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Tionscal Déiríochta**

Joint Committee on Agriculture, Food and the Marine

Second Report on Managing Market Volatility in the Dairy Industry

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As part of its work programme for 2015, the Joint Committee on Agriculture, Food and the Marine (the Joint Committee) prioritised an examination of the dairy industry in light of the abolition of EU milk quotas at the end of March 2015. The Joint Committee published a report in March 2015 entitled *Managing Market Volatility in the Dairy Industry* which is attached as appendix 1.

Following on from this, the Joint Committee agreed to re-examine the state of the industry six months after the abolition of the milk quotas, and thus re-invite relevant stakeholders to ascertain the current condition of the dairy market. The Joint Committee met with the Irish Farmers' Association on 6 October; the Irish Creamery Milk Suppliers Association, the Irish Cattle and Sheep Farmers Association, and Macra na Feirme on 3 November; and with Ornu, the Irish Banking and Payments Federation, Ulster Bank, Bank of Ireland, and AIB on 24 November.

Many of the recommendations which the Joint Committee made in its first report in March 2015 transpired to be of particular relevance as milk prices have dropped through the year. While the Joint Committee welcomes the establishment of the Dairy Forum to help tackle market volatility, the Joint Committee believes more could be done to improve the industry.

Following its deliberations, the Joint Committee has prepared this report which outlines a number of recommendations for consideration by the DAFM.

Recommendations

1. The Joint Committee reiterates its earlier recommendation that dairy farmers should utilise a 'better before bigger' approach when evaluating the merits of expanding their production.
2. The Joint Committee recommends that the DAFM address issues in the dairy sector in the context of market volatility being the new norm in the industry.
3. While the Joint Committee welcomes both the €13.73 million aid package for the dairy sector from the European Commission and the national top-up of the same amount from the DAFM, the Joint Committee recommends exploring all possible avenues of unlocking EU financial packages - including European Investment Bank (EIB) loans at reduced interest rates - to assist the industry.
4. The Joint Committee recommends that the DAFM work with financial institutions to formulate appropriate financial packages – including EIB loans - to assist farmers in times of low milk prices.
5. The Joint Committee recommends that the DAFM liaise with both relevant Departments and EU authorities and negotiators in an effort to alleviate the Russian embargo on EU produce which has been extended to September 2016.

6. The Joint Committee recommends that the DAFM examine the possibility of formulating insurance and forward-selling schemes to assist dairy farmers in managing their income on a medium to long-term basis.
7. The Joint Committee recommends that the DAFM maximise the potential of the recently negotiated trade agreements with countries in West Africa to sell excess dairy produce from Ireland.

The Committee is cognisant of the significant difficulties facing Irish dairy farmers in managing volatility and requests that the above recommendations be taken into account as market conditions develop.

A handwritten signature in blue ink, appearing to read 'Andrew Doyle', followed by a stylized flourish.

Andrew Doyle T.D.

Chairman

Appendix 1 Report on Managing Market Volatility in the Dairy Industry

March 2015

Background

Milk quotas are being abolished on 31st March 2015 within the European Union, having been in place since 1984. This represents a once in a generation opportunity for Irish dairy farmers to expand their operations and volume of milk produced without facing EU penalties for over-production.

The Joint Committee on Agriculture, Food and the Marine (the Joint Committee) agreed to examine the area of market volatility in the dairy industry for its Work Programme for 2015 and invited several industry stakeholders before it. These stakeholders included the Irish Dairy Board (IDB), Bord Bia, Irish Corporate Organisation Society (ICOS), Positive Farmers, Allied Irish Bank (AIB), Bank of Ireland (BoI), Ulster Bank under the umbrella of The Irish Banking & Payments Federation and Teagasc.

This report will focus on several key areas which should be considered by farmers in anticipation of expansion.

Contextual Background

Milk prices have fluctuated considerably in the 18 months prior to 2015, driven by several global factors which will be considered in detail below. Price highs in 2013 contrasted with low prices by the end of 2014, and this level of volatility – should it continue - has the potential to impact significantly on the financial status of Irish farmers when quotas are lifted. Markets have been delivering returns ranging from 20c per litre to over 40c per litre over the last three years. Average milk prices per litre were 38 cent in 2014 and 26 cent in 2015, a decline of nearly a third in a short space of time.

The Food Harvest 2020 programme contains a targeted increase of 50% in dairy output by 2020, with an associated increase in jobs and exports. Growing the dairy industry in that timeframe coincides with the abolition of milk quotas and anticipated increases in global demand.

Recent Price Fluctuation

Milk prices began to rise in mid-2012, driven by a curtailment in supply because of a drought in New Zealand. In the spring of 2013, prices continued to rise as a result of an EU cold

snap and a US drought. High prices were sustained throughout 2013 as a result of continued Chinese demand. In 2014, however, prices began to plummet as a result of decreasing Chinese demand, and an increased worldwide supply of dairy produce as a result of good weather. The Russian ban on EU produce in the autumn of 2014 exacerbated the problem and prices continued to fall into early 2015.

The IDB noted that volatility in the dairy market is driven by the supply side of the market, which is weather driven. Other factors recognised by the IDB include currency, energy supply and demand, biofuel versus conventional fuels, geopolitical events such as the Russian ban, and the pace of global economic growth – particularly in regard to emerging markets.

Market Outlook – Short-Term

The market outlook for the dairy industry in the short term is not promising, with 2015 shaping up to be a perfect storm causing low milk prices. Many of the factors which saw declining prices in the second half of 2014 are likely to continue into 2015, including the Russian ban on EU produce, and declining Chinese demand. The global record milk output in 2014 will further dampen prices throughout the year.

Market Outlook –Medium – Term

The medium to long-term outlook for the market is positive post-2015. China is expected to re-enter the dairy market towards the end of the year and Russia may do so too. The exceptionally fine weather in 2014 which resulted in a massive supply of dairy products is unlikely to be replicated in 2015, which should push prices upwards. With these factors in mind, the medium-term outlook is positive for milk prices.

Market Outlook –Long – Term

The long-term outlook for the Irish dairy industry is very promising in the long-term. The global population is growing rapidly, and the planet's population is expected to be around 8.5 billion people by 2025. This global population growth will result in an increased demand for dairy products, particularly in emerging markets such as Brazil, Russia, India, China, and South Africa (BRICS). As disposable income in these regions increases, westernised diets will follow, boosting demand for dairy produce. Increasing urbanisation worldwide will further fuel demand. Active aging campaigns and sporting nutrition are also areas in which the benefits of dairy in the diet will increasingly be recognised over the coming decade, particularly in India and China which will see expanding middle classes.

Superlevy

Ireland overproduced by 5.07% over quota for 2014, resulting in a superlevy fine of around €100 million being imposed on Irish farmers. This super levy has been cited by various Irish farming organisations as a serious impediment to the expansion of dairy operations to take advantage of the quota abolition. The impending super levy fine has resulted in farmers scaling back on dairy investment for fear that they will face upcoming cash flow difficulties because of the super levy payments.

However, in March 2015, a positive development emerged for dairy farmers regarding the super levy fine. A Commission proposal enabling more flexibility to dairy farmers facing surplus levy bills this year was approved by Member States. Aimed at addressing cash-flow problems in the context of recent investment and lower prices in recent months, the concept allows Member States to enable producers to pay the amounts due from the 2014/15 quota year in 3 interest-free instalments over 3 years.

EU rules require that Member States still pay the Commission the amounts due by the end of November 2015, but this change provides flexibility on recovering the levy from the individual producers.

Member States will have to indicate the number of beneficiaries under the scheme and the amount not yet recovered every year until the end of 2017. The first yearly payment must be made by 30 September 2015.

Finance

Without adequate support from financial institutions, Irish dairy farmers will be unable to take full advantage of the opportunities for expansion in a post-quota world. The Irish Banking and Payments Federation is the umbrella group for Irish banks, and a representative of the IBPF appeared before the Committee along with representatives from AIB, BoI and Ulster Bank to outline the financial mechanisms available to Irish farmers both for expansion, and for managing price volatility.

AIB noted that the price fluctuations experienced by Irish farmers over the last two years could continue and that price volatility should be considered the new norm. Their representatives recommended a 'better before bigger' mentality for the dairy industry to achieve an efficient cost base for the future to manage volatility. AIB outlined a number of ways in which this efficient cost base can be achieved and maintained: improving production efficiencies, managing the cost base, undertaking strong financial management including cashflow budgeting, and building a cash buffer in good years to support price drops in leaner years. AIB cited their history of assisting dairy farmers during previous price lulls in 2009 and 2012-2013 by meeting with farmers on an individual basis to find solutions and noted that those experiences demonstrated that there was no one universal solution to price volatility. They have available range of measures including reviewing monthly payment commitments; short-term increases to working capital facilities; short-term loan facilities; and interest-only periods for repayments on existing borrowings.

AIB said that they take a tailored approach to address issues faced by each individual farmer as opposed to utilising a one-size-fits-all approach. They cited their 'Prompt Pay' scheme, whereby a farmer facing a significant tax bill or superlevy fine can apply to AIB to have the bill paid off up front by AIB and then the farmer can repay AIB over a period of time.

AIB noted that the general financial state of farmers in Ireland mean that they are well placed to take advantage of the quota abolition, pointing out that Central Bank figures of agricultural debt in Ireland fell from €5.5bn in 2009 to €3.4bn in 2014. Furthermore, credit balances in farmers' current accounts are up 27% year on year in 2015.

Ulster Bank emphasised the importance of utilising grass-based production to take advantage of expansion opportunities in the dairy industry. Ulster Bank outlined a number of initiatives which they offer to assist farmers which are implemented by a team of 30 agri-specialists. Ulster Bank launched an agri-accreditation course in 2014 which supplements annual agri-training courses. Ulster Bank also committed to meeting farmers on their farms at flexible times to solve problems. In anticipation of the abolition of milk quotas, Ulster Bank

has launched a dairy expansion loan programme, which has an interest-only provision for two years to support farmers while they set up for expansion. They offer unsecured loans of up to €30,000 to young farmers in the absence of collateral. They also offer pasture loans to farmers who wish to invest in soil fertility, reseeding, and building paddocks or waterways.

Ulster Bank maintains contact with stakeholders in the industry, including dairy processors, farm organisations, advisory bodies and farm consultants in addition to participating in trade missions to markets such as China. Ulster Bank educates young farmers by hosting seminars and panel discussions with prospective dairy farmers, and by stressing the importance of financial management at these meetings.

Ulster Bank provides a dairy farmer tool kit which includes options such as increased working capital facilities, a capital repayment freeze, or interest-only repayments for a period of volatility. Ulster Bank also meets with individual farmers on their farms in order to construct a tailored financial solution to their needs. Ulster Bank analyses the state of dairy processors and industry stakeholders, looking at a long-term outlook when calculating repayment capacity.

Bank of Ireland informed the Committee that there had been an increase in loan applications for farm building and development over the last 12 months in anticipation of the abolition of milk quotas. A joint report published by Bank of Ireland in conjunction with Teagasc identified a €1.5bn investment in the dairy sector to hit Food Harvest 2020 targets. Bank of Ireland has accordingly established a €1bn investment fund to assist in hitting the FH 2020 targets.

Bank of Ireland noted that Irish farmers have relatively low debt levels compared to farmers in other Member States as well as having lower costs of production, which places them in a good position to take advantage of the impending quota abolition.

Bank of Ireland anticipated that while prices will increase in the medium to long-term, that increase will not be linear and will instead consist of peaks and troughs. To combat this volatility, Bank of Ireland has developed 'AgriFlex', a suite of financial options available to farmers, including interest-only repayments. Bank of Ireland have already received a relatively small number of applications for credit relief, mostly arising from difficulties imposed by the super levy.

Northern Ireland and New Zealand

The expansion of dairy farming in Northern Ireland and New Zealand in recent years has not resulted in increased margins or profits for dairy farmers in those countries. The experiences

of farmers in the two countries should serve as a cautionary tale for farmers considering expansion post-quota.

Recommendations

1. Irish farmers and state agencies offering assistance should focus on sustainable, grass – based production methods to capitalise on market opportunities. A grass-rich approach may be the most efficient mechanism to improve margins.
2. Dairy farmers should utilise a ‘better before bigger’ approach when considering expansion. Efficiencies should be maximised before production is increased.
3. All stakeholders involved in the dairy industry should cooperatively examine the potential for an insurance fund for the industry, whereby a certain amount of profits obtained during a period of peak prices are invested in an insurance fund for periods of lower prices.
4. All stakeholders involved in the dairy industry should examine the logistics of forward selling in the markets to ensure a more sustainable price in the long term and limit price volatility into the future.
5. Financial institutions should take a flexible approach to farmers seeking loans, and work closely with them to ensure funding is available for dairying expansion.
6. All stakeholders within the dairy industry should consult regularly with each other to ensure a cooperative approach is taken towards expansion.

Appendix 2 Membership of the Joint Committee

Deputies:

Tom Barry (FG)

Pat Deering (FG) [Vice-Chairman]

Andrew Doyle (FG) [Chairman]

Martin Ferris (SF)

Martin Heydon (FG)

Willie Penrose (LAB)

Éamon Ó Cuív (FF)

Thomas Pringle (IND)

Arthur Spring (LAB)

Senators:

Michael Comiskey (FG)

Denis Landy (LAB)

Paschal Mooney (FF)

Mary Ann O'Brien (IND)

Brian Ó Domhnaill (FF)

Pat O'Neill (FG)

Appendix 3 Terms of Reference

a. Functions of the Committee – derived from Standing Orders [DSO 82A; SSO 70A]

- (1) The Select Committee shall consider and report to the Dáil on—
 - (a) such aspects of the expenditure, administration and policy of the relevant Government Department or Departments and associated public bodies as the Committee may select, and
 - (b) European Union matters within the remit of the relevant Department or Departments.
- (2) The Select Committee may be joined with a Select Committee appointed by Seanad Éireann to form a Joint Committee for the purposes of the functions set out below, other than at paragraph (3), and to report thereon to both Houses of the Oireachtas.
- (3) Without prejudice to the generality of paragraph (1), the Select Committee shall consider, in respect of the relevant Department or Departments, such—
 - (a) Bills,
 - (b) proposals contained in any motion, including any motion within the meaning of Standing Order 164,
 - (c) Estimates for Public Services, and
 - (d) other mattersas shall be referred to the Select Committee by the Dáil, and
 - (e) Annual Output Statements, and
 - (f) such Value for Money and Policy Reviews as the Select Committee may select.
- (4) The Joint Committee may consider the following matters in respect of the relevant Department or Departments and associated public bodies, and report thereon to both Houses of the Oireachtas:
 - (a) matters of policy for which the Minister is officially responsible,
 - (b) public affairs administered by the Department,
 - (c) policy issues arising from Value for Money and Policy Reviews conducted or commissioned by the Department,
 - (d) Government policy in respect of bodies under the aegis of the Department,
 - (e) policy issues concerning bodies which are partly or wholly funded by the State or which are established or appointed by a member of the Government or the Oireachtas,
 - (f) the general scheme or draft heads of any Bill published by the Minister,

- (g) statutory instruments, including those laid or laid in draft before either House or both Houses and those made under the European Communities Acts 1972 to 2009,
 - (h) strategy statements laid before either or both Houses of the Oireachtas pursuant to the Public Service Management Act 1997,
 - (i) annual reports or annual reports and accounts, required by law, and laid before either or both Houses of the Oireachtas, of the Department or bodies referred to in paragraph (4)(d) and (e) and the overall operational results, statements of strategy and corporate plans of such bodies, and
 - (j) such other matters as may be referred to it by the Dáil and/or Seanad from time to time.
- (5) Without prejudice to the generality of paragraph (1), the Joint Committee shall consider, in respect of the relevant Department or Departments—
- (a) EU draft legislative acts standing referred to the Select Committee under Standing Order 105, including the compliance of such acts with the principle of subsidiarity,
 - (b) other proposals for EU legislation and related policy issues, including programmes and guidelines prepared by the European Commission as a basis of possible legislative action,
 - (c) non-legislative documents published by any EU institution in relation to EU policy matters, and
 - (d) matters listed for consideration on the agenda for meetings of the relevant EU Council of Ministers and the outcome of such meetings.
- (6) A sub-Committee stands established in respect of each Department within the remit of the Select Committee to consider the matters outlined in paragraph (3), and the following arrangements apply to such sub-Committees:
- (a) the matters outlined in paragraph (3) which require referral to the Select Committee by the Dáil may be referred directly to such sub-Committees, and
 - (b) each such sub-Committee has the powers defined in Standing Order 83(1) and (2) and may report directly to the Dáil, including by way of Message under Standing Order 87.
- (7) The Chairman of the Joint Committee, who shall be a member of Dáil Éireann, shall also be the Chairman of the Select Committee and of any sub-Committee or Committees standing established in respect of the Select Committee.
- (8) The following may attend meetings of the Select or Joint Committee, for the purposes of the functions set out in paragraph (5) and may take part in proceedings without having a right to vote or to move motions and amendments:
- (a) Members of the European Parliament elected from constituencies in Ireland, including Northern Ireland,
 - (b) Members of the Irish delegation to the Parliamentary Assembly of the Council of Europe, and

(c) at the invitation of the Committee, other Members of the European Parliament.

b. Scope and Context of Activities of Committees (as derived from Standing Orders [DSO 82; SSO 70])

- (1) The Joint Committee may only consider such matters, engage in such activities, exercise such powers and discharge such functions as are specifically authorised under its orders of reference and under Standing Orders.
- (2) Such matters, activities, powers and functions shall be relevant to, and shall arise only in the context of, the preparation of a report to the Dáil and/or Seanad.
- (3) It shall be an instruction to all Select Committees to which Bills are referred that they shall ensure that not more than two Select Committees shall meet to consider a Bill on any given day, unless the Dáil, after due notice given by the Chairman of the Select Committee, waives this instruction on motion made by the Taoiseach pursuant to Dáil Standing Order 26. The Chairmen of Select Committees shall have responsibility for compliance with this instruction.
- (4) The Joint Committee shall not consider any matter which is being considered, or of which notice has been given of a proposal to consider, by the Committee of Public Accounts pursuant to Dáil Standing Order 163 and/or the Comptroller and Auditor General (Amendment) Act 1993.
- (5) The Joint Committee shall refrain from inquiring into in public session or publishing confidential information regarding any matter if so requested, for stated reasons given in writing, by—
 - (a) a member of the Government or a Minister of State, or
 - (b) the principal office-holder of a body under the aegis of a Department or which is partly or wholly funded by the State or established or appointed by a member of the Government or by the Oireachtas:

Provided that the Chairman may appeal any such request made to the Ceann Comhairle / Cathaoirleach whose decision shall be final.