

Killashee,
Co. Longford.

Charlie McConalogue, TD,
Minister for Agriculture, Food and the Marine,
Agriculture House,
Kildare Street,
Dublin 2.
D02 WK12

By email to: charlie.mcconalogue@oireachtas.ie

29th July 2022

Proposal to the Department of Agriculture and Marine from the National Fodder and Food Security Committee - Supporting the tillage sector

Dear Minister McConalogue,

Thank you for your attendance and comments at the fourth meeting of the National Fodder and Food Security Committee (NFFSC) on Wednesday 13th July. On behalf of the committee, I write to you in response to your comment inviting a proposal from the NFFSC on potential options for consideration to support the Tillage sector in the year ahead in order to build on the Tillage Incentive Scheme and other measures that were in place for 2022.

There is an urgent need to support the development of the crop production sector to:

- address the deficit in grains and proteins in the Irish market;
- to utilise our quality assurance and 'Origin Green' credentials and branding by using home-grown food and feed inputs of known provenance;
- to reduce the GHG emissions from Ireland's land base; and
- to move towards a more biodiverse and circular production model.

There is a specific need to address the current extreme uncertainty around fertiliser cost and supply and grain prices.

The following proposal is the collation of the input received from a voluntary sub-group of the NFFSC in recent days. Individual member organisations have also prepared individual and more specific proposals that are included as appendices to this letter.

Background

The tillage sector comprises of around 10,000 holdings or about 8% of farms which include larger specialist tillage farms and smaller mixed enterprise units. The lower profitability per hectare of tillage farming relative to dairying and competition for land have contributed to a 13% decrease in tillage area between 2012 and 2020. There has been some (8%) recovery in tillage area since 2020,

with crop area statistics for 2022 indicating 348,573 ha of tillage crops, of which 288,500 ha are cereals and 60,000 ha of other crops (Source: DAFM BPS results June 2022).

A detailed Economic Impact Assessment of the tillage sector¹ in 2020 concluded that the sector supports 11,000 FTE jobs and contributes €1.3 billion into the Irish economy from a direct farm output of €650 million per annum, farm input spend of €423 million, farm investment of €53 million and a household spend of €200 million.

Crops 2030², a strategic plan to deliver environmental and economic sustainability for the Irish Crop Sector, highlighted the environmental competitiveness of the sector with Irish specialist tillage farms producing 1.18 tonnes CO₂ equivalent per hectare (t CO₂ eq/ha) which is just 15% of that produced per hectare on dairy farms or 25% of that on beef farms. It outlined the potential for development, but also challenges such as the high costs of production (land, fertiliser, fuel, machinery, and others), limited access to higher value food-type markets, and evolving production challenges such as pest resistance. Strategies to address each of these challenges were identified.

The Strategic Plan to Support Native Protein Production³ identified three areas to develop the industry. Improving farmer profitability, developing the market for native protein crops and improving awareness of the sustainability credentials of native protein crops.

Summary of tillage crops in 2022

The cropping year 2021/2022 was favourable for crop establishment, growth and yield development in most crops, with increased sowing of winter crops (12% increase) combining to give a good production outlook.

The costs of fertilisers increased by more than 150% with fertiliser supply being a real concern. There was a risk that growers who rent land would decide not to produce due to the unprecedented fertiliser prices and uncertainty about the grain market. Committed growers with winter crops sown acted quickly to secure fertiliser supply and forward sold grain (at what could now be considered modest prices compared to earlier season grain price peaks) to cover their risk. Spring sowing was buoyed by the rise in grain markets.

Concern about supply of critical animal feed coming into Ireland resulted in a Government decision to incentivise farmers to grow extra tillage crops to boost overall grain production and to guarantee a payment of €300/ha for protein crops. These measures complemented the continuation of other existing schemes including the Straw Incorporation Measure (SIM). The SIM has been adopted as a very positive initiative amongst growers. These actions stabilised crop production in 2022, with similar areas of spring crops sown resulting in a 6% increase in the overall area of crops sown compared to 2021.

The grain price peaked at €380/t (barley) for forward contracts in May but has dropped sharply since to recent prices of €280/t. Concerns around falling grain prices within a period of high production cost is increasing the risk on growers. Even where high yields are achieved, it is estimated the breakeven price in 2022 for barley and wheat will be in the region of €170/t, and input cost signals for the 2023 season indicate significant further cost increases.

¹ Economic Impact Assessment of the Tillage Sector in Ireland. Professor Michael Wallace, University College Dublin, 2020.

² Report by the Teagasc Tillage Crop Stakeholder Consultative Group, August 2020

³ Strategic Plan to support native protein production. Irish Stakeholders Group, 2021

While overall production is likely to be relatively good in 2022, aided by the earlier commitment to sow crops and the Tillage Incentive Scheme, the industry is shaken by the level of risk that was undertaken. Post-harvest reflection may result in concern about undergoing the same level of risk in 2023. Risk reduction at all levels will have to be a priority.

Clarity and certainty for growers around impending changes in Nitrates Regulations regarding post-harvest cultivations and green cover establishment requirements are also required by growers as part of the decision making process for the 2023 season.

Outlook for 2023

The major concern for all tillage growers facing into cropping for 2023 revolve around the increased input prices with no certainty on the grain price next harvest. Forward prices for September 2023 have declined sharply since May with factors like the unknown fate of grain being currently stored in Ukraine adding further to the risks.

Industry indications are that fertiliser availability for the autumn planting and following spring season is currently low. International prices for key fertiliser nutrients remain high, and supply from manufacturers of key products such as CAN and DAP is uncertain at current energy prices. There is a very high risk for importers and agri-retailers (merchants and co-ops) to take stock positions under these circumstances without having more certainty around demand at farm level. However, growers are also exposed to similar risk due to grain price uncertainty.

Further increases in seed, fertilisers, agrochemicals, machinery, fuels & repairs and borrowing costs are expected for the 2023 production year. Using the Teagasc costs and returns methodology, production costs for cereals in 2023 are expected to be 60% greater than in 2021 resulting in break-even costs of production of €202/tonne for winter wheat and €200/tonne for spring barley.

Table 1: Sensitivity analysis of Gross margin (€/ha) for crops (average yields) at different grain price and fertiliser prices

Crop	CAN (€/t)	Margin €/ha				
		€150/t	€175/t	€200/t	€225/t	€250/t
W Wheat @9.8 t/ha	800	-408	-163	82	327	572
	900	-506	-261	-16	229	474
	1000	-602	-357	-112	133	378
W Barley @ 9.0 t/ha	800	-304	-79	146	371	596
	900	-386	-161	64	289	514
	1000	-465	-240	-15	210	435
S Barley @ 7.4 t/ha	800	-184	1	186	371	556
	900	-240	-55	130	315	500
	1000	-309	-124	61	246	431

Notes:

- Yields shown are 5 year average yields for each crop from 2017-2021 (Source: CSO). Margins are dependent on yields achieved.
- Fertiliser price for CAN is shown. Overall margin includes the impacts of compound fertiliser cost variations on a pro rata basis with CAN.
- Margins include Straw at €250/ha.
- Grain price covers the range between recent average green harvest grain price (2015 to 2021) (€150/t) and currently available forward price (€250/t).

The typical input costs for a tillage farmer in 2023 will be €183,000 per 100 hectares (using a typical rotation) which is an increase of €69,500 or 61% compared to 2021.

The average green harvest grain price between 2015 to 2021 was €149/t for barley and €159/t for wheat. The risks to the grower in 2023 are substantial given the outlay and the projected break even costs. Unprecedented production costs; reflection on the risks undertaken in 2022, coupled with increased concern about fertiliser availability in 2023, and uncertainty about grain markets, will make decisions about land rental and plantings for the 2023 season very difficult for growers.

Proposals to support the tillage industry in 2023

It is clear from the projected figures that the risks for tillage farmers are substantial. This is immediate and acute for tillage farmers who are going to plant winter crops, as they will have little knowledge of 2023 fertiliser prices which could remain at the unprecedented levels of 2022, or indeed rise further. This coincides with the ongoing risk of a fall in grain prices.

Therefore, support for the tillage industry is needed to achieve the following objectives:

- Encourage confidence amongst tillage farmers to plant crops for 2023, especially higher yielding winter crops, to ensure that the existing tillage area and grain production does not reduce.
- Give confidence to the supporting industry (fertiliser and other inputs) to commit to securing supplies. Confidence within the input supply chain, including importers, wholesalers, merchants and co-ops are all required in order to secure supply availability of fertiliser and other inputs for the planting and growing of winter and spring crops.
- Give confidence to the contractors performing tillage operations to ensure continued machinery and labour capacity to support the sector.
- Maintain / increase native grain supply to the food, drink and animal sectors, thereby reducing dependence on imports, improving the provenance of inputs into 'origin green' produce and reducing GHG emissions.

The committee propose supporting growers and the wider tillage sector as follows:

1. Support to all tillage farmers to retain the existing tillage area and help to mitigate the high level of risks in production that are forecast for 2023. Options here include flat-rate support payments and/or risk management measures based on grain/fertiliser price ratios or similar. The role for price insurance mechanisms merit consideration as a mechanism to de-risk the growing of tillage crops. These are available and are currently operating in other countries such as the USA, and could be more utilised in Ireland if demand could be encouraged.
2. Continue with a Tillage Incentive Scheme (TIS) to support farmers to produce more tillage crops for 2023. This should be targeted to ensure production is maximised and that grain crops that substitute for dry feed imports should be promoted, and that tillage area supported by the scheme can be sustained in medium to long-term crop production.
3. Continue supports for the protein crops to ensure an increasing supply of native proteins for the food and feed industries. (It is proposed that this support shall increase to €350/ha under the new CAP).
4. Continue supports through the Straw Incorporation Measure (SIM) with opportunities to increase eligible area per farm and/or payment rate per hectare.

5. Create more opportunities for growers and contractors to avail of investment support mechanisms under TAMS and similar schemes into the future. Wider eligibility and increased investment ceilings for tillage machinery, equipment and facilities would support the cost-base and infrastructure across the sector. The expansion of grant aid should include basic infrastructure to equip farms entering into tillage or increasing tillage by small areas with basic equipment and facilities, e.g grain trailers, combines, temporary grain storage, etc. The availability of TAMS supports to contractors is also required.
 6. Develop the processing sector to take advantage of value-added opportunities for Irish crops. This would create greater opportunities for Irish grown crops within higher value food chain streams, including increased opportunities for exports and leveraging on Ireland's Quality Assurance and 'Origin Green' credentials and standards. This should build on current positive value-added developments in the drinks and cereals (e.g oats) sectors.
 7. Develop opportunities to leverage the benefits of home-grown grains over imported alternatives in terms of carbon footprint and food miles for both food products and animal feeds.
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I trust that this information and proposals are useful in consideration of the options available to support the tillage sector into the coming year and beyond in the context of the challenges outlined.

The following individual organisations have submitted their more specific proposals in the Appendices that accompany this letter:

- Association of Farm & Forestry Contractors in Ireland (FCI)
- Acorn Independent merchants
- Irish Grain Growers Group (IGGG)
- Irish Farmers Association (IFA)
- Irish Grain & Feed Association (IGFA)
- Irish Cattle & Sheep Farmers Association (ICSA)

Yours sincerely,

Mike Magan,

Chair, National Fodder and Food Security Committee

Proposals submitted as Appendices from the organisations listed above can be obtained by contacting these organisations directly