

Profits from tillage farming?

Cereal Forum 2009



Issues for Autumn 2009..

- Grain prices
- Material Costs
- Fixed costs
- Land rental
- Certainty...future input prices
- Uncertainty ..future output prices

All must consider..

- Continue “as is” and hope for the best
- Evaluate all inputs?
- Objectively review land base
 - Stack entitlements
- Only farm the best land?
- All of the above and reduce overheads
 - Dispose of machinery

The benefits..

- Less exposure to depressed prices
- Stop loosing money
 - Rented land and poor owned land
- Reduce overheads?

The downsides..

- Reduced yields
- Increased overheads (where none disposed of)
- Possible reduced income, if upturn
- Possible loss of land area for future

The realities

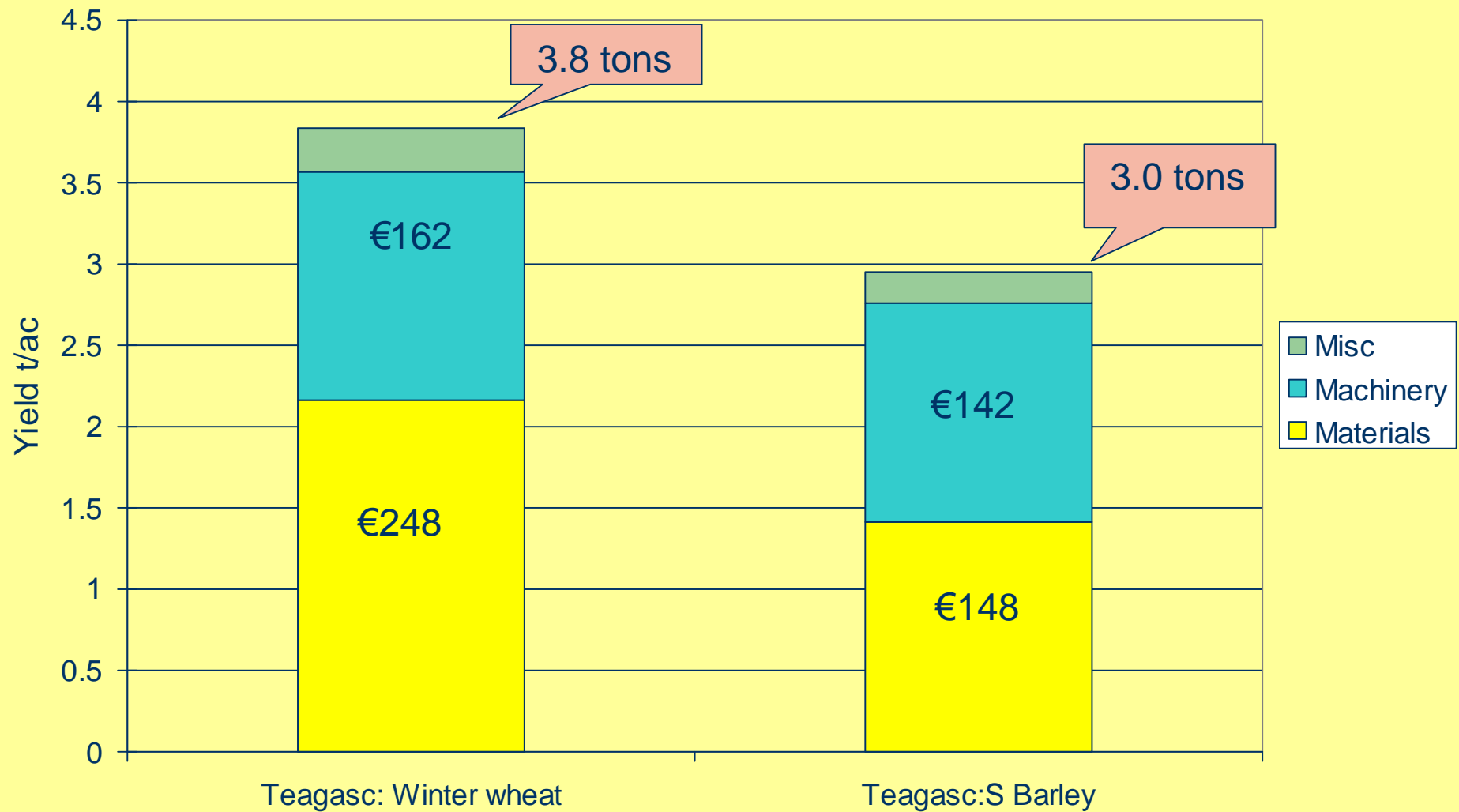
- Margins do not offer a way out (at current prices)
- Lower costs through scale (higher output per man unit or HP)
- Can you afford to take conacre
 - Can you afford not to..

Crop	Material costs	Machinery Costs	Grain price @20% MC	Break even yield (t/ac)
W. Wheat	248	162	115	3.8
S. Barley	148	142	105	3.0

Break Even yields

	Break even yield	Grain
	t/ac	€/ton
W. Wheat	3.8	115
S. Wheat	2.9	125
W. Barley	3.7	105
S. Barley	3.0	105
W. Oats	3.5	105
S. Oats	3.2	105
F. Beet	19.5	38
Peas	1.9	195
S Beans	1.9	165
W OSR	1.5	270
S. OSR	1.1	270

Teagasc budget break even yields

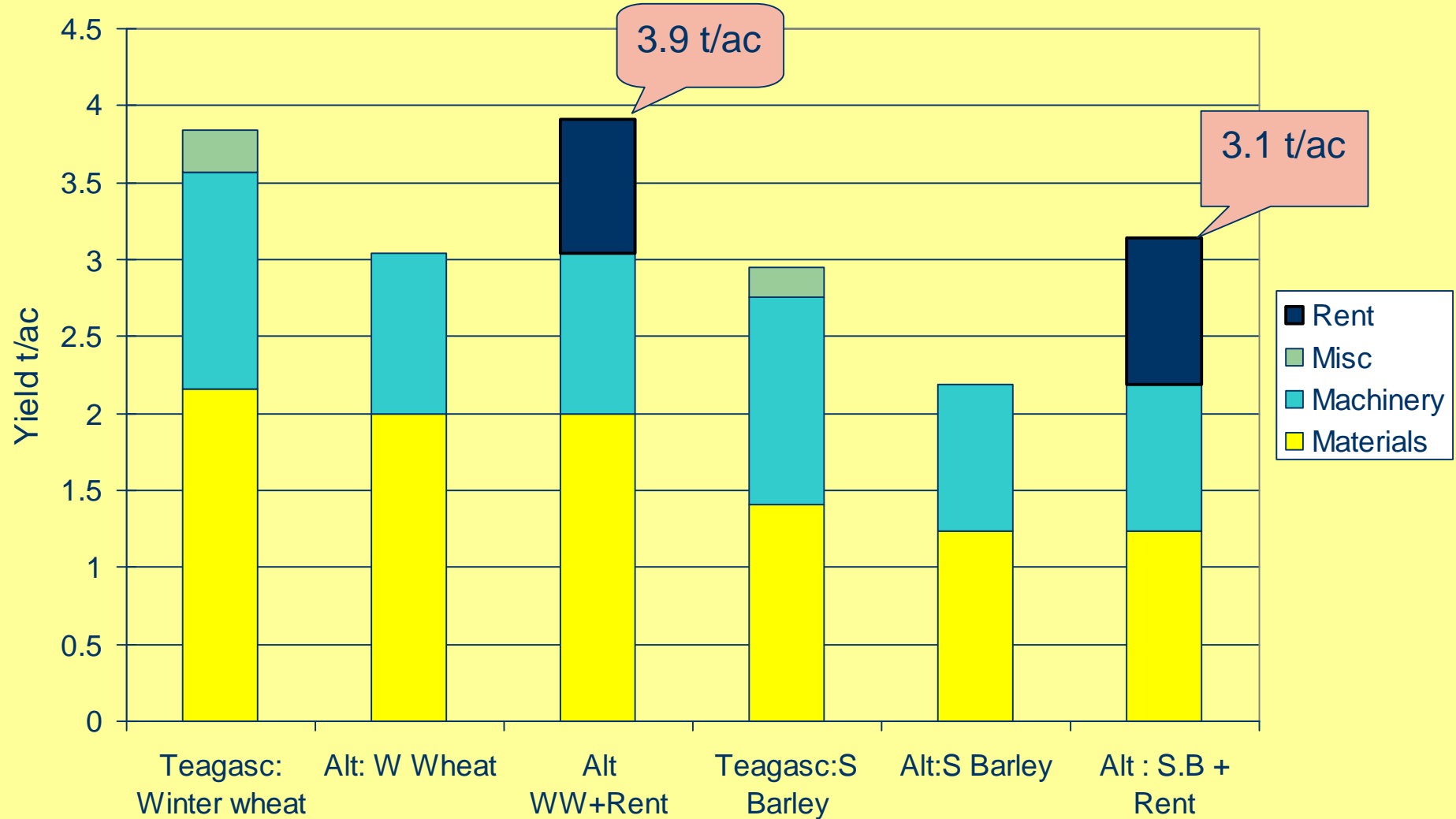


Alternative Reality

- Adjust margins to “fit my model”
- Lower costs ...’as machinery paid for’
- Don’t need to know the potential yield
 - I cant afford not to take it..

Crop	Material costs	Machinery Costs	Grain price @20% MC	Break even yield (t/ac)
W. Wheat	230	120	115	3.0
S. Barley	130	100	105	2.1

Break even yields



Summary

- At first glance conacre not profitable
- SFP must play a factor
 - Short of land to claim entitlements
 - Already stacked to limit
 - Entitlements coming with land
- But
- If gross margin positive after
 - Growing costs and rent

then
conacre is contributing to fixed costs

Example farm

- Background (Rented 125 ac 2008)
 - Total profit €91 per acre 2008
- 2009 owns 50 ac and rents 125 acres
 - 175 ac of entitlements (never stacked)
 - Carries out some contracting
- Decisions for 2010?
 - Based on sound financial information

Example farm 2009 (Rented area)

- Rents 125 ac S Barley @€100/ac
- Yield 2.75t/ac @ €95/t + straw €60/ac
 - Machinery replacement and labour not included

	Rented land €/ha
Gross income €/ac	321
- Expenses €/ac	208
- Conacre €/ac	100
G. Margin €/ac	12
- Fixed costs €/ac	170
+ Single Farm Payment	135
Net Margin	-23

Farm Profitability

- Farming 175 acres
- Machinery replacement and labour not included
 - Working for free while wearing out his machinery

	Total €
Rented land 125ac X€-23/ac	-2875
Owned land 50 ac X €77/ac	3850
Total Farm Income	975
Total €/ac	€5.50/ac

Est. labour input @ 6 hours/ac = 1050 hours or 90 cent /hour

Changes needed to retain all SFP

- Grain price increase to €142/ton

Or

- Yields increase to 4.1t/ac

Or

- Landowner pays €58/ac to grower

Growers options for 2010

1. Do the same as 2009
2. Consolidate entitlements
3. Consolidate entitlements and farm the best areas to improve yield

Assumptions

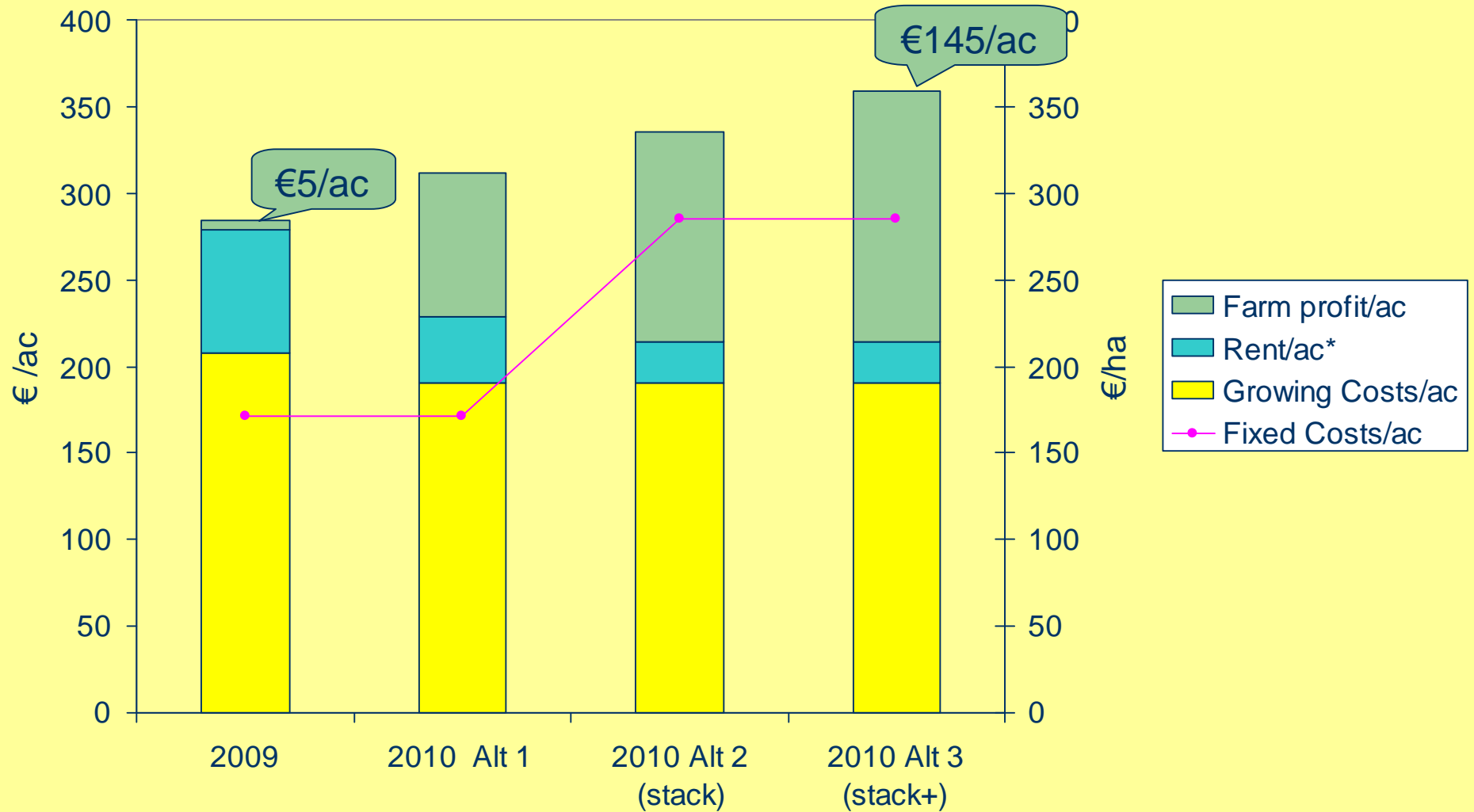
	S Barley Yield t/ac	Grain Price €/t	Growing costs €/ac	Stacking to 50%	Land Rental €/ac
2009	2.75	95	208	No	100
Alt 1	2.75	105	190	No	55
Alt 2	2.75	105	190	Yes	55
Alt 3	3.0	105	190	Yes	60

Dropping rented land

- Fixed costs largely stay the same
 - Therefore Increase on remaining acreage

Crop	Acres owned	Total Acres farmed	Total fixed costs (€)	Fixed costs per ha
2009	50	175	30,000	€171
2010	50	87.5	24,900	€284

Income and costs (€/ac)



Summary

- Income per acre increased
 - 2009 ~€5/ac
 - 2010 Alt 3 €145/ac
- Total farm income?
 - Dependent on
 - high yields
 - Good P and K and lime status,
 - No wild oats/scutch
- Over mechanised for reduced acreage

Conacre

- Historians points out that
 - the devastation of the famine (~1847) was at its most acute in parts of the country where the conacre system applied
- Similarities to today??

Hard choices (for all)

- Flat payments for conacre unviable
- What to do?
 - Drop conacre.. (and stack entitlements)
 - Contract farming arrangement
 - Rent related to output/margin
 - Offer to maintain land for SFP
 - Continue as before
 - Work for free and
 - Wear out machines
 - Increase bank overdrafts/loans

Existing methods for renting land

- Rental price to reflect reality
 - Selling Price
 - Yield (at harvest)
- Relate price to
 - Potential yield \pm top ups
 - Break even yields/costs
 - Gross Margin achieved
- Use base figures plus top ups where
 - High yield/price

Relate Price to Potential yield (1)

- Base Rent 15-20% of yield potential?
- Plus
- Over base = €10/ac for every €10/t grain increase
 - Grain price from merchants at 2010 harvest or Media

Winter Wheat	Potential Yield (t/ac)	Expected Base Price €/t	Grain price € ton	Rental Cost €/ac
Sept 09	3.75	115		86

Relate Price to Potential yield (1)

- Base Rent 10-20% of yield potential?
- Plus
- Over base = €10/ac for every €10/t grain increase
 - Grain price from merchants at 2010 harvest or Media

Winter Wheat	Potential Yield (t/ac)	Expected Base Price €/t	Grain price € ton	Rental Cost €/ac
Sept 09	3.75	115		86
Aug 10	3.75		125	103

Relate Price to Potential yield (2)

- Base Rent 10-20% of yield potential?
- Grain price from local merchants at 2010 harvest or media
- Share yield at 50:50 above base

W. Wheat	Potential Yield (t/ac)	Grain price € ton	Cost €/ac
Sept 09	3.75	105	79
Aug 10	4.0	115	100

Relate Price to Potential yield (2)

- Base Rent 20% of yield potential?
- Grain price from local merchants at 2010 harvest or media
- Share yield at 50:50 above base

W. Wheat	Potential Yield (t/ac)	Grain price € ton	Rental Cost €/ac
Sept 09	3.75	105	79
Aug 10	4.0	115	100

Relate Price to break even yield

- Base rent 10% of break even yield
- Share anything above break even yield at 50:50
- Grain price from local merchants at 2010 harvest or national media

Crop	Break even yield (t/ac)	Grain price €/ton	Cost €/ac	Top up €/ac 4t/ac W.W 3t/ac S.B
W. W	3.33	105	35	35
S B	2.3	100	23	33

Relate price to Gross Margins

- Margins calculated after harvest
- Land owners SFP protected even if margin negative
- Share 50:50 1st €50-70/ac profit
 - Anything above that share 60:40 (60% to land owner)

Crop	Gross Margin €/ha	Landowner base €/ac	Land owner Plus €/ac	Total €/ac
W.W	110	35	20	55
S.B	74	35	2	37

Comparison of Methods

	Straight conacre	Relate to Potential Yield	Relate to Margin	Relate to break even Yield
Simplicity of payment	****	**	*	*
Land owner risk	*	**	**	**
Grower Risk	****	**	**	**
Grower Sustainability	*	**	**	**
Care of land	*	**	**	**

Solutions for landowner?

- Grass down some /all land
 - Still possible to rent to tillage grower (3 years+)
 - To claim entitlements
 - Possibility to lease land for after grazing
 - Fresh ley when coming back into tillage
- However if not rented
 - Reseed costs
 - Maintenance costs

New arrangements

- Share farming
 - Grower and landowner share risk and profits
 - Not defacto conacre
- Completing final hurdles
 - DAFF, Revenue etc.
- Available in late 2009??

Growers role

- Get to know your costs of production
 - Advisors waiting to help
- Get to know the new systems
- Convert at least half of your land to new system this year
- **BE PREPARED TO DROP LAND**

Teagasc Role

- Available to help at locally
 - Assessing existing (e-crops /e-profit monitor)
 - Support growers with rental calculations
- Develop of easy to use calculators
 - www.client.teagasc.ie
- Teagasc campaign
 - Rental information booklet
 - Margins 2010
 - Rental agreements
 - Share Farming



Thanks for your attention

