Farm Income Review 2012

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Foreword
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National farm income in 2012 is estimated to have fallen by 14% on 2011. The main factor affecting farm incomes and profitability in 2012 was the impact of the dreadful weather conditions, which resulted in a reduction in output in some commodities and increased input use, particularly feedstuffs.

Product prices varied across the commodities in 2012, with increases in price for cattle, pigs, potatoes and cereals, but a reduction in price for the dairy and sheep sectors.

Input costs rose in almost all commodities, which was on top of a major cost increase experienced in 2011. Input usage increased for energy, seeds and feedstuffs in particular, while fertiliser use fell back somewhat, possibly in response to the continued high prices.

Direct payments in 2012 were an estimated €140m below the 2011 figure. This was largely due to a higher than average payment of the Single Farm Payment recorded in 2011 (due to a carry-forward into early 2011 of payments that were due in 2010), and the impact of cuts in funding for farm schemes over the last number of years (including REPS and Disadvantaged Areas).

Overall, it is estimated that National Farm Income fell by €350 m on the 2011 figure, with Average Farm incomes in 2012 of €21,000, compared with €24,500 in 2012. The fall in farm income varied considerably in 2012, depending on enterprise, and location. Average Farm Incomes in 2012 are estimated to be about 65% of the Average Industrial Wage.

The number of families depending on Farm Assist remained high in 2012, at similar levels to 2011 of over 11,000. This figure is almost 50% higher than the numbers claiming Farm Assist in the middle of the last decade.

The past number of years has seen a significant increase in product prices; however, the gains from this have been largely eroded by greater increases in input costs. By comparison with a general inflation increase of 12% since 2005, product prices have increased by 33%, while input costs have increased by 35%.

In real terms farm income continues to fall, with National Farm Income in 2012 estimated to be 60% of farm income levels in 1992.

Farmers continued to invest on-farm, with gross investment recorded of €696m in 2011, an increase of 5% on 2010. However, the credit environment for the agriculture sector tightened in 2012, with the amount of new credit extended to the agriculture sector falling by 4.9%. This suggests both a tightening of lending conditions and a reduction in demand for credit, due possibly to a combination of lower income and the paying down of debt. A functioning banking system will be critical for the future growth and development of the agriculture sector.

Farm Income Review 2012 seeks to present the main relevant economic and statistical analysis on farm income this year and over a number of recent years. It draws on published data from the CSO, Teagasc and the Department of Agriculture. It seeks also to look ahead to the main issues in 2013. The information in this review is to assist the officers and members of IFA in understanding the components of farm income, in preparing future IFA policies, and in presenting IFA policies to Government, public representatives and the media.

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1. Review of Agricultural Output and Income 2012

1.1 Overview of Farm Income in 2012

It is estimated that the level of national farm income fell by 14%. With inflation of 1.7%, farm income in real terms fell by 16%.

Table 1.1: % Change in Farm Income 2012/11

National Farm Income		
Year	**Money Terms**	**Real Terms**
2011/2010	-14%	-16%

1.2 Detailed Changes to Farm Income in 2012

Overall, the gross value of output increased by 2%. Prices rose by an average of 6%; however, the volume of output fell by an estimated 6%, leading to the modest increase in overall value. Input costs increased overall by 8%, with price increases in most of the major inputs, and volume increases for feed and energy.

In the cattle sector, the value of output rose by 12%, or over €200m, largely due to an average price increase of 13.5%. The volume of throughput, through slaughterings or live exports was significantly back on 2011, down 12% and 26% respectively. However, as the volume of cattle includes stock changes, the significant increase in stock on farms during 2012 resulted in a very moderate estimated decrease of 1% overall in the volume of cattle. It is expected that the increase in on-farm stock will have implications for slaughtering and live exports numbers in 2013.

The value of the milk sector fell by 10%, through a combination of price and volume falls of 7% and 3% respectively, leading to a reduction in the value of the sector of almost €175m.

For sheep, there was a significant increase in production for the first time in many years, with an increased volume of an estimated 14%, reflecting both an increase in throughput and stock on farms. However, prices fell in 2012, and were down by an estimated 3% on 2011, resulting in an overall increase in value for the sector of €20m.

The value of output of the pigmeat sector also increased in, by almost €40m. This was fully due to an increase in price of 10%, as the slight increase in throughput was offset by a reduction in the size of the breeding herd. For the poultry sector, an increase in price, along with a moderate increase in volume led to an increase in the value of output of the sector of over €20m. For both of these sectors, on-farm profitability was put under pressure by increased input costs, particularly feed and energy.

For the cereal and horticulture sectors, 2012 was a difficult year as the dreadful weather impacted negatively on yield. While the cereals sector had an average price increase of 25%, volume was down by 25%, despite an increase in the area planted in 2012.

For the potato sector, volume was down by an estimated 30%, with a fall in volume of between 15% and 20% for the fresh fruit and vegetable sectors. However, prices recovered strongly in the potato sector, with an estimated (harvest) price increase of more than 100%. For the mushroom sector, there was a slight price increase, with volumes similar to 2011.

On the inputs side, input costs were higher across the main cost items throughout 2012, with energy prices up 9%, feedstuffs by 6% and fertilisers up by 3%. This followed on from 2011, where prices for these same inputs had increased by 15%, 16% and 23% respectively.

It is estimated that fertiliser use fell by 4% while feedstuff volumes increased by an estimated 13%. This was due to a surge in demand for feed due to the dreadful weather conditions in the second half of 2012, with an increase of 28% in the volume of feed recorded in Q3 of 2012 compared with the same quarter in 2011. Energy usage increased slightly in 2012, while demand for seeds recorded an increase of an estimated 5%, due to increased planting.

The decoupled Single Payment amounted to approximately €1.23b in 2012, with other Net Direct Payments, including REPS/AEOS and Disadvantaged Areas amounting to a further €500m. Net Direct Payments (net of taxes and levies on products) are estimated to be €1,680m in 2012. This is over €130m back on the 2011 figure, due to the carryover of €100m of SFP payments from 2010 into early 2011, and the reduction in funding for some farm schemes, including REPS and the Disadvantaged Areas.

When depreciation and wages paid to farm workers are deducted, National Farm Income (as defined by the CSO) for 2011 is €2,091m, or 14% below 2011. Entrepreneurial Income (Farm Income less interest payments and land rental) in 2012 was €1,582m.

Note: Explanation of difference between IFA preliminary estimate of farm income, November 2012, and January 2013 estimate

The key differences in the farm income figures between the IFA preliminary estimate in November 2012 and the January 2013 estimate can be largely explained by changes in calculations for two major commodities. These were amended with the availability of more up-to-date data at the end of the year:

1. Cattle numbers on farm – the numbers registered increased significantly in Q3 2012, leading to a significant upward revision in the estimated stock numbers on farm at end December 2012
2. Feedstuff usage – while Q3 volumes increased significantly, this was not by as high a level as originally estimated. In addition, the estimated increase in volume for Q4 has been revised downwards, due to slightly more favourable weather conditions.

Table 1.2 Agricultural Output, Inputs and Income 2011/2010 – Detailed

	2011 €m	Price	Volume	2012 €m
Gross Value of Agricultural Output (includes stock changes)	**5,265**			**5,349**
Cattle	1,795	114%	99%	2,017
Milk	1,835	93%	97%	1,660
Sheep	190	97%	114%	210
Pigs	393	110%	100%	432
Poultry	143	112%	105%	168
Horses	143	95%	95%	129
Other livestock product	51	93%	107%	51
Cereals	289	125%	75%	271
Potatoes	74	200%	70%	104
Mushrooms	100	102%	100%	102
Other fresh veg	94	101%	80%	76
Fresh fruit	35	101%	85%	30
Turf	35	100%	60%	21
Other crops (incl net forage)	88	110%	80%	77
Current Inputs and Services	**3,485**			**3,777**
Feedingstuffs	1,175	106%	113%	1,407
Fertilisers	494	103%	96%	486
Seeds	84	107%	105%	94
Energy and lubricants	481	109%	102%	533
Maintenance and repairs	435	99%	97%	417
Crop protection products	57	99%	105%	59
Veterinary expenses	260	101%	100%	262
Other goods and services	456	104%	100%	476
Intermediate bank charges	43	100%	100%	43
= Gross Agricultural Product	**1,780**			**1,571**
+ Direct Payments (less levies)	**1,824**			**1,682**
- Depreciation	713			707
- Wages to Agr. Workers	454			456
= National Farm Income	**2,438**			**2,091**
- Bank Interest and Charges (Net)	315			310
- Land Rental	201			199
(=Entrepreneurial Income)	**1,922**			**1,582**

1.3 Sectoral Incomes in 2010 and 2011

Estimates for the 2011 and 2012 Average Family Farm Income in the following table are based on the farm income figures provided in the 2011 Teagasc National Farm Survey and the IFA estimate for farm incomes in 2012.

Estimates of average public sector earnings and the average industrial wage[1] are provided for comparison. In 2011, farm income was almost 80% of the average industrial wage, but fell back to about 65% of this in 2012.

Table 1.3 Comparisons of Sectoral Incomes 2011-2012

	2011	2012
Average Public Sector Earnings	46,472	47,646
Average Industrial Wage	30,822	32,132
Average Family Farm Income – all farms	24,461	21,000

1.4 Low Income Farm Families – Farm Assist

Following IFA's campaign on behalf of low-income farm families, the Government introduced the Farm Assist Scheme in April 1999. Farm Assist is operated by the Department of Social Protection and is a means tested income support scheme for farmers.

Following changes in both Budget 2012 and 2013, the income and child disregards in the means test for Farm Assist have been abolished. This will impact both current recipients of Farm Assist (over 11,000) as well as new applicants, by reducing the amount receivable and the numbers that will qualify.

Until 2008, numbers in receipt of Farm Assist remained very steady. However, since 2008, through a combination of the loss of off-farm employment and the reduction in funding for farm schemes, the uptake of Farm Assist has increased significantly. Throughout 2011 and 2012, the number of families in receipt of Farm Assist was in excess of 11,000. The following summarises the uptake and value of Farm Assist in recent years.

Table 1.4 Farm Assist Expenditure (€m) 2006-2012

	Expenditure (€m)	Number Benefiting	Average Payment (€/week)
2006	71	7,650	179
2007	79	7,400	205
2008	85	7,710	213
2009	96	8,845	209
2010	111	10,700	199
2011	114	11,300	190
2012 (est)	106	11,200	182

[1] Source: *CSO Earnings and Labour Costs Q2 2012*. For the industrial wage, this figure is based on the average earnings for production, transport, craft and other manual workers within the industry category

2. Agricultural Product Price and Cost Trends

2.1 Product Price Trends

Table 2.1 sets out the price trends for the main agricultural products and the weighted average price change for total agricultural output in index form, with 2005 (base year) prices = 100.

Reflecting the positive price environment of the last two years, prices in 2011 are 33% above the 2005 level.

Table 2.1 Product Price Trends 2005-2012[2]

Product	2005	2008	2009	2010	2011	2012
Cattle	100	122.2	109.0	111.6	134.3	149.9
Milk	100	120.1	83.6	107.5	122.7	110.8
Sheep	100	108.7	111.4	130.0	140.6	134.9
Pigs	100	109.5	99.1	99.3	108.8	120.5
Cereals	100	169.7	120.6	122.4	160.6	187.2
Poultry	100	114.6	114.2	114.6	132.1	147.8
Total Output	**100**	**121.4**	**101.2**	**111.6**	**127.9**	**132.5**

2.2 Input Price Trends

The increase in input costs over the same time period remains marginally above the product price increases, at 35% higher than the 2005 price levels. Therefore, although product prices have increased, any increase in farm incomes has been subdued by the greater increase in input costs.

Both product prices and input cost have significantly increased above the general inflation rate of 12% since 2005.

Table 2.2 Input Price Trends 2005-2012

Input	2005	2008	2009	2010	2011	2012
Energy	100	124.0	105.0	121.6	140.0	152.0
Fertilisers	100	182.9	150.9	132.7	162.7	167.4
Plant protection products	100	99.7	102.8	103.1	101.0	99.9
Veterinary expenses	100	109.8	112.1	112.0	111.7	112.5
Feeding stuffs	100	133.9	119.2	116.9	135.0	142.5
Total Agricultural Inputs	**100**	**130**	**119**	**117**	**129**	**135**
Inflation: CPI	100	113	108	107	110	112

[2] Source: *CSO Agricultural Price Indices*, with estimates for 2012

3. Direct Payments/Single Farm Payment

3.1 Value of Direct Payments

Table 3.1 sets out the estimated value of direct payments included in National Farm Income. It is estimated that €1,682m of Direct Payments have been made in 2012. The figure does not include forestry premium payments of €70m (which are not currently included in the CSO measure of direct payments for the purpose of farm income).

As outlined earlier in the report, this is a reduction on the 2011 figure, due mainly to the carryover to 2010 payments into early 2011, which artificially inflated the 2011 figure. In addition, as a result of budget cuts and scheme closures, there is reduced funding for other schemes, including Disadvantaged Areas and REPS.

Table 3.1 Estimate of Direct Payments included in Farm Income (€m)

Payment Type	2011	2012
CAP Reform Direct Payments		
Single Farm Payment	1,316	1,230
Grassland/ Upland Sheep Scheme	23	16
CAP RD Measures		
REPS/ AEOS	275	255
Disadvantaged Areas	234	210
Installation Aid	0.4	0
Other Items		
Disease eradication compensation	15	14
Suckler Cow Welfare Scheme	31	27
Total Direct Payments	**1,894**	**1,752**
(less Taxes and levies)	70	70
Net Direct Payments	**1,824**	**1,682**

4. Farm Income Trends and Inflation: 1992 - 2012

When comparing data over a long time period, it is necessary to adjust for inflation, i.e. to give the trend in farm income in real terms.

4.1 Impact of Inflation

Farm income is particularly vulnerable to inflation as there is no indexation for inflation built into EU direct payments. Table 4.1 outlines the changes in the level of National Farm Income since 1992 when inflation is taken into account. While National Farm Income in 2012 is 96% of the 1992 figure, when this is adjusted for inflation, it is, in real terms, 40% below its 1992 level.

Table 4.1 Trends in National Farm Income in Money and Real Terms

Year	Farm Income €m	Farm Income 1992 =100	Inflation 1992 =100	Farm Income in Real Terms
1992	**2,179**	**100**	**100**	**100**
2002	2,025	93	132	70
2007	2,447	112	156	72
2008	2,123	97	163	60
2009	1,446	66	156	43
2010	1,868	86	154	56
2011	2,437	112	158	71
2012	2,091	96	161	60

5. Farm Income and Non-Farm Income – National Farm Survey Data

A detailed breakdown of farm incomes and output by farm enterprise type is produced annually by Teagasc in the National Farm Survey. In addition, in December 2012, Teagasc produced an early estimate of farm income by enterprise type for 2012, which is outlined in the first sub-section.

All further information on the level and distribution of farm income, incidences of off-farm employment and the value of the single farm payment by enterprise type is for 2011, based on information contained in the National Farm Survey 2011.

5.1 Estimate of Farm Income by enterprise type 2012

Teagasc estimate an overall fall in income of 12% for the overall agriculture sector in 2012. However, there were significant differences in the income situation for the different enterprise types, with an increase in income for the cattle rearing and cattle finishing enterprises, in contrast to an income fall for specialist dairy, sheep and tillage enterprises.

Table 5.1: Estimate of Farm Income by Enterprise type 2012

Income €	2012	2013	% change
Dairy	68,600	50,000	-27%
Cattle Rearing	10,500	12,000	13%
Cattle Other	14,500	16,000	10%
Tillage	35,300	29,000	-19%
Sheep	16,800	15,000	-10%

5.2 Level and Distribution of Family Farm Income - 2011

The *2011 Teagasc National Farm Survey* (NFS), based on a sample of 1,022 farms, (representing about 105,535 farms nationally), was published in June 2012. It calculated the average family farm income per farm at €24,461 (income from farming only). This was an increase of 30% on 2010. The survey does not include the intensive sectors, including pigs, poultry and intensive horticulture, and also does not include smaller farms with a Standard Output of less than €4,000.

There is a wide spread of farm incomes concentrated in the lower income brackets. Despite the improvement in farm incomes in all sectors in 2011, 65% of farms still had an income of less than €20,000, while 15% had an income of greater than €50,000. It is expected that we will see a disimprovement in this income distribution in 2012.

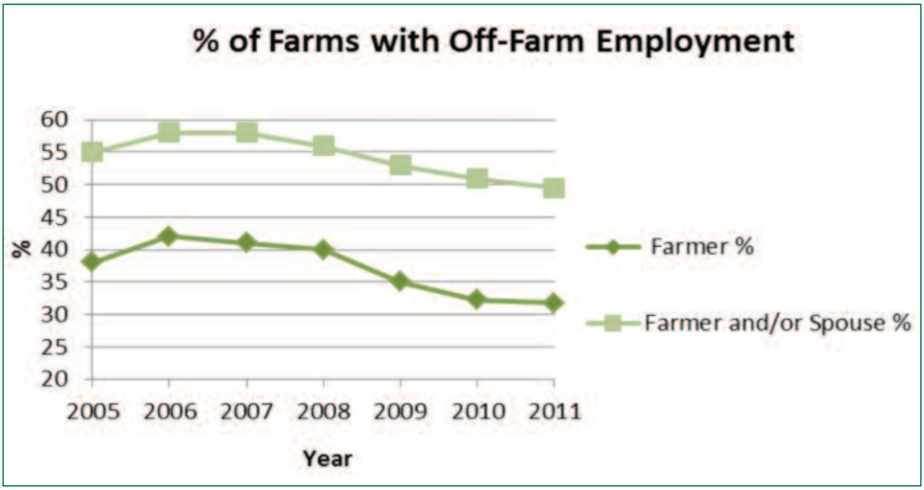
Table 5.2 Distribution of Family Farm Income in 2011

€	< 5,000	5,000 - 10,000	10,000 - 20,000	20,000 - 30,000	30,000 - 50,000	>50,000
%	23	21	21	9	11	15
Number	24,273	22,162	22,162	9,498	11,609	15,830

5.3 Incidence of Off-Farm Employment

The National Farm Survey shows that in 2011 32% of farmers had an off-farm job, similar to 2010 figures. The number of households in which the farmer or the spouse had an off-farm job continued to fall, from 51% of households in 2010 to 49.5% in 2011. The continuing decline in off-farm employment opportunities has a negative impact on the overall income position of the farm household and highlights the increased importance of farm income for the farm household.

Figure 5.1 Trends in employment - % of households with off-farm job in 2011



5.4 Value of Single Farm Payment and Direct Payments by System

The following table gives the average family farm income (FFI) and the average Single Farm Payment (which is included in FFI) by system for 2011; the average farm size is also shown to put this into perspective. While a reduced %, the SFP and other Direct Payments still represent the majority of farm incomes in most farm enterprises.

The increase in producer prices in 2011 is reflected in the % of Family Farm Income comprising the Single Farm Payment (SFP). In 2011 the SFP, on average, represented 52% of Family Farm Income, down from 66% in 2010 and over 100% in 2009, reflecting the increased market returns to all enterprises in those two years.

When all Direct Payments are included (e.g. SFP/REPS/DAS/Suckler Cow), these comprised 69% of Family Farm Income in 2011, and over 100% of Family Farm Income on Cattle enterprises.

Table 5.4 Average SFP by System

System	Dairying	Mixed Livestock	Cattle Rearing	Cattle Other	Mainly Sheep	Tillage	All
Size (hectares)	54.8	47.6	31.1	33.7	41.3	64.8	40.3
Average FFI (€)	68,570	34,902	10,453	14,573	16,805	35,296	24,461
o/w SFP (€)	17,630	14,693	8,079	12,435	10,459	22,483	12,658
o/w all Direct Payments/Subsidies	22,489	19,729	12,362	16,118	16,012	25,541	16,969
SFP as % of FFI	26%	42%	77%	85%	62%	64%	52%
Direct Payments as a % of FFI	33%	57%	118%	111%	95%	72%	69%

6. Investment Trends and Farm Borrowing

6.1 On-farm investment

The following table gives the estimated gross investment levels by the agricultural sector, sourced from the Teagasc National Farm Survey (2006-2011). After peaking in 2008, with the completion of the Farm Waste Management scheme, investment has fallen back to an average level of €6,300 per farm between 2009 and 2011.

Table 6.1 Capital Investment in Irish Agriculture (€m)

Year	2006	2007	2008	2009	2010	2011
Gross investment (€m)	788	1,371	2,041	654	660	696
Gross Investment per farm (€)	6,965	12,250	19,479	6,397	5,782	6,601

While gross investment per farm increased by 14% between 2010 and 2011, from €5,782 to €6,601, net investment (i.e. investment less grants and subsidies) increased by almost 25%, from €4,600 to €5,700 in this time period. This reflects both a reduction in grant aid available for investment programmes and an increase in farmer's own investment capacity in 2011.

6.2 Level of Farm Borrowings and Savings

As a capital-intensive industry, there is a requirement for constant reinvestment in the agriculture sector. Access to credit at a reasonable cost, with prompt decision making, will remain a key element for the future development of the sector.

Central Bank data[3] indicates that the total stock of farm borrowing, after falling over €1.2b from its peak of €5.5b in 2009, has been largely stable since end 2011, and remains at €4.25b

However, the amount of new credit extended to the agriculture sector contracted in the 12 months to June 2012, falling by 4.9% in this time period[4]. This suggests both a tightening of lending conditions for the agriculture sector in 2012 and a reduction in demand for credit, due possibly to a combination of lower income in 2012 and the paying down of debt on many farms.

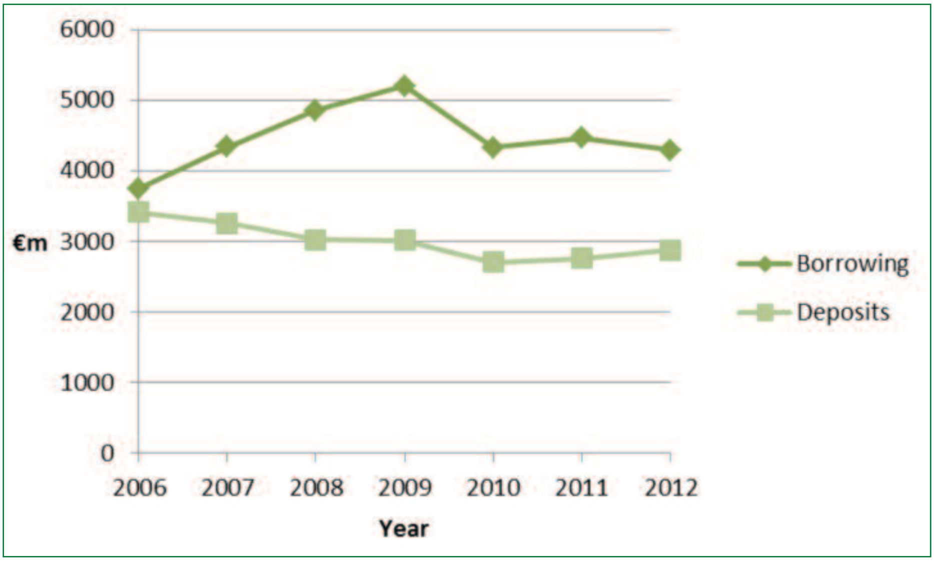
The decline in deposits[5] that occurred steadily from 2006 was arrested in 2011, with deposits increasing slightly in the 12 months from June 2011 to June 2012.

[3] Central Bank Quarterly Bulletin 4 2012

[4] ibid, Credit Advanced to Non-Financial Enterprises - Annual Percentage Change, Agriculture SMEs

[5] Due to a reporting change in the Central Bank Quarterly Bulletin in 2011, the deposits figure is the figure for Primary Industries. This includes agriculture, forestry, fishing and mining. Agriculture (excluding fishing and mining) represents approximately 85% of this figure.

Figure 6.1 Levels of Agriculture Borrowing and Deposits 2006-2012 (€ million)[6]



[6] Measured as at March of each year

7. Agricultural Statistics

The following are the main agricultural statistics for 2012 on the national breeding herd and tillage area, sourced from the CSO's annual Crop and Livestock Survey.

7.1 Livestock

Table 7.1 Trends in the National Breeding Herd (000 head, June)

	2008	2009	2010	2011	2012	% change 2012 v 2011
Dairy Cows	1,114	1,097	1,071	1,117	1,141	2.1%
Beef Cows	1,180	1,204	1,159	1,123	1,149	2.3%
Total Cows	2,294	2,300	2,230	2,240	2,290	2.2%
Ewes	2,614	2,450	2,530	2,510	2,652	5.7%
Pig Breeding Herd	157	158	161	156	146	-6.7%

Source: CSO June Livestock Survey and June Pig Survey

An increase of over 2% was recorded in both the beef cow and dairy cow herds in 2012, while ewe numbers increased by almost 6% in the year. While the numbers in the pig breeding herd continued to decline, increased productivity in the pig sector led to an overall increase in throughput for the sector in 2012.

7.2 Crops

Table 7.2 Area under Crops, (000 hectare, June)

	2007	2008	2009	2010	2011	2012	2012 v 2011
Wheat	84.3	104.9	84.5	77.8	94.2	96.6	3%
Barley	167.5	181.2	193.6	174.8	180.6	190	5%
Oats	21.3	23.3	20.4	19.7	21.4	23.3	9%
Total Cereals	278.9	313.8	299.8	273.9	297.4	310.7	4%
Potatoes	11.7	12	12.2	12.2	10.4	8.8	-15%

Source: CSO June Crop and Livestock Survey

The number of cereal hectares increased across the board in 2012, possibly in response to the relatively strong prices received in 2011. Despite the increased acreage planted, the dreadful weather in 2012 led to a fall in output for the sector of 25%. For the potato sector, the further decline in hectares planted in 2012 was a clear reflection of the unsustainably low prices received for produce in previous seasons.

7.3 Demographics and Structure of the Agriculture Sector

The CSO Census of Agriculture 2010 published during 2012 provides a comprehensive picture of the demographics and structure of the agriculture sector. The table below shows significant differences in size, output and average age of farm holders. Specialist beef production remains the dominant enterprise type, accounting for almost 60% of all farm enterprises recorded.

Table 7.3: Structure of Farming 2010

	Dairy	Beef	Tillage	Sheep	Overall
Number of farms (000s)	15.6	77.7	4.8	13.5	139.8
Average farm size (ha)	55	28	56	31	32.7
Average Standard Output[7] (€000)	111	13	89	12	31
% of farm holders aged <35	7%	6%	10%	8%	6%
% of farm holders aged >65	13%	29%	21%	27%	26%
Farming the sole/major occupation	95%	66%	69%	63%	68%

In the pig sector, there were 349 farm enterprises recorded with standard output greater than €100,000 and an average number of animals of 4,300.

The number of farm holders aged under 35 has fallen from 13% in 2000 to 6.5% by 2010. It is likely that this was as a result of the decline in attractiveness of farming as a career for most of the last decade. This decline has been arrested, as evidenced by the increase in numbers undertaking agricultural education and training in recent years. It should also be noted that the term “farm holders” indicates the owner of the farming enterprise and not necessarily the individual responsible for running the enterprise.

[7] Standard Output is the average monetary value of the agricultural output at farm-gate prices.

8. Outlook for 2013

8.1 Product Prices

2012 saw an overall fall in farm incomes nationally, with variations between sectors and regions. While product prices were strong in many commodities, both reduced output and increased input costs contributed to the income fall.

The outlook for product prices for 2013 is mixed, with an expected continued recovery in milk prices and positive indicators for the pigmeat sector, with the EU Commission projecting little or no change in the sheep meat and beef sectors.

With no major changes predicted, the euro is expected to remain at a similar (weak) level against the dollar and sterling in 2013, which is positive for agri-food export prices. The continued weakness of the Eurozone and UK economies may dampen demand. However, the recovery in the US economy is a positive. At home, the most recent figures show a slight increase in domestic consumption, which is a small, but positive indicator overall for demand and price. On the input side, while costs are not expected to fall; the volume of some inputs, particularly feed, is likely to be less than 2012.

8.2 Irish Presidency of the EU

Ireland assumes the presidency of the EU for the first six months of 2013. A number of key European policy issues are scheduled for decision during this time period, which will have a major impact on the Irish economy and Irish agriculture.

8.2.1 EU Budget 2014-2020

While significant progress was made, negotiations on the overall EU budget for the period 2014-2020 did not reach any agreement at the November meeting of the EU Heads of State. Differences of position exist between the Member States on the overall size of the EU budget, and its breakdown between the CAP, cohesion funding, research and innovation, security and other headings. The purpose of the Heads of State meeting in early February will be the conclusion of these negotiations. Of key importance for Irish agriculture in these discussions is:

- The overall size of the CAP budget.
- The funding allocation for Ireland for Pillar I (Direct Payments and Market Supports) and Pillar II (Rural Development programme).
- National co-financing rates agreed for the Rural Development programme.
- The % of the funding envelope for Direct Payments that will be allocated for specific greening measures (current proposal 30%).

8.2.2 CAP Post 2013

The timing for the conclusion of the negotiations on the CAP Post 2013 is highly dependent on agreement being reached on the overall EU Budget in early 2013. Agreement in 2013 will result in the likely implementation of the new Direct Payments system from 2015. Failure to reach agreement on the CAP would lead to a rolling forward of payment commitments under the SFP, with less certainty on the formula for rolling forward Rural Development programmes.

The overall reform requires agreement between the European Commission, EU Heads of State and the European Parliament. At end December, the Parliament tabled its compromise amendments to the original Commission proposals and will be voting on these in early January. However, they have also indicated that they will not vote on the overall reforms until the CAP budget is known. The major issues for Irish farmers in the final CAP reform negotiations are the speed and level of convergence of direct payments, the flexibility that will be afforded to Member States, and the implementation of greening measures that can be incorporated by farmers into their normal business practices.

8.2.3 Single Supervisory Mechanism

Agreement was reached in mid-December by the European Council on the proposed establishment of a Single Supervisory Mechanism for banks within the Eurozone. Further work will be ongoing in 2013 on the development of a deposit guarantee scheme and a single resolution mechanism for banks. Once an effective supervisory mechanism is established, the European Stability Mechanism (ESM) will have the possibility of recapitalising banks directly.

This will be a critical component in the ongoing negotiations between Ireland and its euro partners on measures to improve Ireland's debt position. This includes the possibility of direct investment by the ESM in the Irish banks, along with parallel discussions with the ECB on a more sustainable annual repayment rate for the promissory notes issued by the Irish Government to meet the debts of the IBRC.

8.3 Access to and Cost of Credit

Throughout 2012, a major issue for farming borrowers was the length of time for the credit application and approval process. Steps taken by the major banks to standardise the application process for agri-borrowers, and commitments to prioritise applications resulting from cashflow problems due to the weather should see improvements in the process for borrowers in 2013.

A further reduction in the ECB headline interest is expected in early 2013 as the Eurozone economy continues to struggle. This change, while impacting on repayment costs for existing borrowers with tracker mortgages, will have very little impact on the cost of borrowing for either the Irish banks, and consequently, Irish borrowers. In 2013, it is expected that the cost of borrowing will increase, through increased charges in particular, as banks seek to restore their profit margins.

However, the recent return to the market by a number of the Irish banks is a positive sign for borrowers as is the declining deposit rates available to savers. Continued recovery in the reputation of the Irish economy and banking sector is critical, which should lead to reduced borrowing costs both for the government and banks, and could signal a stabilisation in interest rates.

8.4 International Trade Talks

Ongoing bilateral trade discussions between the EU and Canada may reach a conclusion in early 2013. This would pose a threat for Irish agriculture, in particular the beef sector, through increased access to the EU markets for Canadian beef exports, with a resulting negative impact on prices. Of additional concern is that agreement reached between the EU and Canada could have knock on implications for future trade discussions between the EU and US.

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