



Farm Income Comparison

IS FORESTRY WORTH IT FOR YOU?





INTRODUCTION

Forestry is a growth industry in Ireland, contributing to 1% of GDP in 2015. Changing land use from traditional farm systems to a permanent land use such as forestry is a major decision for farmers. Approximately 1% of the land area of Ireland changes from farming to forestry every decade.

However, an increasing number of farmers and other landowners are exploring forestry as a viable option due to Ireland's high growth rates, state supports, excellent log prices and a positive tax regime. These are major incentives, although issues such as the replanting obligation and the long lead in time before forests reach productivity are viewed by some as disincentives. (Forestry Year Book 2016)

This report deals with all of the above and compares forestry to other farming enterprises such as dairy, livestock and tillage farming and highlights how forestry can supplement other farm incomes.

For more information on Forestry please **Freephone 1800 719 399** or visit www.veon.ie

COMPARING FARM INCOMES

To compare farming and forestry we need to look at the annual income and costs for both activities. What does the change in land use from livestock and crops to growing trees mean in terms of annual income and labour?

Livestock and crops provide an annual income by way of Basic Payment Scheme (BPS) and a possible net profit (or loss) depending on factors such as crop yield, establishment costs, weather conditions, initial purchase price of livestock, market fluctuations etc. Forestry provides an annual tax-free income from the forest premium while also keeping your full BPS.

More than 75 per cent of a farmer's income in 2016 came from direct payments with the bulk of those made up of the BPS. Given that the BPS will be the same before and after you plant forestry, it is more important to take into account the real farming costs and incomes.

Average Family Farm Income Per Ha

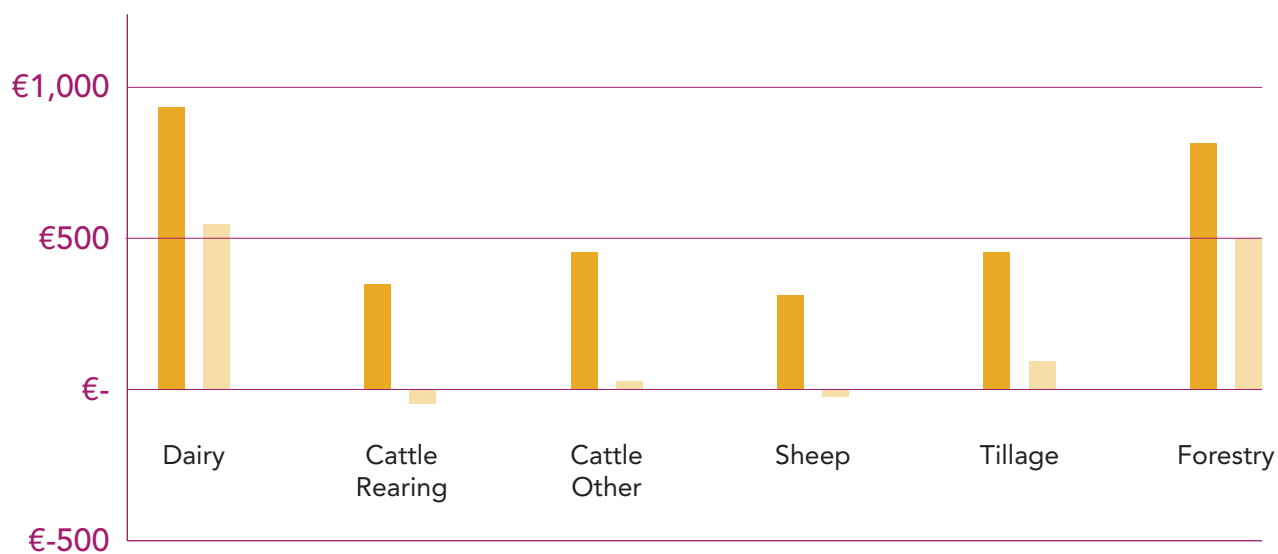
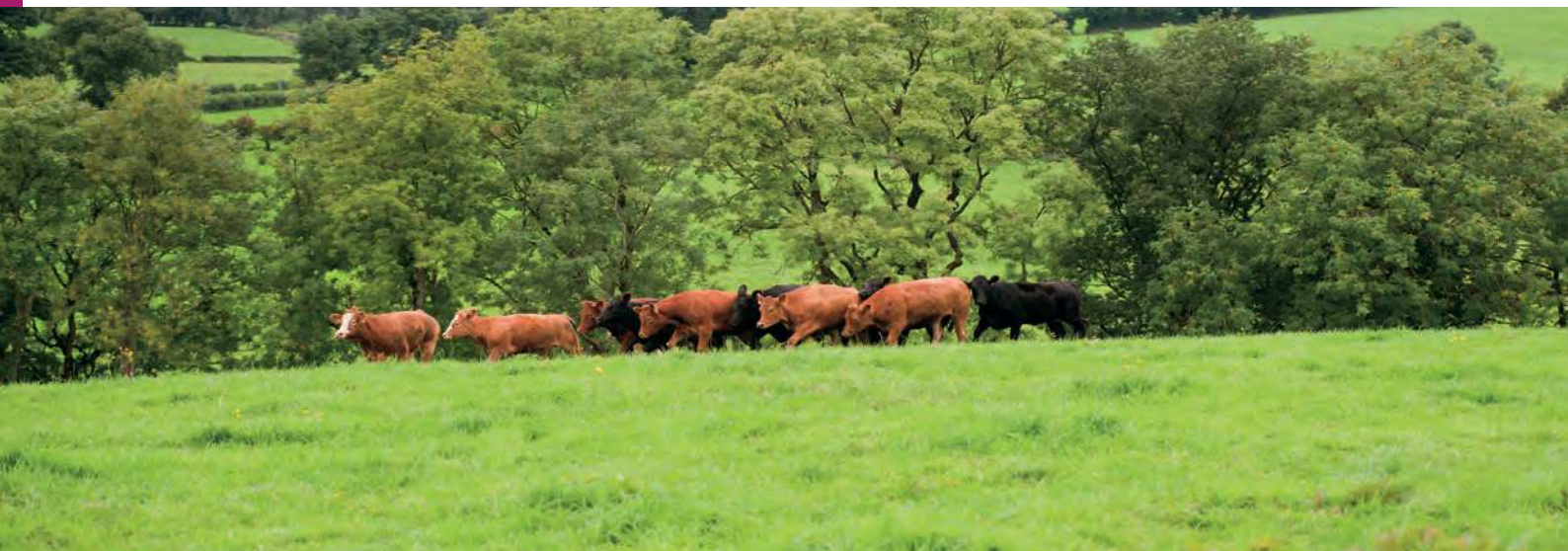


Figure 1 Farm income with and without Basic Payments
(National Farm Survey Estimates 2016)

■ Income/Ha (Incl. BP)
■ Income/Ha (Excl. BP)





The dependency on the BPS in farming is shown by excluding BPS from farm income. On average across all farm systems, the profit output when including the direct payments to the farmer is marginally positive. However, the profit on cattle and sheep farms is insufficient to cover production costs when the direct payments are removed (These figures are based on the National Farm Survey Estimates 2016).

DID YOU KNOW

- > Forestry income is 100% income tax free
- > Forestry is less time consuming than other farming enterprises
- > Demand for timber is high and this is expected to continue meaning the timber prices will remain strong
- > A plantation can generate as much as €15,000 per acre in income over the rotation excluding BPS
- > The government provides a grant which covers 100% of the cost of planting

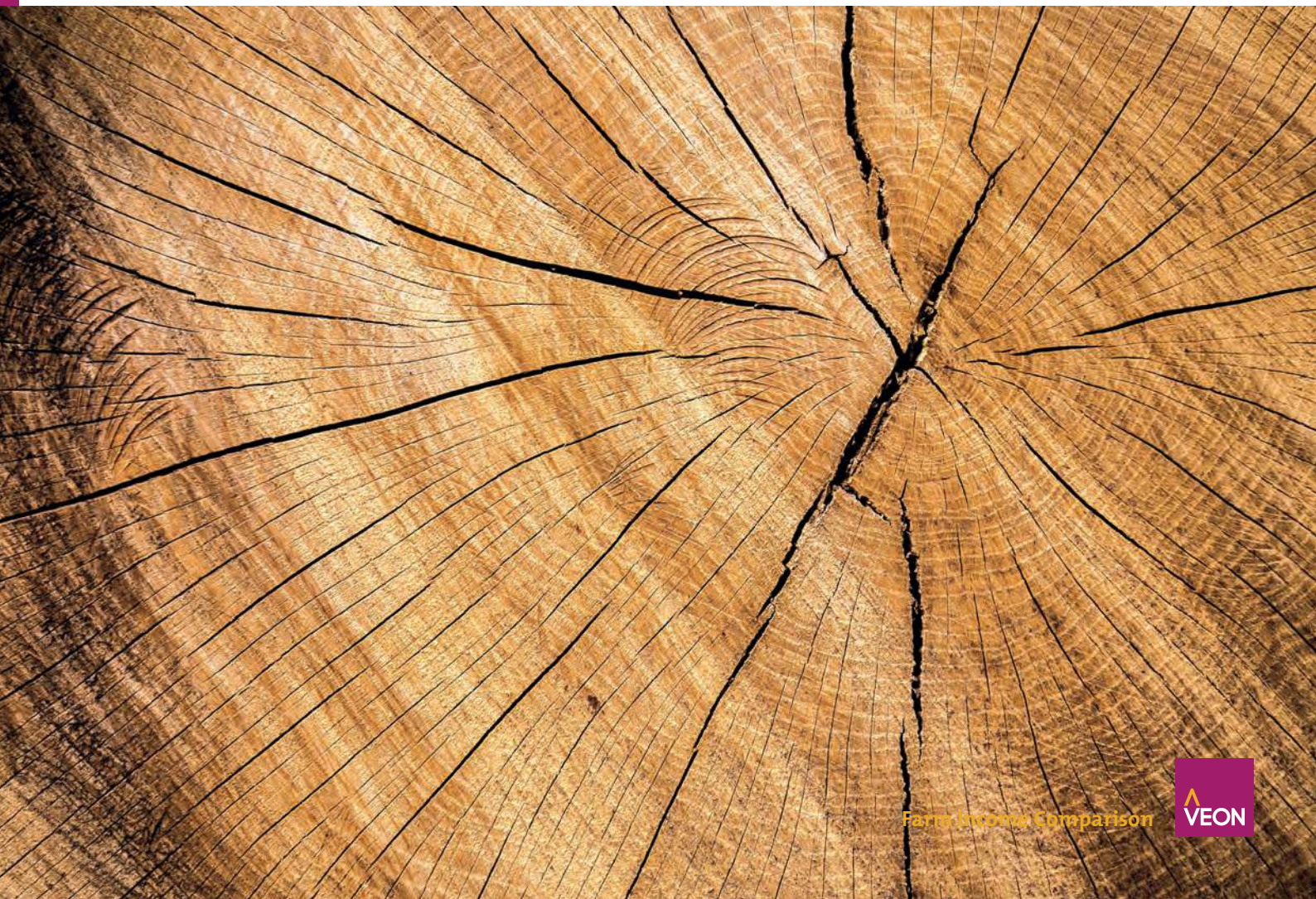
OVERVIEW

Across different forest rotations, the long-term net return from forestry is strongly positive regardless of soil class. However, the highest net gain from planting occurs on land that is marginal for agricultural production. This trend is largely consistent for all the farm systems. One of the advantages of choosing forestry is that long term timber prices have kept pace with inflation over time and unlike in the farming situation, it is possible to capitalise on high timber prices by harvesting a year or two earlier or later. (Teagasc 2016)

How much can you earn through Forestry?

If a farmer considers planting some of their land they would receive an annual premium payment of €520 per hectare for planting Sitka spruce and up to €680 per hectare for planting oak.

Farmers who stand to benefit the most from planting are those in the cattle and sheep systems who are considering planting land that is marginal for agriculture, but which is also highly productive for forestry. It is these farms that should consider switching some land to forestry as a means of boosting total farm income.





WHY FORESTRY?

Every farm is unique. There are many different reasons why forestry should be considered. The main reasons we have found to prompt planting forestry are as follows:

- > Marginal land – no matter how many times the land is drained it always reverts back to rushes
- > Low yield – farm areas that produce very little but require a lot of labour
- > Low reclaim value – land is not worth reclaiming
- > Children are often not interested in taking over the running of the farm
- > Distance – some areas of the farm are too far to travel everyday
- > Low return and hassle of letting land for grazing purposes

CASE STUDY

If a farmer planted 10 ha of his farm in trees he would generate the following income on top of his remaining farm income:

Details: 24.71 acres of Sitka Spruce planted

Income from premiums	Age		Income per Acre	Total Income
15 years at €210 per acre (@5,189 per year)	1-15		€3,150	€77,837
Income from harvesting operations	Age	Operation	Income per Acre	Total Income
	15	1st Thinning	€219	€5,400
	18	2nd Thinning	€328	€8,100
	21	3rd Thinning	€473	€11,700
	24	4th Thinning	€728	€17,999
	27	5th Thinning	€911	€22,499
	30	Clearfell	€9,550	€235,990
			€12,209	€301,688

Total Income from Premium and Timber	€15,359	€379,524
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Assumptions used in the above illustration:

1. The plantation is dominated by Sitka spruce and is managed to favour this species.
2. The production potential is taken at yield class (YC) 24.
3. Timber prices are assumed at the average price over the last 15 years.
4. This does not include Basic Payments on the land.

Attitudes towards forestry are strongly linked with land quality and possible alternative land uses and income streams. The figures above enable farmers to make indicative comparisons between farming and forestry options. However, research suggests that for the majority of farmers, while maximising profit is a key criterion, there are a range of other factors affecting the decision to plant. Every farm is different, and every farmer needs to make a living. Forestry has been a popular option for farmers in Europe for decades. Irish farmers are beginning to realise that farming trees may be a good option for their land.



FORESTRY INCREASE YOUR FARM PROFIT AND DECREASES YOUR FARM LABOUR

- > Earn annual premiums of up to €275 per acre per year
- > Earn up to €15,000 per acre from timber revenue
- > Retain your full single farm payment
- > Suitable for marginal land
- > 100% grant aided – no set up costs

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