Nuffield Farming Scholarships Trust Ireland

Report by

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Options for Young Irish Dairy Farmers to Grow their Business Efficiently

Introduction

I was reared on a dairy farm. It was a career I always wanted to pursue. I inherited a 26 hectare farm with no milk quota. I now milk 250 cows. I am married to Monica and we have four children. Our aim is to grow our business so as to allow our family to have choices going forward.

Background

Historically, when milk quotas were introduced no clear policy for its administration and the development of the dairy industry was put in place. The following happened:

- Milk quota became an asset that was linked to land
- The administration of milk quota was undertaken by dairy companies

Social policies ensured that:

- Milk quota was ring fenced in disadvantaged areas.
- Priority allocation of milk quota was given to smaller producers.

As result of the above by the 1990s a situation had developed whereby up to 25 per cent of the national milk pool was held by non active producers. These producers, later termed 'sofa producers', extracted up to forty per cent of the milk price and inflated land prices for the lease of quota depending on what milk company you supplied. This left those farmers trying to expand having to lease land they did not require for dairying and involve themselves with alternative enterprises such as beef. The social policy of ring fencing quota stopped quota moving to the more productive areas of the country and created an imbalance in expansion opportunities. Since 2000 the leasing of milk quotas has been discontinued so as to remove non-active quota holders and place that milk with active producers. However, another social policy was created with the allocation of milk quota which discriminates against commercial farmers in favour of smaller producers.

This situation has resulted in:

- Lack of expansion opportunity for commercial dairy farmers
- Erosion of income
- Poor returns from capital employed in alternative land use
- An ageing farm population. Less than 13 per cent are under 35 years of age
- Lack of incentive for restructuring by the dairy companies

Objectives for the study

Every industry needs an influx of young people who have the enthusiasm, motivation, and creative skills necessary to drive the business forward and ensure its viability. This is not happening within dairy farming in Ireland. With this in mind the objective of my study was to look at the different structures open to young dairy farmers to grow their business in various countries. Conclusions will be drawn and recommendations made which would be applicable to dairy farming in Ireland.

The Study

I started my study by attending the IDF conference in Auckland, which gave an overview of the dairy industry at a global level and an outline of the position that the different trading blocks would take to the upcoming WTO talks. I then travelled throughout New Zealand and Victoria in Australia and saw how young people progressed in dairying in a non-regulated environment. The second leg of my study took me to Switzerland, France and Denmark to look at opportunities for young people farming in regulated dairy quota environments.

Observations

I have visited a number of countries where young people who are skilled and motivated are entering dairy farming whether or not quotas exist. The most relevant examples were New Zealand and Denmark that have structures for young people to expand and grow their business. While there are opportunities for young farmers to expand in Australia in areas with good grass growing potential and cheap cereals, the structures are less obvious. Also the banks in general are slow to take livestock as security which is a big problem for young farmers.

There are incentives for young farmers in France and Switzerland to enter farming with substantial installation aid, grants and subsidized interest rates in place. However, the social farming policy in these countries leaves young dairy farmers with little opportunity to grow their business. There are some land policies, which could be relevant and improve land structure in Ireland.

New Zealand

The New Zealand dairy industry is continuing to evolve and expand rapidly. They recognize the important role young people play in allowing this to take place. It is possible for a young person in New Zealand starting with no capital to build a substantial asset over time. This is achieved via a clearly defined career pathway from entry through to ownership.

Pathway

- Apprentices spend 2 years gaining practical work experience while attending polytechnic college courses
- Farm manager; saving hard, working out goals, taking advice and guidance from mentors
- Variable share milker; providing all labour required to work the farm in return for a percentage of the milk payout, while continually building a track record

- 50:50 Share contract milker; providing livestock plus all labour to work the farm in return for 50% of the milk cheque
- Equity partnerships; managing and owning a stake in large scale operation in return for a salary plus return on investment
- Ownership; sole owner of farm

These structures ensure young people are continually entering the industry. Over a 15-20 year period it is possible for a young farmer to go from having no equity to ownership of a farm. The average New Zealand dairy farmer is only 38 years old, with almost half of New Zealand milk produced by share milkers.

Denmark

Denmark, like Ireland, works within the EU milk quota environment. However they have a quota administration system that favours young efficient producers and allows them to continually expand their business. This is done through a mechanism called the quota exchange system. This system allows for equal access to quota for all farmers and at a price they are prepared to pay. A young entrant is entitled to a free allocation and the right to purchase up to the average quota size immediately on entry to farming if they so wish. Denmark also exports approximately seventy per cent of its dairy produce. They recognize they have relatively high production costs for milk and have developed a dairy processing and marketing industry which maximizes returns to farmers. They recognize the direction EU and WTO policy is taking. They believe milk quotas will go some time in the future and are positioning themselves to minimize the impact of this on their industry. The average Danish dairy farmer now has 550,000 litres of quota and is 47 years old.

Conclusions

Young people will enter dairy farming if they see it offers:

- Opportunity
- Challenge
- Reward
- Quality of life

High quality young people will not enter the dairy industry in Ireland, as it does not offer these ingredients. Current policy is no longer an option.

Recommendations

- While milk quotas exist, Ireland must implement a quota exchange system similar to that in Denmark.
- A system that allows for young people working on farms or with little capital to build equity such as New Zealand's share farming agreements should be introduced.
- Partnership arrangements, which allow for efficiencies and expansion, should be introduced.
- A study group should be set up to look at the issue of land fragmentation.
- The processing sector must rationalize and develop markets which deliver a milk price to farmers that will help secure their future going forward.

- A much greater focus on planning and business skills built into agricultural education.
- Research and promotion of sustainable and cost effective methods of expansion.

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