

Agri Matters



Supporting the Irish Agricultural Industry

Winter 2021



Welcome to our Winter 2021 Edition of Agri Matters



John Farrell

2021 was a reasonably good year for Irish agriculture, with output prices in most sectors increasing throughout the year. Unfortunately, as we head into 2022, input prices are on an upward trend and are likely to reduce margins in the sector next year.

Covid-19 has not gone away, and while its impact has not been as severe as on other sectors in the economy, it has had a big effect on social events as most shows, conferences and events have succumbed to it. Let's hope that 2022 is different, and we can get back to attending more physical events in the sector.

Sustainability has dominated the headlines in recent weeks and months and not just in the Agri sector. We are all aware of the role that Irish agriculture is being asked to play in helping the country meet its greenhouse gas emissions targets. As such, we feature two articles focussed on this topic. AIB were delighted to sponsor the Teagasc Moorepark Open Day in September themed 'Delivering Sustainability' and Professor Laurence Shalloo and Professor Pat Dillon, outline on pages 6 and 7 the key take home messages from the day. Events like the Moorepark Open Day are essential in providing direction and support to Irish farmers. To that end we are also delighted to be involved in the Teagasc Signpost Programme, The Grass 10 initiative and the Irish Grassland Association (IGA) Dairy Summer Tour. On pages 8 and 9, Stuart Childs and Ed Payne, review this year's IGA Dairy Summer Tour which examined the role of clover in the future of Irish dairy farming.

We also feature an article from the Minister for Agriculture, Food and the Marine, Charlie McConalogue, in which he shares the details of what Ireland's Common Agricultural Policy (CAP) Strategic Plan for 2023-2027 will look like. We have our economic outlook article from John Fahey, AIB Senior Economist, while Mark Glennon, one of our Agri Advisors, looks at planning ahead for 2022 and dealing with higher input costs.

I hope you find something of interest in this edition of Agri Matters, and we would like to take this opportunity to wish you and your family all the best for the coming year.

John Farrell
AIB Agri Sector Team



We sponsored the Agricultural Science Association (ASA) Distinguished Member award, which was presented to European Commissioner, Mairead McGuinness at the ASA Annual Conference, earlier this year. The award honours a member who the organisation believes has made a significant impact on the Irish agri-food sector in the course of their career. Congratulations to Mairead who was a very worthy recipient. Presenting the award to Mairead were Dr Anne Marie Butler ASA President and John Farrell, Agri Sector Team, AIB.

Minister for Agriculture, Food and the Marine, Charlie McConalogue outlines the changes that are proposed as part of Ireland's CAP Strategic Plan for the period 2023-2027



Minister McConalogue

Since my appointment as Minister for Agriculture, Food and the Marine in 2020, I have worked closely with all relevant stakeholders to ensure that Ireland will have a CAP Strategic Plan (CSP) for the period 2023-2027 that will underpin the sustainable development of our farming and food sector by supporting viable farm incomes and enhancing competitiveness, by strengthening the socio-economic fabric of rural areas, and by contributing to the achievement of environmental and climate objectives at national and EU levels.

The new CSP will include changes in the approach to CAP planning and implementation compared to previous programming periods, moving from a compliance-based approach to a performance-based approach. Under this so-called 'New Delivery Model', Ireland's performance will be judged on outputs and results, and on how our CSP contributes to CAP objectives at EU level. The CSP will incorporate interventions under both Pillar I (Direct Payments and Sectoral Interventions) and Pillar II (Rural Development) into one overall plan.

For many Irish farmers this will come as no surprise, as my Department has been engaging regularly with stakeholders over the past two years. More recently, in July this year, it held a public consultation on the proposed measures to be implemented under the Plan, which attracted over 1,000 submissions. In addition, I have recently concluded a tour of marts around the country, speaking with farmers and hearing their views. During this consultation, I was very pleased to announce that government had agreed an exchequer contribution of €2.3bn for the CSP, bringing the overall funding for the plan to €9.8bn – a significant increase over the previous CAP period.

There is a particularly strong emphasis on the achievement of a higher level of climate and environment ambition through a new so-called "Green Architecture". In implementing this, Ireland intends to put the CSP at the core of our transition to more sustainable agricultural and food systems, and to support farmers in this transition.

In Pillar 1, my Department will be implementing a range of changes as provided for in last summer's political agreement between the three European institutions. These will include:

- Internal convergence will continue to move farmers' basic payment entitlement values towards the national average. I have chosen to continue this convergence to 85% of the national average (from the current 60%) by 2026.
- Ten per cent of the Pillar 1 budget will be ring-fenced for redistributive payments, a mechanism that will provide a net benefit for 75% of all active farmers. Redistributive payments ensure a portion of the funding available in Pillar 1 is redistributed from larger to smaller and medium-sized farms.
- Three per cent of the overall Pillar 1 budget will be assigned to our dedicated intervention for Young Farmers, ensuring that generational renewal is supported via a significant payment to all eligible young farmers. Additional supports for Young Farmers will also be available in Pillar 2.
- Ireland will, for the first time, implement "Eco-schemes" by ring-fencing 25% of Pillar 1 funding for measures that build on the baseline environmental improvements achieved through conditionality. These voluntary measures will be developed in a way that will allow all farmers to achieve a higher level of environmental and climate ambition, and that will assist in the achievement of Ireland's Climate Action Plan targets, as well as improving water quality and biodiversity.

Pillar 2 builds further on the baseline Conditionality for direct payments, and the ambition achieved in Eco-schemes, by offering voluntary interventions that focus on specific areas in order to achieve EU and national objectives. These include:

- Our flagship Agri-Environmental and Climate Measure, under which a hugely increased budget of €1.5bn will be spent on targeted measures for

farmers to maintain and improve biodiversity and water quality, to contribute to greenhouse gas emissions reductions and to farm in a generally more environmentally sustainable way.

- A new Organic Farming Scheme, underpinned by a more than five-fold increase in funding, to €256 million over the 2023-2027 period, which will accelerate our progress towards the average EU area under organic farming, in line with the Programme for Government commitment.
- Specific livestock measures will help to improve carbon efficiency, genetic quality and animal welfare on livestock farms in a targeted way.

- A focus on sustainable farming practices will be delivered across a number of interventions aimed at training, investment and co-operative practices.
- Significant funding (€36million) will be available for innovative projects through a competitive call for proposals under the European Innovation Partnerships intervention.

I look forward to further engagement with stakeholders in the coming weeks, with the goal of the successful submission of Ireland's CSP to the European Commission at the end of the year. We expect approval by the EU Commission in time for the CAP Plan to commence from 1 January 2023.



We're continuing our partnership of the Grass 10 campaign by signing up to phase 2 of the campaign, for another four year period. The campaign will continue to focus on increasing grass growth and utilisation on grassland farms, with the main objective of ensuring the long term sustainability of Irish pasture-based dairy, beef and sheep production systems. Launching phase 2 of the campaign were (front row L to R) John Maher, Manager Grass10, Michael Berkery, Chairman of FBD Trust, Charlie McConalogue, Minister for Agriculture, Food & the Marine, Liam Herlihy, Teagasc Chairman, (back row L to R) John O'Loughlin, Grassland Agro, Pat Dillon, Teagasc Head of the Animal and Grassland Research and Innovation Programme, Aidan Brennan, Irish Farmers Journal and Bryan Doocey, AIB Agri Advisor.

Donal Whelton, Head of Agri Sector, reviews the performance of the Agri Sector in 2021, and considers what 2022 may have in store



Donal Whelton

It is difficult to remember a more divergent year for the Agri Sector. On the one hand, prices across most sectors, with the exception on pigs have been on an upward trend, throughout much of the year, and as a result, aggregate family farm income is likely to be at its third highest level since 2010. And, while the short term outlook remains positive, there are some storm clouds on the horizon that are going to change the shape of Irish agriculture over the next decade.

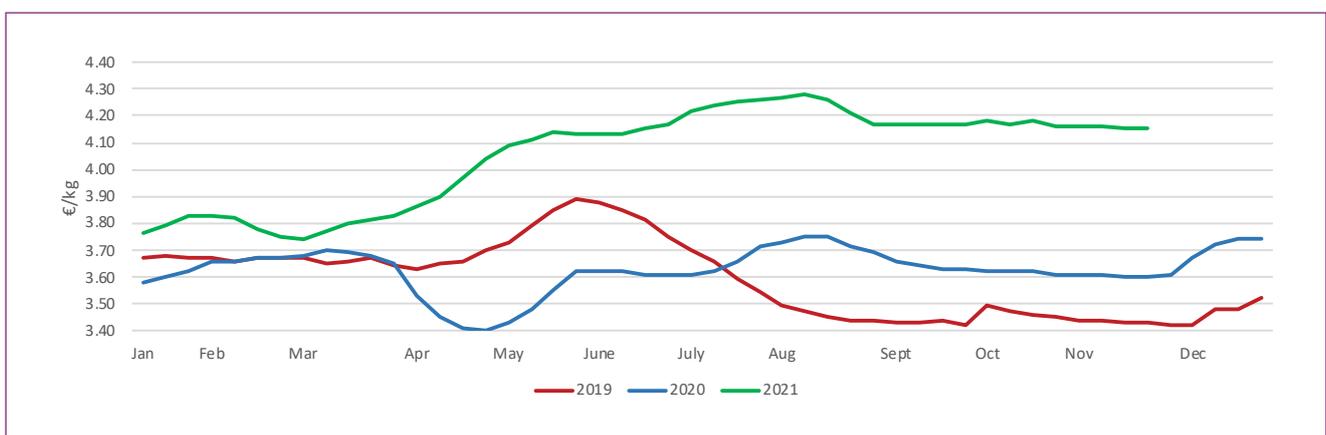
While Covid-19 continues to affect wider society, the Agri-Sector continued to perform strongly throughout 2021. Despite a wet and cold start to the year, grass growth recovered from June onwards, and although overall grass growth is likely to be behind 2020 and the five year average for the year as a whole, conditions were very favourable at the back end of the year.

Looking at the performance of the individual farm sectors throughout the year, the **beef sector** was the sector that exhaled the biggest sigh of relief as the EU and the UK reached an agreement on the future trading relationship. Since then, prices in the sector have been on an upward trend for much of the year and although they have reduced somewhat from the

peak at the end of July, prices (at the beginning of November) are running 15% higher than at the same time in 2020 (Source: Bord Bia). The increased factory prices have made their way back down the supply chain, with the price of all animals, and most notably forward stores, well ahead of last year. Higher store prices, combined with higher feed costs will mean that margins for those fattening cattle will remain very thin, unless there is a further price increase. A lower Irish throughput (-5%), increased demand from food service, and strong demand for beef on international markets, are some of the main factors underpinning higher prices in the sector.

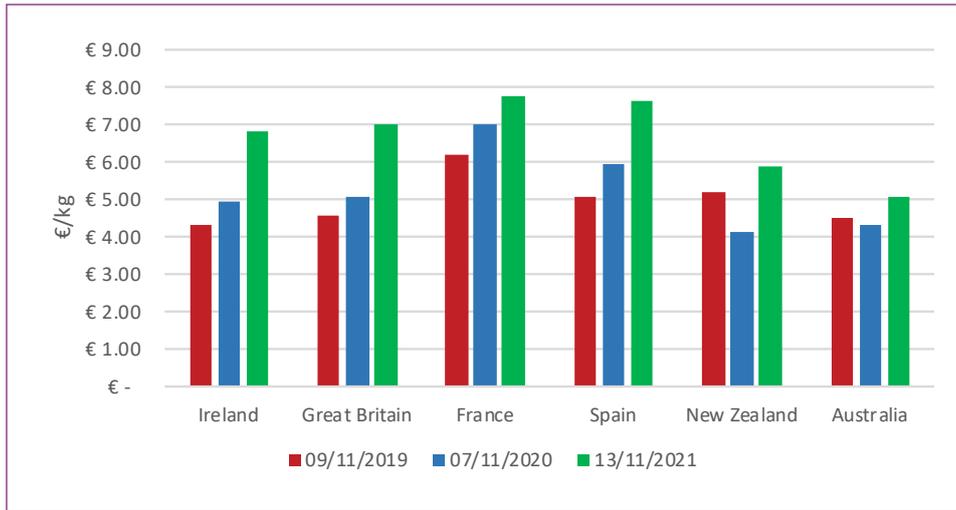
Similarly in the **sheep sector**, prices in the sector have been well ahead of prices last year, and indeed the five year average price, with prices increasing again in recent weeks. Prices at the beginning of November were almost 30% higher than for the corresponding period in 2020 and were on average 25% higher than the average price over the past five years (Source: Bord Bia). Lower sheepmeat supplies and strong demand from Asia is underpinning the current prices in the sector, with prices in key sheepmeat producing countries of Australia, New Zealand, France and Spain, well head of the same period in 2020.

Irish Weekly R3 Steer Price €/kg (Ex VAT)



Source: Bord Bia

Irish, European and Global Sheepmeat Prices 2019, 2020 and 2021



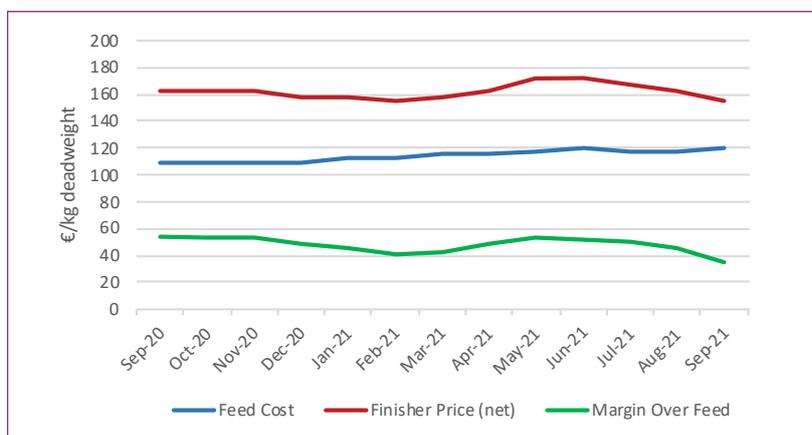
Source: Bord Bia

In the **dairy sector**, milk price at the end of September was running some 16% ahead of the same period in 2020 and is likely to average around 36c/l base or 39c/l actual for the year as a whole, some 14% above the average base price in 2020. Milk supplies to the end of October were running over 6% ahead of the same period in 2020, with October 2021 supplies over 2% ahead of October 2020 supplies (Source: Central Statistics Office). The increase in milk price is being driven by strong global demand, underpinned by China and modest supply growth. Further farm gate milk price increases may be on the way as the EU average price of the main dairy commodities including skimmed milk powder, butter and whole milk powder all increased throughout the month of October and prices are running 33-40% higher than the same time in 2020 (end October), cheddar prices are a bit more subdued running at 7% above 2020 levels, while six of the last seven Global Dairy Trade auctions (mid-August to mid-November) all reported a price increase.

Tillage farmers enjoyed one of their best years in a number of years as a consequence of tighter global supplies and increased demand. Strengthening markets, combined with strong yields and good quality, resulted in green barley prices c€50/tonne (or 30%) ahead of 2020, and wheat prices c€40/tonne (or 20%) ahead of 2020 prices. At this stage, the outlook for 2022 is strong, underpinned by tightening global stocks. The rise in fertiliser prices, will no doubt affect crop planting and output in some parts of the world, and this will do little to re-correct the tightening global stocks that were underpinning this year's prices.

The **pig sector**, is the one sector that has not benefited from increased prices throughout the year. In addition, the increase in grain prices, is having a significant detrimental impact on the sector. This combined with reduced pig prices, is eroding the margin over feed (MOF) and as a result some farmers are now operating well below the MOF required for profitable production. Pig Prices at the end of

Pig Feed Costs, Finisher Price and Margin Over Feed



Source: Teagasc

October were 15c/kg below the same time in 2020 (and some 32c/kg below the corresponding period in 2019) while the composite feed prices has also increased by around 15-20c/kg in the past year.

As we mentioned, unfortunately there are some storm clouds gathering on the horizon. We have already seen the impact of the rising feed costs on the pig sector and winter finishers will also be impacted, unless there is output price increases in these sectors. The other livestock sectors of dairy, beef and sheep will also be affected by higher feed costs. Of more concern to farmers as they plan for 2022, is the rising cost of fertiliser and its availability. Prices have doubled in recent months driven by the increased cost of natural gas, which resulted in the closure of a number of fertiliser plants, in addition to China's decision to tighten export controls and regulations. With the cost of these important inputs increasing significantly and an increase in the cost of diesel and energy, family farm income will be more challenged in 2022, even if prices remain at or close to their existing levels. Mark Glennon in his Agri Advisor article looks at the impact of rising input costs in more detail.

While inputs prices are the story of the short term for the sector, of more concern over the medium to long term is CAP Reform, the Nitrates Action Plan review, Carbon budgets and dare I mention it Brexit. Combined, these items will fundamentally change the future of Irish agriculture in the coming decade.

The Minister for Agriculture, Food and the Marine Charlie McConalogue TD, has undertaken significant consultation in relation to the new CAP which will run from 2023 to 2027. What we know at this stage (as the Minister outlines on pages 1 and 2) is the new CAP is moving from a compliance-based approach to a performance-based approach, with a much higher focus on the environment. For Pillar 1 payments the new CAP will continue the road of capping and convergence, we will see a redistributed or front loading payment and the introduction of a new eco-scheme which will account for 25% of Pillar 1 payments. Pillar 2, which will have an increased budget due to increased exchequer funding, will provide a series of voluntary farm scheme and programmes focussed on specific areas in order to achieve national and EU objectives.

Separately, a review of Ireland's Nitrates Action Programme (NAP) is ongoing, with a second period of public consultation closed at the end of September. Member states have to review and update their NAP every four years and Ireland's current action programme runs until the end of 2021.

The 5th NAP, covering the period 2022 – 2025 is due to be finalised following the review of responses and stakeholder engagement before being sent for Ministerial sign off before the end of the year. There are a number of proposed measures under the new NAP which will have a significant impact on farms including longer closed period for spreading slurry, longer closed period and increased storage requirements for soiled water, new organic nitrogen bands for dairy cows, reduced chemical nitrogen allowances, a chemical fertiliser register, and on tillage farms, shallow cultivation of harvested crops within seven days post-harvest, amongst other measures.

Brexit unfortunately has not gone away, and as we write this article there is some talk of the UK evoking article 16. As was the case with Brexit in the past, it is likely that this will imply more uncertainty, more instability and longer protracted negotiations. The UK and New Zealand have recently announced an agreement in principle on a free trade deal, while the UK and Australia are in the process of finalising a trade deal. While there is a period of time before trade is fully liberalised with the removal of all tariffs and all quotas, Irish farmers will in the years ahead, likely face greater competition from the Southern hemisphere in the UK market.

Sustainability is something we are going to hear a lot more of into the future. Unfortunately, much of its discussion in relation to the Agri sector has been negative, unbalanced and lacking understanding.

What we do know is that Ireland is one of the most sustainable producers of food in the world, and we feed about 45 million people annually. Agriculture emissions accounted for 37% of total emissions in 2020 and was the largest contributor to overall emissions, but it should be remembered that this is a reflection of the importance of agriculture to Ireland's economy and also the lack of heavy industries compared to many other countries. What we do also know now is that under the Climate Action plan, Ireland has committed to a 51% reduction in greenhouse gas emissions by 2030 and within that, Irish farmers will be required to reduce their emissions by between 22-30% - with the final figure to be set next year. This is not an easy task by any stretch of the imagination, but as has been the case in the past, farmers will rise to the challenge. Farmers want to do more for the environment, reduce their emissions and become more carbon efficient. What they need to enable this is support, direction and to ensure that their incomes do not come under increased pressure.

Professor Laurence Shalloo and Professor Pat Dillon, reflect on the key themes to emerge from the Moorepark 2021 Open Day



Professor Laurence Shalloo, Senior Principle Research Officer, Teagasc



Professor Pat Dillon, Head of the Animal and Grassland Research and Innovation Programme, Teagasc

The Irish dairy sector has gone through a transformational change over the past 10 years with a 77% increase in milk output and 43% increase in cow numbers in the period 2007-2009 to 2020. This increase follows a period of stagnation in the dairy industry due to the EU milk quota regime which was introduced in 1984 to stabilise market support expenditure at the time.

Ireland's grass-based milk production systems provide a comparative economic advantage due to lower costs of milk production globally. Dairy production in Ireland has a higher margin, even when accounting for unpaid land, labour and capital, than countries such as the UK, Netherlands, France, Germany and Denmark even though average milk price received by Irish farmers is less than these countries.

The expansion achieved in the Irish dairy industry is reflective of the pent up capacity as a result of

milk quotas as well as the technology developments that had occurred (grassland and genetics) on farms over the preceding 15 to 20 years. While this rapid expansion at farm level is now stabilising, the next phase for the dairy industry will be dependent on how environmental policies are implemented at a national level over the coming years.

In this context the Teagasc Moorepark Dairy Open Day (Moorepark 21 – Delivering Sustainability) was held over a three day period from 14th to the 16th of September. The theme of the event was Delivering Sustainability. The three day event was run over multiple days to comply with Covid19 guidelines and to maximise attendance of people from all aspects of the dairy industry.

All aspects of sustainability were discussed with the structure of the event designed to maximise engagement. There was structured talks in the areas of



Pictured launching the Teagasc Moorepark Open Day which took place in September were Catherine Fitzgerald, Ornua; Prof. Pat Dillon, Teagasc Head of Animal & Grassland Research and Innovation Programme; Dr Stan Lalor, Director of Knowledge Transfer Teagasc; Prof. Frank O'Mara, Teagasc Director designate; Sharon Ní Bheoláin, RTE; Padraig Walshe, FBD; Prof Gerry Boyle, Teagasc Director and Donal Whelton, AIB Head of Agri Sector.

delivering on sustainability, profitable milk production systems, grazing management to increase nitrogen use efficiency and sustainable breeding and reproduction. After these talks, the attendees visited themed villages where the most recent research was available to be viewed and discussed on a one to one basis.

The themed villages included Grass10, SignPost Farm Programme, One Health Approach, Breeding and Reproduction, Creating a great Farm Workplace and Modern Farm Infrastructure. There was a number of workshops and demonstrations held throughout the event on the consultation process around the Nitrates Action Program, grazing management, milk quality and residues, breeding for beef and dairy and people.

Finally there was a virtual forum held on the Wednesday night to discuss the Challenges and Opportunities for the Irish dairy industry which included Gerry Boyle (Retired Director of Teagasc) John Jordan (CEO of ORNUA), Padraig Walshe (Chair of Farm Business Development) and Marie Donnelly (Chair of the Climate Change Council).

Across the three days the key messages centred on the application of key technologies on dairy farms to reduce emissions, increase efficiency and profitability, reduce nutrient loss to water, reduce ammonia emissions while at the same time increasing the quantity and quality of biodiversity areas of the farm and increasing animal welfare status of the animals.

The optimum dairy system in the future will centre around maximising the proportion of grazed grass in the cows diet; with grass that is grown with less chemical N, through the incorporation of clover into swards; improving soil fertility to increase nitrogen response from chemical nitrogen used and the use of low emissions slurry spreading technology to apply slurry earlier in the grazing season.

Chemical nitrogen purchased will be in the form of protected urea which will be applied with a focus on greater precision, thus minimising the potential for



Joe Patton, Teagasc Head of Dairy Knowledge Transfer, addresses farmers at the Moorepark Open Day.

N loss while maximising the grass growth responses. The farm should be stocked with high EBI cows at a stocking rate where grass growth and feed demand are aligned to ensure that supplementary feed is kept in control. Breeding should focus on the generation of replacement heifers from the highest EBI animals in the herd through the use of sexed semen at the start of the breeding season, with the remainder of the animals being bred to high DBI early maturing beef genetics.

Across the farm opportunities to increase overall farm sustainability should be investigated whether through the investment in renewable energy systems (e.g. solar PV) or other such investments. The focus at farm level should be the production of high quality milk in a low cost and profitable fashion, while focusing on technologies that reduce GHG and ammonia emissions and minimise nutrient loss to water. At the same time there needs to be a focus on increasing the quantity and quality of the farm based habitats.

Up until 2015 there had been 31 years of the EU milk quota systems which stifled innovation. Since then there has been significant expansion due to the pent up capacity in the industry. New policy (e.g. Climate Action Plan 2021 and the Nitrates Action Plan) will have a significant impact on shaping the future direction of the dairy industry. Future strategies will be based on the principle of decoupling. That is decoupling of GHG and NO₃ emissions and N loss from production while advancing the quality and quantity of habitat enriched areas on farm. The level of technology adoption for currently available sustainability based technologies will be central to the industry in the future as will the requirement to develop new solutions to increase all aspects of farm sustainability.

However, it is also clear that grass-based systems of milk production have a huge role in sustainable ruminant production globally and in reality should play an even greater role in the provision of ruminant products in the future.



Pictured at an Industry Forum on Challenges and Opportunities facing the Irish Dairy Sector held at the Moorepark Open Day are facilitator Sharon Ní Bheoláin from RTÉ with speakers Prof. Gerry Boyle, Teagasc Director; Marie Donnelly, Chairperson of Climate Change Advisory Council; John Jordan, Chief Executive of Ornua & Padraig Walshe, dairy farmer & FBD.

Stuart Childs and Ed Payne, share the key insights to emerge from the Irish Grassland Association Dairy Summer Tour which looked at the role of clover in the future of Irish dairy farming



Stuart Childs, IGA Dairy Summer Tour Committee Chairperson and Teagasc



Ed Payne, IGA Dairy Summer Tour Committee and Dairy Farmer

The Irish Grassland Association Dairy Summer Tour supported by AIB was an online affair again in 2021 due to Covid-19. However, while we couldn't bring people to farms, we decided to bring farms to the people. Following up on one of the key themes from the Dairy Conference in January and recognising one of the main objectives in the Farm to Fork Strategy under the EU Green Deal, which is a 20% reduction in fertiliser use, we focussed on clover and how it is helping our two host farmers to reduce their chemical nitrogen inputs. The silver lining in the Covid-19 cloud on this occasion was that online delivery allowed us to do something we couldn't otherwise do, visiting two excellent farmers that were almost 300km apart, Kevin Moran in Co. Galway and John Joe O'Sullivan, Co. Cork.

Kevin Moran

The first part of the proceedings came from the farm of Kevin Moran who is farming outside Caherlistrane in Co. Galway. Kevin started farming in his own right in 2013 with 75 cows and has grown the business in the intervening years to a scale where he is currently milking 270 cows. The milking platform is stocked at 2.89cow/ha and in 2020 grew 15.6t DM/ha. Kevin has focussed on having a labour efficient farm and is the only full-time person on the farm. Good contractors, relief staff, contract rearers and help from family play a significant role in the labour efficiency of the farm, a point which Kevin was at pains to point out as he would not be where he is without all these.

Why focus on clover now?

Kevin has started on the clover journey in the last few years. Having reseeded most of the platform since he started farming in 2013, he acknowledged that he had missed an opportunity to have clover on his farm down through the years, however, the plan is to correct that over the next few years. Why? Kevin spoke of his farm's sustainability plan that manages the farms impact on water and air quality, reduces his

carbon footprint and allows for increased biodiversity. The fact that clover can give environmental returns which help achieve his sustainability objectives but also give an economic return makes it a wise decision in his eyes. Kevin's objective for the future is to continue to grow similar tonnage of DM/ha but using less chemical nitrogen and clover will help him achieve this objective.

Establishing clover

Kevin has learnt some lessons in terms of establishing clover in the last two years. Soil fertility is vital - pH 6.3 or greater and index 3 for P and K is the template for success. Oversowing works best with soil fertility correct and when swards are sown in April and May. Establishment is done by sowing 2 kg clover seed/acre with an Einbock grass harrow following a tight grazing. Grazing at low covers (1100 kg DM/ha) for the subsequent 2-3 grazings is a critical piece of the establishment jigsaw. This is because this grazing regime allows light to the base of the sward to help establish the clover. Kevin's main lesson from his first year of oversowing was not to bite off more than one can chew, he emphasised the importance of only doing manageable amounts of area at any one time, as it allows him to focus on managing this area to successfully establish the clover. A large area that requires grazing at low cover is just unmanageable and is not conducive to getting the clover established as grass growth will beat you and new clover seedlings will be denied light through shading which is detrimental to establishment. Chemical nitrogen applications remain the same in the year of establishment and again in the early part of the subsequent year, but once swards are 12 months established, he has cut nitrogen application by up to 50%.

John Joe O'Sullivan

In the blink of an eye we moved from Galway to Cork to the O'Sullivan family farm in Rosscarbery. John Joe O'Sullivan spoke of how clover has been a part of his

farming system for generations but that they have really started to manage it in earnest since the mid-2000s when he was part of the European Dairyman Project which was focused on reducing inputs without reducing output.



John Joe and Andrew O'Sullivan were one of the host farmers for the 2021 Irish Grassland Association Dairy Summer Tour which looked at the role of clover in the future of Irish Dairy farming.

The O'Sullivan's farm had an interesting history with John Joe beginning his dairy farming career with 12 cows in 1975, expanding rapidly to 28 cows the following year. He continued to expand until the introduction of milk quotas brought a halt to his gallop. Curtailed by quota, John Joe turned his focus to improving cow genetics and performance, a process that reached its pinnacle in 2000 when the farm was the winner of the Protein 350 award. This focus on breeding which continues today has underpinned the current milking herd which produce approximately 500 kg of milk solids annually from about 600kg of concentrate and his excellent grass clover swards.

Today, he and his son Andrew have 70 cows stocked at 2.35 cows/ha, carrying all young stock and the all-important five beehives (which are not counted for stocking rate purposes!). John Joe is also a beekeeper and is passionate about the subject of beekeeping. On the day he discussed how the bees being on the farm make him feel more connected to nature and how he manages his farm to allow biodiversity on the farm cater for the bees needs at different times of the year. This variation in pollen sources throughout the year also influences the flavour of the honey produced.

Why did John Joe focus on clover nearly 20 years ago?

Through the European Dairyman project John Joe was monitoring the inputs into the farm. That coupled with quota constraints lead John Joe to thinking that the more clover he could establish, the lower his reliance on chemical fertiliser would be. This was reducing his carbon footprint but also benefiting the farm economically. Like the studies in Clonakilty, the O'Sullivans noticed an increase in protein percentage and volume when cows graze a high clover content sward.

John Joe was keen to point out that fertiliser nitrogen is an important part of managing the clover plant and that the half bag of urea or its equivalent in the form of slurry (2500gals when using LESS) in the spring is important to get the farm growing as the clover only gets to work later in the year. However, as the clover kicks in to gear those paddocks will get no more chemical nitrogen only dirty water or watery slurry after grazing which allowed the farm to keep its chemical input at just 138kg of N/ha (110 units/acre) in 2020.

While the farm at this stage has up to 20% clover content across the board, John Joe has an objective of getting this closer to 30% to allow for further nitrogen fertiliser reduction. Wearing his beekeeper hat, he also told us that his high clover swards are also a great source of pollen for his bees, which of course leads to good honey!

Managing clover on the farm

John Joe uses a little and often approach with water slurry to provide P and K on the farm. Almost double the required slurry storage capacity allows them to store nutrients to use more appropriately throughout the season. Interestingly, this little and often approach is working at maintaining clover on the farm despite indexes for P and K being more 2's than the recommended 3's. The fact that the pH of the farm is 100% correct is a significant factor in retention of clover on the farm, a lesson that John Joe had to learn the hard way when clover failed on newly purchased ground many years ago as it was 'starving for nutrient and pH was on the floor'. This taught John Joe the importance of regular soil samples and he samples regularly now in order to have the information needed to target lime and P & K applications.

John Joe has established clover through conventional reseeding and oversowing. Oversowing takes place after a cut of silage being spread on top of the ground and rolled in order to insure soil contact. They spread the seed with the quad and spreader with great success. When it comes to conventional reseeding John Joe stressed the importance of the seed being left on top of the soil and just rolled in and not buried as it is such a small seed compared to grass.

Maintaining clover in swards on the O'Sullivan farm is driven by never damaging the ground (through on-off grazing in poor conditions), grazing appropriate covers (≤ 1400 kg DM/ha) mid-season, and strict silage management which ensures clean and early cuts. John Joe considers any cover > 1400 kg DM/ha too strong for grazing and will skip it for bales about a week later. This cutting also plays a part in driving clover content.

While at different stages of the clover journey both farmers are getting environmental and financial benefits from their clover. The message is clear from both, grass clover swards fit well into Irish dairy farming systems and can yield fantastic results in terms of grass growth and performance from reduced input as well as helping to produce great honey too!

John Fahey, AIB Senior Economist, examines the performance and the outlook for the Irish economy



John Fahey,
AIB Senior Economist

The Irish economy has weathered the global recession caused by the Covid-19 pandemic better than most. This largely reflects a robust performance by its multi-national sector that saw exports rise by 9.5% last year. CSO data show that GDP increased by 5.9% in 2020, with GNP increasing by 3.4%. However, modified final domestic demand contracted by 4.9%, largely driven by a 10% fall in consumer spending.

The country was back in lockdown during the first quarter of this year. Exports though continued to perform strongly, rising by a further 2.3% in the quarter, fuelling a continued rise in GDP. The domestic economy, though, saw another contraction, with modified final domestic demand falling by 3.5%, driven by a near 6% decline in consumer spending.

With the easing of restrictions during the second quarter, various macro indicators point to an exceptionally strong rebound in domestic activity during the second and third quarters of the year. Modified final domestic demand rose by 8.4% in the second quarter, while consumer spending rose by nearly 13% quarter on quarter in Q2. Meanwhile, retail sales data for the third quarter show core sales rising by 4.9% compared to their Q2 levels.

PMI survey data for the services and manufacturing sectors indicate that the economy continued to perform strongly at the start of the fourth quarter. Although, capacity constraints and higher costs (both input and output) remained evident across both sectors.

Indeed, the latest CSO inflation data, showed Irish inflation continuing to surge higher, in keeping with the trend from the main advanced economies, against the backdrop of higher energy costs and supply shortages/disruptions. Headline Irish HICP inflation rose to 5.1% in October, its highest rate since 2007. Higher energy and transport costs have been the main source of upward pressure in recent months. It is also important to note that inflation

started this year in negative territory, with a -0.5% reading in January and the average for the full year 2021 is likely to be below 2.5%. Inflation is expected to fall back from around the middle of next year as supply chain disruptions ease and with energy prices expected to stabilise or decline somewhat.

Elsewhere, the housing market continues to experience sharp upward pressure on prices. The official CSO residential property price index shows house price inflation running at 12.4% in September, representing its highest yearly growth rate since May 2018. Non-Dublin annual price growth continues to outpace Dublin (13.2% versus 11.5%). The upward pressure on prices continues to emanate from the shortfall in supply. While completions (measure of new supply) at the end of Q3 were at around 21,000 units on a 12 month cumulative basis, this is still below the 30,000 unit threshold, which is estimated to be the minimum level needed to meet annual demand.

The sharp economic rebound is having a very positive impact on the labour market and public finances. The number on the Pandemic Unemployment Payment (PUP) had fallen to below 80,000 in the first half of November, a vast improvement on the 485,000 recorded earlier in the year. The unemployment rate, including those on the PUP, is in sharp decline also, falling from 27% in February to 7.9% in October. The standard unemployment rate was near to 5% in October. Meanwhile, Government tax receipts were up by 19.6% to end October, and €3.8bn ahead of target, with the budget deficit continuing to decline.

On the agriculture side of the economy, CSO data for 2020, show that farm incomes grew by a robust 11.6% in the year. Looking at the key underlying trends from last year, milk output rose by 5%, aided by an increase in volumes and prices. In terms of livestock, there were strong performances in the beef, pig and sheep meat sectors. Elsewhere, despite lower volumes, the value of crop output rose due

to higher prices. Meanwhile on the input side, farm incomes benefitted from modest overall increases in costs in 2020.

The agricultural sector has been boosted this year by the easing of restrictions. For example, the reopening of food services, both domestically and internationally, has seen increased demand for produce such as beef. Similar to other parts of the economy, the sector is also experiencing significant inflationary conditions, in contrast to last year. The latest data on agricultural prices, available for September, show input prices rising by around 12% on a year-on-year basis, while output prices were up by 11.6%.

Similar to last year, the outlook for the Agri sector over the next 12 months, much like the wider economy, will depend on the evolution of the Covid-19 pandemic. The successful vaccine rollout had allowed restrictions to be eased over the course of this year. However, more recently, Covid numbers

have started to rise again, both at home and abroad, with the Irish government no longer ruling out another lockdown, while it has also re-imposed some restrictions. The 'Brexit' risk has also re-emerged with tensions between the EU and UK over the Northern Ireland protocol. The UK has threatened to trigger Article 16. In a worst case scenario, this could put at risk the Free Trade Agreement, although this would involve a 12-month notice period.

However, while risks remain, there are also elements in place to underpin growth not only in the overall Irish economy, but the Agri sector also. Some of the large scale build-up of private sector savings that have accumulated during the pandemic can be expected to be run-down, adding fuel to the recovery in the domestic economy. Both fiscal and monetary policy remains supportive of growth and the global economy has also recovered strongly, which augurs well for export orientated industries such as the Agri-food sector.



Kevin Moran, host farmer for the 2021 Irish Grassland Association Dairy Summer Tour is pictured with Eamonn O'Reilly, AIB Agri Advisor and Dr Stan Lalor, IGA President.

Mark Glennon, AIB Agri Advisor, discusses the importance of planning for the year ahead in the face of rising input costs



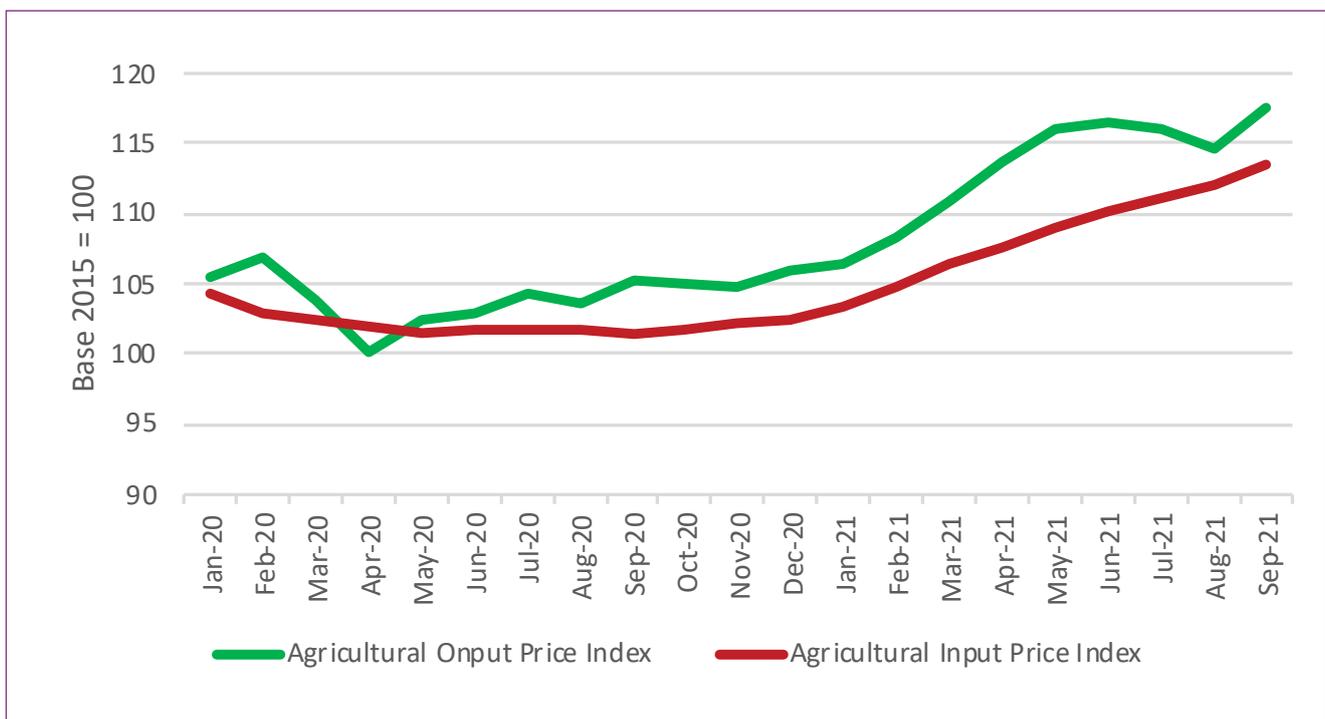
Mark Glennon, AIB Agri Advisor

As the Review and Outlook article mentioned, output prices in most farm sectors this year have been strong. This coupled with good yields in the tillage sector, modest increases in input costs (for the first half of the year noting majority of farm input costs are frontloaded) and good grazing conditions for the most part, has meant that farm income on most farms will be improved in 2021, and hence cash reserves should be in a strong position as we enter 2022.

Yet, much of the recent talk has been about the rising costs of farm inputs, and the potential effect this is likely to have on farms in 2022.

In the CSO, input and output prices indices (for September – the latest month available), we can see the output price index started to rise from May 2020 onwards, albeit, slowly and steadily until February 2021, before it started to increase significantly. The input prices index was relatively stable throughout 2020, but has also increased significantly throughout this year. The overall output prices index (which is a combination of the main agri outputs) increased by 11.6% from September 2020 to September 2021 driven by a 16% increase in cattle prices, a 15% increase in sheep prices and a 15% increase in milk prices. Likewise the overall input price index increased by 11.9% year-on year driven by a 31%

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



Source: CSO

increase in fertiliser, a 22% increase in energy and a 13% increase in feed. Overall, in the twelve month period from September 2020 to September 2021 the terms of trade decreased slightly.

However looking at these annual indices doesn't tell the full story. It is clear from the above chart that the gap between the output price and the input price index has been narrowing since May of this year, and as the data becomes available for the last three months of the year, we would expect this gap to disappear. As farm inputs are primarily front-loaded, given seasonal production systems, farmers benefitted from rising output prices with the majority of inputs purchased before the price started to increase significantly.

Feed and fertiliser prices have escalated further since September and this combined with higher energy costs may put pressure on farm cashflow and working capital in 2022, in particular if output prices were to reduce in the short to medium term.

For many farmers, the full effect of the rising input costs won't be felt until Spring of 2022, but for some, the reality of the rising input costs is already starting to have an effect on their business, particularly in the pig sector, where feed can account for up to 70% of the cost of production and for farmers running a winter finishing operation in the beef sector.

In general, concentrate feed and fertiliser account for the highest proportion of input costs on Irish farms. They account for between 20% (tillage and cattle rearing farms) and 33% (dairy farms) of costs of Irish farms, with concentrate feed accounting for almost a quarter of costs on dairy farms and fertiliser 14% of costs on tillage farms, according to preliminary results from the Teagasc National Farm Survey 2020.

- To put this into context, a 100% increase in fertiliser costs and a 30% increase in feed costs would effect a 100 cow dairy farmer's cost base by c. 6-7c/l which equates to c. €35k in additional costs assuming a milk supply of 550k litres.
- Similarly for a mixed cereal tillage farmer operating a 60ha land base, the increase in fertiliser prices alone would increase fertiliser costs by c. €19k. This will significantly hamper margins on farms, especially if output prices were to come back from their current position.

So as we reach the end of 2021, and reflect on what was a good year, in the most parts for Irish agriculture, now is a good time to plan how you are going to deal with rising input costs in 2022. Firstly, the most important thing to do is to take some action so you can be in control, rather than getting to April or May next year and realising that you have a cashflow challenge.

Looking back to look forward

One straightforward thing to do is to quantify how much you spent on your feed and fertiliser in 2021 and then estimate what you think you will spend on both in 2022. While it will be very much an estimate, you will quickly see what the financial effect of say a 30% increase in feed costs and/or a 100% increase in fertiliser costs would have on your business.

Once you estimate what the financial effect may be, you can start to look at the options available to you. That may include focussing on a reduction of feed and fertiliser usage as short term options, there may also be some medium term options available including delaying planned investment. Or some may take this opportunity to try future proof their business, by examining alternative practices, such as clover and multi species swards as a way to reduce reliance on chemical fertiliser in the future.

While most farmers will enter 2022 in a good cash position, given that the effect of the rising feed and fertiliser prices will be felt early in the year, and may not necessarily align to farm sales, some farms may require additional short term working capital. If bank support is required, talk to your bank sooner rather than later and do some analysis beforehand, as it will be well worthwhile.

The options available on every farm will be slightly different. Take the time to examine your current working capital position and future working capital requirements for the year ahead and put a plan in place revising same as relevant. The important thing is to put actions in place in advance if required.

Our working capital solutions are:

- Our Farmer Credit Line,
- The SBCI Brexit Impact Loan Scheme,
- The SBCI Covid-19 Credit Guarantee Scheme - Term Loan, and;
- Retrospective funding of capital expenditure from cashflow.

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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