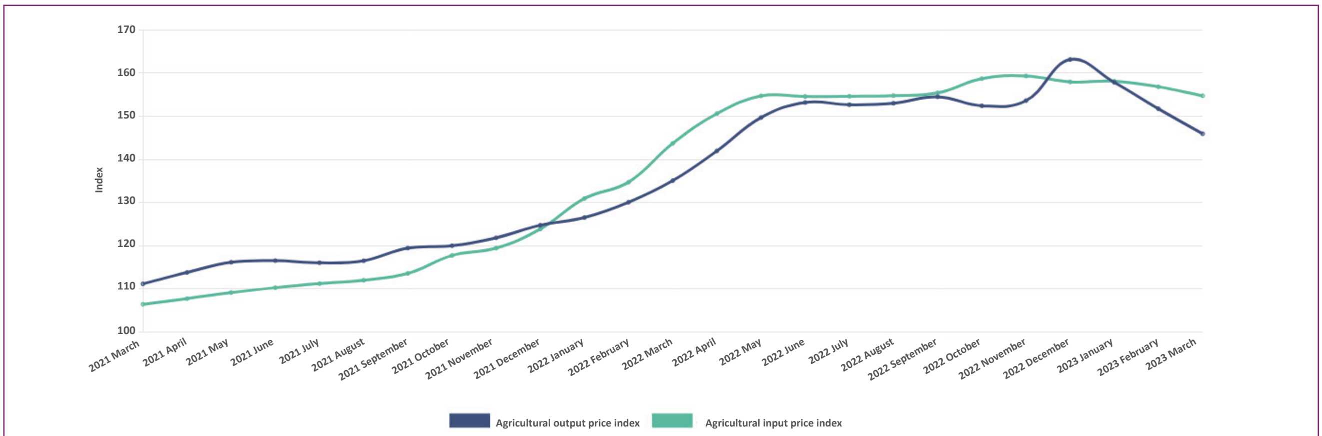
The Agricultural Input and Output Price Index, as measured by the Central Statistics Office (CSO), shows output prices have decreased by 12.5% in April 2023, from their peak in December 2022. However, input prices are yet to see the fall off experienced by output prices which over the same time period have decreased by 5%. This price differential means farmers will have less capacity to absorb further reductions in output prices.

Dairy

A little more milk in the market and a little less demand has contributed to weaker dairy commodity prices in H1 2023. Since our last publication dairy prices have reduced by 10-12c/litre on the back of record high levels in 2022, currently sitting at 38 – 40c/litre base price (mid-June). It is partly due to demand outstripping supply but also an overall weakness in dairy commodities for butter and cheese. Butter reached a high of €7,200/t in 2022 and has come back to €4,750/t, cheddar cheese reached a high of almost €5,000/t and is back to €3,600/t.

Rising energy levels and inflation were largely offset by increased milk prices in 2022. The strong financial performance of the dairy sector in 2022 put dairy farmers in a strong financial position coming into 2023 and this is supported by a diminishing reliance on overdraft utilisation coupled with strong cash reserves. While global milk volume is expected to grow in 2023, it is against a low base in 2022. Given the increased production costs on farms, there is unlikely to be a flush of milk during the peak output months in the Northern Hemisphere. Global demand for dairy products has stayed subdued in the first half of 2023, however, commodity prices are expected to improve slowly in H2 2023.

Figure 1 - Agricultural Input and Output Price Indices (Base 2015=100)



Source: CSO

Pigs

For the pig sector, 2022 will be remembered as one of the most challenging years on record. Output prices in 2023 have so far recovered well from the nosedive experienced through 2022. Currently Irish pig prices lag behind EU prices by 14 cents/kilogram (c/kg). Scope for an increase in the prices paid by factories and lower feed costs has fuelled optimism in the sector. The current Irish price is 33% higher than the corresponding week last year. Total throughput to date for 2023 is just over 1.2 million head, back around 10% on this time last year. Similarly, supply is back across the EU and with this reduction it is expected that the pig sector will see a more fruitful year after two years of unprecedented losses.

Beef

While market prices for beef remain strong, there has been some downward pressure on prices in recent weeks. Throughput numbers are down on where they were this time last year (early June -4.4%) and according to Bord Bia projections, supplies of finished cattle are strained with further reductions expected in the coming months. Cattle prices (R3 steer) (€/kg deadweight (dw) excluding VAT) year to date (YTD) have averaged €5.24/kg and are up 14% on the same period in 2022. However current prices have fallen below prices received at the same time last year, when the market peaked and cattle prices reached record highs. As supply and demand realign, there has been some negative movement in the market over the past few weeks. Base quotes are working off €5.10-5.20/kg for steers while heifers are being quoted 5c/kg higher. However, this offers little solace to those who are watching international markets. Currently, across the water in the UK cattle prices (R3 steer) are 9% higher at €5.67/kg (€/kg dw excluding VAT) which equates to €182/hd for a 380kg carcass. Nevertheless, it should be noted that the UK is currently one of the highest paying markets and Ireland is on par with the current EU average price. The live export trade continues to provide an important alternative market outlet for Irish livestock. For the year-to-date to end of May total cattle export figures are operating 15% ahead of the same period last year. Tightening cattle numbers across Europe are expected to contribute to steady demand for Irish cattle during 2023.

Sheep

Sheep prices have fallen back since their historic highs in 2022, average prices for 2023 YTD are at €6.68/kg, back from an average price during the same time period last year of €7.11/kg (-6%). The Easter trade and import demand for lamb did help to put a bit of positivity into the market. While the 2023 average prices are still substantially higher than historic values, sheep farmers have been operating at an increased cost of production, approximately 17% higher in 2022. Sheep throughput is trending higher with 20,000 (+1.8%) additional sheep processed so far this year compared to the same time period in 2022. Currently (early June), base quote for lamb are ranging from €7.45-€7.60/kg and are on a par with 2021 prices.

Tillage

A slow wet spring left many tillage farmers under pressure to get spring crops established, particularly Spring barley. While fertiliser prices are thankfully coming back from their historic highs, the lag time in the reduction of these inputs has meant many tillage farmers have had to pay higher prices for their fertiliser inputs this Spring. In addition, grain prices this year have been on a downward trend and futures markets are projecting a drop in harvest prices to €250/t for 2023 harvest, from over €400/t at the same point in 2022. Factors coming into play include resumed Ukrainian grain exports and favourable US maize planting weather with corn planting 7% ahead of 5-year averages for this time of the year. In addition, Argentina's wheat area for 2023/2024 is expected to increase by 10% to 6.7m Ha. This combination of factors is likely to be reflected in harvest prices for the 2023/2024 season. However, as we know all too well a lot can happen before harvest and negative sentiment is often nothing more than a snapshot of opinion at a point in time. At time of writing, there are a number of droughts across southern Europe and parts of North America which could potentially have a positive impact on harvest prices in Ireland if they persist across the summer.

Summary

From the highs of 2022 with record family farm incomes across many sectors, excluding pigs, it is expected that 2023 will be slightly more subdued. Input prices have thankfully been on a downtrend trend, albeit, not as quickly as many would like. However, farmers still need to be aware of productions costs and the importance of on-farm efficiency inside the farm gate, i.e., those things that can be controlled.

Overall, it is anticipated that family farm incomes will be reduce somewhat this year. However, significant variation and sentiment exists between sectors. If the demand for beef and pigs continues, coupled with lower feed costs, both sectors may see an increase in family farm incomes.

To conclude, while the outlook for 2023 is not as positive as this time last year, the sector overall remains in a reasonably good position. While the outcome of various trade deals and environmental policy changes may well present challenges to some enterprises in the future, the sector as a whole has proven to be resilient and adaptive in responding to new challenges.

In our Signpost Series, **Siobhan Kavanagh from Teagasc,** discusses the New Signpost Advisory Programme.

Siobhan Kavanagh

Teagasc have established a new, targeted advisory programme to support climate and sustainability actions on farms. This new programme will be available to all farmers and is free of charge. The programme will provide enhanced advisory and training support to enable farmers to implement climate and sustainability actions specific to their farms.

The overall aim of the programme is to reduce greenhouse gas emissions by 25% by 2030 while maintaining farm profitability.

There are 5 steps to the programme:

1. Farmers register for the programme;
2. A baseline assessment of the current actions being implemented on the farm will be undertaken;
3. Farmers will have the opportunity to see the total emissions figures for their farm (Know Your Number) using the AgNav Programme. This is an important starting point as it's hard to change what you don't measure;
4. An action plan for the farm will be developed in conjunction with an advisor (Make My Plan); and,
5. Farmers will be supported to make the plan happen through a range of advisory supports, including both group-based and individual follow-up and advice. Participation in the programme will be for 3 years.

A team of new advisors is being established within each of the advisory regions to deliver the service. The service will be closely linked to the ongoing advisory support services, ensuring consistency and good integration into existing advisory programmes.

AgNav

Teagasc, ICBF and Bord Bia have been working together to develop a sustainability support tool for farmers. The collaborative initiative is called "AgNav", and it will deliver support and engagement tools to all farmers, becoming a "one stop shop" for farmers implementing climate action and sustainability improvements on their farms.

Essentially there will be three elements to AgNav:

1. **Assess** - Using a sustainability assessment and resulting feedback report, a farmer either individually or in consultation with a farm advisor can establish current farm performance against a number of relevant environmental and sustainability indicators.
2. **Analyse** – where farmers and/or advisors identify opportunities for changes to practices on farm that could result in improved performance, they can determine the impact of implementing these practices by using the "Forecaster" tool.
3. **Act** – following the identification of the most appropriate actions for their farm, a farmer and/or the advisor can create a sustainability plan for the farm which can include targets and timelines for implementation/completion. This plan will act as a guide for farmer/advisor engagement and demonstrate each farmers commitment to delivering for the climate action plan.

Farmers can register for the Signpost advisory programme at www.teagasc.ie or scan the QR code below.

Where does the advisory programme fit in with the broader climate strategy?

Teagasc is significantly increasing its resources devoted to climate related research and knowledge transfer. The Signpost Advisory Programme is one of three key pillars of the new Climate Action Strategy:

1. A Signpost Advisory Programme
2. A Sustainability Digital Platform will be a new secure online platform that will allow farmers calculate emissions and carbon balances on their farm. It will also have a decision support capability that will allow advisors to work with farmers to develop tailored sustainability plans and track progress on implementing the plan.
3. A National Centre for Agri-food Climate Research and Innovation will be a virtual research centre across all our existing research programmes in order to increase the coordination and collaboration of research and development around climate change mitigation and adaptation. This will accelerate the development of new technologies by co-ordinating and accelerating research and innovation programmes across Teagasc, as well with other institutes, both in Ireland and internationally.

The new Signpost Advisory Programme will increase the capacity to support and accelerate the adoption of new technologies as they emerge from research.

At the launch of the Moorepark 2023 Open Day were (back row from L-R) Liam Herlihy, Teagasc Chairman, Prof. Laurance Shalloo, Teagasc Head of Animal and Grasslaand Research; Jeanne Kelly, Ornua; Charlie McConalogue Minister for Agriculture, Food and the Marine; Prof. Frank O'Mara Teagasc Director, Mary Dunphy & Michael Berkery FBD; Prof. Pat Dillon, Teagasc Director of Research; Donal Whelton, AIB Head of Agriculture, Food and Fisheries.

Daniel Noonan, from the AIB Economic Research Unit, discusses the consistent strength of the Irish economy.

Daniel Noonan

Slower growth expected, but Irish economy to outperform once again

The Irish economy has performed remarkably well over the past couple of years. Gross domestic product (GDP) rose by 13.6% in 2021, as the economy recovered from the impact of the COVID-19 pandemic, before increasing by 12% last year. Very high levels of foreign direct investment (FDI) and a sharp rise in exports were key factors in the rapid pace of economic growth during 2021-22.

Modified final domestic demand (MFDD), a better measure of the domestic economy's performance also registered strong growth, rising by 8.5% in 2022, having rebounded by 6% in 2021. However, it must be noted that domestic economic activity slowed over the second half of last year, with MFDD contracting in Q3 and Q4.

The recent strength of the Irish economy is best exemplified by data on tax receipts and the labour market. Tax revenues have been very buoyant over the past few years, supported by significant increases in income and VAT receipts, as well as a substantial rise in the corporate tax take. Income tax receipts rose above €30 billion (bn) last year, up 34% since 2019, while VAT returns were 23% higher also. The corporate tax take has more than doubled since 2019, and stood at €22bn last year, although, guidance from the Department of Finance (DoF), implies that in the region of €10.5bn of this is likely windfall in nature, meaning it cannot be relied upon to re-occur every year. The Exchequer finances remain in robust health this year. The tax intake is up 14.2% year-to-date in April, led by further increases in VAT, income and corporate tax receipts.

Regarding the labour market, employment has risen sharply and unemployment declined throughout the past two years. The official unemployment rate peaked at 7.7% in March/April 2021, before trending lower over the remainder of that year and throughout 2022. The Labour Force Survey results for the opening quarter of 2023 indicate that the labour market remains characterised by strong growth, with the level of employment rising to 2.62 million. Furthermore, the unemployment rate fell to 4.1% in Q1, and declined to just 3.8% in May, its lowest level since records began.

Most other economic indicators remain strong at the start of 2023, although, GDP is estimated to have contracted by 4.6% in Q1, principally due to a sharp fall in industrial output from very high levels in the second half of last year. However, MFDD increased by 2.7% in Q1. Meantime, consumer confidence remains quite weak, but it has improved in four of the last five months. However, this is somewhat unsurprising, given the labour market is very tight, and price pressures have eased in recent months.

Similar to elsewhere, Ireland has experienced a significant inflation shock over the past 18-months. Inflation peaked at 9.6% in June/July 2022, and remained elevated throughout the remainder of the year, as the war in Ukraine placed severe upward pressure on commodity and energy prices. However, inflationary pressures have softened this year, as energy prices have normalised. The latest CSO data show that the headline harmonised index of consumer prices (HICP) rate had fallen to 5.4% in May, down from 6.3% in April. However, core inflation remains sticky, with the ex-food & energy inflation rate at 5.7% in May.

The war in Ukraine also made farming inputs much more expensive last year. Between them, Ukraine and Russia are significant suppliers of grain used for animal feed globally. A report from the United Nations shows that Ukrainian exports of corn, wheat and barley were down almost 40% year-to-date in November 2022, despite a significant rebound in exports, between August to November, under the Black Sea Grain Initiative. Pre-invasion, Russia was the world's second biggest exporter of oil and its largest exporter of natural gas. Prices of both rose sharply throughout the first three quarters of 2022. Meanwhile, Russia is also a major exporter of industrial fertilisers, including nitrogen based fertilisers, potash and phosphates. Thus, the prices of feedstuff, energy and fertilisers have been greatly impacted by the conflict.

In Ireland, CSO data show that feedstuff were about 30% more expensive last year, the price of energy rose by over 40%, and the cost of fertiliser more than doubled. In total, the agricultural input price index was up 35.1% in 2022 compared to 2021. However, the output price index rose by 26.7% over the same period, indicating that the sector in general was able to absorb some of the rise in input costs. More recently, agricultural output prices have eased somewhat. The output price index in March was 10.5% below its peak from December last year, while the input price index was down by 2.8%, compared to its peak last November.

The preliminary estimate from the CSO shows that farm incomes grew by 25% in 2022, primarily due to large increases in the price of outputs. Looking at the key underlying trends from last year, milk output rose by 46%, but this was predominantly due to a 45% increase in prices, with production volumes expanding by a modest 1%. In terms of livestock, cattle, pig and poultry volumes declined slightly, but were more than offset by increases in value. Sheep volumes and values rose by 2.4% and 4.5%, respectively. Elsewhere, crop production declined by 1%.

There are a number of headwinds, facing the wider economy over the next 12 months, which in-turn, will also impact the Agri-sector. In response to the surge in prices last year, the European Central Bank (ECB) tightened monetary policy sharply, raising interest rates by 375 basis points in less than 12 months. Further rate hikes can be expected over the summer also. Thereafter, interest rates are expected to remain on hold for a period of time. However, if inflation proves to be stickier than expected, with particular attention now turning to core inflation, the ECB may be forced to raise rates higher than markets currently anticipate. Meanwhile, the very open Irish economy remains vulnerable to the weak global economic backdrop, with much slower growth expected this year in our main trading partners. The International Monetary Fund is forecasting GDP will rise by just 0.8% and 0.4%, respectively, in the Eurozone and UK this year.

However, while risks remain, there are also elements in place to underpin growth in the Irish economy. Some of the large scale build-up of private sector savings that have accumulated during the pandemic can be expected to be run-down, which will help underpin growth in the domestic economy. Fiscal policy here also remains supportive of economic activity.

Recent forecasts for Ireland, from the Central Bank of Ireland, Economic and Social Research Unit (ESRI) and DoF are for GDP growth to slow to 4.5-6% this year. Meanwhile modified domestic demand is projected to grow by around 2-4% this year, down from 8.5% in 2022. Further out, all three institutions see the Irish economy maintaining healthy growth rates of 4-6% in GDP, and 2-4% in MFDD, in 2024. Thus, a slowdown is expected in the pace of growth in the Irish economy in the next two years, though, activity is projected to remain considerably stronger than in most other advanced economies.

Clodagh Forbes - AIB Agri team

Clodagh is from a family run dairy farm in West Waterford.

She completed her Animal and Crop Production undergraduate degree from UCD in 2020 and went on to do a Diploma in Leadership for the Agri-Food Sector in UCC gradating in May 2021. Following this, Clodagh joined AIB working in branch banking as a Sales and Service Advisor in 2021.

Diarmuid Donnellan - Head of Sustainability for Agriculture, Food & Fisheries

Diarmuid is originally from a dairy and beef farming background and lives in Ennis, Co. Clare.

He completed a degree in Agricultural Science from UCD in 2003. Following this, he worked for FDC & Associates as an Agricultural Consultant before joining Teagasc in 2005, where he worked as a Drystock Business & Technology adviser. Following this, he joined AIB in 2014 working as a regional Agri Advisor in area South covering all types of funding requests across enterprises in the Agri Sector. In May 2023, Diarmuid was appointed as Head of Sustainability for Agriculture, Food & Fisheries in AIB.

Kelley Lyons, AIB Agri Advisor, discusses the key considerations when undertaking farm investment.

Kelly Lyons

Farmers are continuously focusing their investment priorities on improvements in on-farm efficiencies to prosper and grow. When approaching investments, farmers must begin with the end in mind and ask themselves 'will this improve my efficiency and/or profitability'? In AIB we are seeing strong demand for credit, particularly for land and farm buildings and infrastructure, the latter due to the new Targeted Agricultural Modernisation Schemes (TAMS) III grant aid. We expect the level of farm investment activity to remain largely buoyant in the months ahead, notwithstanding the market challenges in some sectors.

Most on-farm investments can be classified into one of the following categories:

i. To improve output or reduce costs thereby improving profitability;

ii. Improved labour efficiency that will make running the business easier; or,

iii. Investments that will allow new opportunities to be availed of i.e., an additional enterprise.

The cost of any of this investment can be broken down into 2 main elements:

- The initial capital cost.
- The running costs after the investment is up-and-running.

Assessing the initial capital cost (farm building example):

1. Take the time to plan your project carefully, the major costs in a farm building investment are labour and materials. However, there are also other associated pre-construction costs to be considered such as the fee for preparation of drawings, the grant application preparation fee and the planning application fee, if applicable.
2. Visit similar projects and work closely with your Advisors to find the design that works best for you.
3. Once you have decided on the type, size and specification of the building and have had plans drawn up you can then start to estimate the cost. To get a realistic idea of the potential cost of the investment it is important to get quotes from several building contractors. It is important to specify any extra work required over and above the main building work. This will have long-term benefits – it reduces the risk of having to pay 'extras' after the main work is completed and it will give a true comparison of the quotes you get back.
4. Be realistic in relation to the length of time involved, from planning process to attaining quotations etc for the development work and finally carrying out the development work itself.
5. It is important to consider the effect, if any, the construction project will have on existing on-farm operations / processes, particularly if building on an existing farmyard.
6. It is very important to have a clear understanding of the effect the investment may have on farm cash flow.
7. Structure bank finance appropriately, sometimes arranging the finance does not necessarily get the attention it deserves. Short term financing of long-term assets or trying to repay a loan for capital expenditure items over too short a time frame can often put significant pressure on farm cash flow.

Running Costs

Once the new facility is in place there may be additional costs involved in operating it such as higher electricity bills etc. Have a clear understanding of these costs in so far as possible. There may be cost savings due to better building designs that can be considered.

Sources of funds for the building development

Once you have established an estimate of the building costs and any grant to be received you can then calculate the overall net cost of the investment. This cost will have to be financed from one of the following sources:

1. Farm cash flow or business cash deposits (usually smaller developments);
2. Sale of another asset; or,
3. Borrowed funds.

It is important to be clear on how much you need, over what term and what way you want your repayments structured when engaging with a financial institution. As with any investment, it is vital to bear in mind that there may be a lag period between paying for the building work and receiving the grant to cover that part of the cost. In this case, short-term bridging finance may need to be arranged to cover the total building cost until the grant payment comes through.

Remember full repayment (capital and interest) must be met from your available cash, this tends to vary considerably on most farms depending on the time of year, the type of farming system and the existing demands on cash. The term of the loan can be tailored to match the level of borrowing and can be matched to the lifespan of the asset borrowed for, generally, farm buildings can be financed over terms of up to 15 years. The longer the term the lower the repayment which will help business cashflow. However, the cost of the credit will be higher and as such it is important to determine a sustainable repayment amount and a repayment duration that suits your farm.

In deciding the repayment schedule, you should start with a clear understanding of your cashflow cycle and when your peak cash inflow months are. Loan repayments can be tailored to match your farm cashflow and ensuring your loan repayments match your peak cashflow periods will help reduce the possibility of loan repayments being financed through your working capital facilities.

Before taking on any new debt, it is advisable to look at the existing debt commitments of the business. Listing out all the current business debt will help you establish whether it is possible to meet the repayments for any new borrowing.

Conclusion

Before taking on extra debt it is important to understand what is the available cash of the business in order to meet the proposed new loan repayments after accounting for household living expenses, existing loan repayments and tax.

It is important to have a good understanding of the available cash on the farm to meet loan repayments. Knowing your cashflow cycle will help you structure your loan appropriately.

Launching the Sustainable Grassland Farmer of the Year competition 2023 are (L-R); John Maher, Teagasc Grass 10; Enda McDonald, Grassland Agro; Prof. Frank O'Mara, Teagasc Director; Donal Whelton, AIB Head of Agriculture, Food and Fisheries; Liz Hyland, Department of Agriculture Food and the Marine; Charlie McConalogue, Minister for Agriculture, Food and the Marine; Liam Herlihy, Teagasc Chairman; Michael Berkery, FBD; John O'Loughlin, Grassland Agro; Aidan Brennan, Dairy Editor Irish Farmers Journal; Mary Dunphy, FBD.

AIB Agri Team

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

We are from farming backgrounds ourselves, so we 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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Warning: The costs of your repayments may increase.

Warning: You may have to pay charges if you repay early, in full or in part, a fixed rate credit facility.