



Chavereys

CHARTERED
ACCOUNTANTS

Monthly
Farming
Update

August 2011

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I Policy issues

- 1 The European Parliament has supported a report which would allow member states to disregard advice from the European Food Safety Authority to ban the cultivation of GM crops for non-scientific reasons.
- 2 The European Parliament has voted in favour of the Roth-Behrendt report which recommends allowing pig and poultry proteins back into EU animal feed although the ban on the use of protein from cattle and sheep would remain.

II CAP (etc.) support details/payments

- 1 The EU budget proposals for 2014 to 2020 include freezing the CAP budget at 2013 levels at £330 billions; reducing the CAP budget from 39.4 per cent of the total budget to 36.2 per cent; reducing the annual budget for direct payments from £38.7 billions in 2013 to £33.82 billions by 2020; making 30 per cent of direct support to be conditional on “greening”; requiring farmers to “engage in environmentally supportive practices”; capping direct payments with the savings to be transferred to the member country’s rural development budget.
- 2 The Rural Payment Agency has decided to complete all its investigations into the affairs of Producer Organisations rather than release the results on a case by case basis. Payments to Producer Organisations have been suspended in the meantime.
- 3 By 30 June the Rural Payments Agency had paid £1.75 billions to 103,604 claimants while 594 claimants are owed up to £25 millions. The amount paid represents 99 per cent of the total, exceeding the target of 95.238 per cent set by the EU.

III Grants/regulations/legislation/environment

- 1 Defra has announced a £10 millions loan scheme to be administered by the Waste & Resources Action Programme to assist with anaerobic digestion installations.

IV Other matters of farm finance and tenure

- 1 The latest Knight Frank farmland index shows that prices rose by 3 per cent in the second quarter of 2011 and are now 7 per cent higher than a year ago. The average is now £6,156 per acre.
- 2 Research undertaken by the Prince’s Countryside Fund has revealed that the public perceive that growers earn far more money than they actually do. 80 per cent of those surveyed estimated the earnings of growers and farmers to be greater than the Defra official figure of £15,000. 75 per cent of those surveyed estimated the countryside’s contribution to the economy to be less than £1 billion, the true figure is £80 billions.
- 3 Tonbridge & Malling Council has granted planning permission to Hugh Lowe Farms for the continued use of polytunnels.

V Product prices

A. Crops

- 1 Cereals harvest is well underway in the Northern Hemisphere, subject to disruption from sporadic rainfall. Ukraine has reported that both wheat and barley harvests are three-quarters complete, whilst USA wheat harvest is past the 60% mark. The June rains combined with initial reports of yields and quality have led major commentators to revise their estimated 11/12 harvest upwards, which in turn has led to further relaxation of prices.

In its July report, the International Grains Council predicted the 2010/11 harvest total grains yield up further at 1,749 million tonnes – now 44 million tonnes below the expected consumption – and the 2011/12 harvest yield estimate is now up half of one per cent to 1,817 million tonnes (12 million tonnes below expected consumption). Within the industry, the maize market is under pressure from poor expectations of the US crop, whilst the price of ethanol, and therefore bio-ethanol, has reached a five-year high – both having a positive effect on prices. External factors largely revolved around world finance which continues to breed volatility. LIFFE feed wheat futures strengthened marginally in the shorter term, bouncing back from over-reaction by the market in late June; the longer term futures continued to ease, but gently. In late July, deliveries for November 2011 and 2012 and May 2013 stood at £165/tonne (up £1), £155/tonne (up £5) and £156/tonne (down £2) respectively; November 2013 futures closed at £149. Average spot prices in late July (£/tonne ex-farm): feed wheat 153; milling wheat 175; feed barley 149; oilseed rape 369; feed peas 187; feed beans 190.

- 2 The average potato price continued its decline this month dropping below £150/tonne. By late July, the average was down to £143/tonne, £26 below prices a month earlier and £40 below those in July 2010. Old crop trade is largely drying up as buyers are content that their existing contracts will cover them for maincrop varieties until the new season crop is available. Particularly good samples of 2010 crop will still make good prices but poorer samples are unlikely to find a buyer. Consumers are generally seeking early varieties.

By late July: King Edward prices were holding steady at between £210 and £230/tonne for grade one. Desiree prices were holding similar ground at £210 to £230/tonne for grade one, whilst the prices for other red varieties were improved at between £190 and £210/tonne. The spread on Estima prices remains wide at between £160 and £225/tonne for grade one and Maris Piper prices were slightly down at between £200 and £230/tonne for grade one.

B. Livestock

- 1 Steer prices continued to improve in the first half of the month, peaking at 175p/kg lw before falling back over the second half. By the end of July the average finished steer price was 171p/kg lw, up 3p/kg (2 per cent) from late June; sitting 30p/kg above the price a year earlier. The average heifer price recovered to a premium position this month, improving with more vigour than steer prices mid-month, before dropping back in late July. By the end of July the premium over steers was 3p/kg, giving an average price of 174p/kg lw, 29p above prices a year ago. Average dairy cow prices improved materially over the course of the month to £1,417 (£1,194 in late July 2010) but the volatility remains.
- 2 Finished new season lamb prices continued to weaken during July, dropping by a further 11p/kg lw. However, prices remain well above those seen in previous seasons and lower production in other EU countries and New Zealand is expected to bolster prices for the coming months. By the end of July the new season average stood at 184p/kg lw; 19p/kg above the price a year earlier.
- 3 The average pig price retained its new-found buoyancy, holding steady and remaining above both the EU average and price levels of recent years. The average price by the end of July was static at 152p/kg lw, 6p/kg above the average a year ago.
- 4 The average UK farmgate milk price for May (reported in July) was 0.07ppl lower than the April close (in line with expectation due to May being the annual production peak). The May average of 26.34 ppl sits 11 per cent higher than the average price a year earlier. Milk quota slipped back further this month with the average price for clean 4% butterfat holdings at the end of July down to 0.39ppl. Leased quota (also 4% butterfat) held at 0.07ppl.

VI Other crop news

- 1 The latest HGCA planting and variety survey shows the GB oilseed rape area has increased by 9 per cent compared to 2010 to 1.719 million acres. The wheat acreage has increased by 1 per cent to 4.74 million acres and barley increased by 2 per cent to 2.26 million acres. In Scotland the wheat area increased by 4 per cent with cereals as a whole increasing by 3 per cent.
- 2 British Sugar and the NFU have announced that the contract tonnage beet price for 2012 is to be fixed at £27.53 per tonne. This is approximately £4/tonne higher than in 2011 due to input cost increases (£1/tonne), exchange rate differences (£1/tonne) and increased forward wheat prices (£2/tonne). An additional 500,000 tonnes of industrial beet contract will be made available.
- 3 NIAB TAG is considering a field trial to determine whether sugar beet left in the ground has a detrimental effect on following crop yields.
- 4 It is forecast that 49 per cent of this year's sugar beet crop will be infected with powdery mildew.
- 5 An international consortium of researchers including scientists from the University of Warwick has opened up the "black box" of plant immune genetics which could result in disease and pest-resistant crops in the future.
- 6 Research led in the UK by scientists at The James Hutton Institute has succeeded in mapping the genome of the potato. It is expected the research will shorten the time it takes to breed new varieties which currently takes as much as 10-12 years.
- 7 Scientists at Rothamsted Research have found that ground beetles can reduce the amount of weed seed in the soil and could be used in place of herbicide applications.
- 8 Brassica growers have been warned of record rates of infection from white blister, light leaf spot and ring spot.
- 9 Scientists at the John Innes Centre have identified that the same genetic mutation exists in the brassica family and rice.
- 10 The latest Kantar Worldpanel data shows that the value of the UK strawberry market has grown in volume by 10 per cent and in value by 13.9 per cent. The raspberry market has grown by 22.4 per cent in volume and blackberries by 28.7 per cent.
- 11 A HortLINK study being undertaken at East Malling Research has indicated that strawberry growers are using too much water and fertilizer to no advantage and that significant cost savings can be achieved.
- 12 Mac Black, a black raspberry grown in Berkshire, has gone on sale in Tesco.
- 13 With the release of Discovery to supermarkets, the English apple season has recorded the earliest start in the 35-year history of the industry body English Apples & Pears.
- 14 The University of Reading has joined forces with Norman Collett to assess whether current pollinator declines are affecting UK apple production.

VII Other livestock news

- 1 Defra has announced that badger culling will be allowed in two pilot areas of England in 2012. The cull will be monitored by a panel of independent scientific experts to confirm the effectiveness and humaneness of controlled shooting. No more than 10 areas, each at least 150 sq km in area, would be licensed in any one year, with a maximum of 40 areas operating simultaneously in a calendar year.
- 2 Defra has conceded that trials into the use of an oral badger vaccine to combat bovine TB have proved disappointing and that a vaccine is "many more years away" than anticipated.

- 3 An Efra committee of MPs has published a report into the European Commissions' Milk Package and urged the Government to ensure dairy farmers "are offered written contracts by processors which specify either the raw milk price or the principles underpinning the price."
- 4 The latest DairyCo Asymmetric Price Transmission report suggests producer contracts would be less likely to lead to an uneven price movement if the mechanism for setting prices and changing them was known and agreed by both farmer and milk buyer. It confirms that producers are usually the last to benefit from upward movements in the commodity market.
- 5 Kite Consulting has published "World Class Dairying – a vision for 2020". The report states that UK milk production has the potential to reach 15 billion litres by 2020 and ,while prices will be volatile, the upward trend will continue.
- 6 A 5 year programme funded by DairyCo is to be undertaken by the University of Nottingham to research herd welfare, diet, grazing, health and disease with the aim of improving the competitiveness of dairy farms.
- 7 Analysis of data from European Dairy Farmers shows that ,while the average European dairy farmer made a "family farming income" of 5.9 euro cents per kg milk produced in 2010, accounting for family labour, land and buildings rental value and depreciation creates a loss of 5.5 euro cents per kg. However, the top 25 per cent of producers succeeded in reducing costs of production and achieved 5 euro cents per kg in excess of the "family farming income" figures.
- 8 European Dairy Farmers annual "agri benchmark survey" shows that 40 per cent of all proposed milking system investments will be into robotics thereby increasing the use of this system from 9 per cent to 18 per cent by 2016.
- 9 Dairy Crest has created an incentive scheme whereby producers can earn a 2ppl bonus for additional volume supplied between August 2011 and March 2013.
- 10 The latest United Dairy Farmers auction of milk sold at an average of 29.51ppl, 1.6ppl higher than the previous month and 4.71ppl than the same time last year.
- 11 Graham's The Family Dairy, based in Stirlingshire, is to increase its producer milk price by 0.5ppl to 27.3ppl with effect from August.
- 12 Scientists at Aberystwyth University are conducting research to identify miniscule traces of faecal contamination on chicken carcasses which can cause food poisoning outbreaks. The Improved Food Safety initiative is endeavouring to develop a natural additive to poultry feed which will result in ultra-violet fluorescence of faeces and thereby facilitate the identification of contamination during the abattoir process.
- 13 Freedom Food sales of pigmeat sold under the RSPCA's welfare-friendly label increased by 116 per cent in the first quarter of this year compared to the same period in 2010.
- 14 Sainsbury's is to continue to pay a 3p/kg premium to its pig producers to the end of August despite the DAPP having reached £1.50/kg at which point the premium was planned to cease.
15. Bankdale Erin set a world record price for a pedigree beef heifer of 65,000 guineas at Borderway Mart, Carlisle.

VIII Inputs/Supply businesses

- 1 The Sulphur Institute has claimed the deficit of soil-based sulphur is estimated to be 9.6 million tonnes and will increase to 11.9 million tonnes by 2015 because the natural replenishment of soil sulphur is insufficient to cope with the high yields required to meet global food demands.

- 2 BASF is awaiting Chemicals Regulations Directorate approval for the use of (fluxapyroxad) against septoria and other diseases in wheat, barley, oats, rye and triticale. It is expected to be available for use next season.
- 3 Fungicide Rudis has gained approval for the control of Sclerotinia, Alternaria and powdery mildew in carrots.
- 4 Europe's food safety standing committee has agreed to increase the maximum nitrate levels for rocket from the originally-proposed level of 6,000 mg NO₃/kg to 7000 mg.

IX Marketing

- 1 While shop inflation increased from 2.3 per cent in May to 2.9 per cent in June, food inflation increased from 4.9 per cent to 5.7 per cent in the same period.
- 2 Mandatory country of origin labelling has been extended to fresh meat from pigs, sheep, goats and poultry under the "Food Information to Consumers" report.
- 3 A voluntary arrangement, co-ordinated by the Scottish Retail Consortium supported by the Scottish Government, is aiming to help consumers eat five portions of fruit and vegetables a day. Retailers have agreed to increase the proportion of fruit and vegetable ingredients in own-brand products; provide more information to help customers understand the benefits of frozen fruit and vegetable products; provide fruit and vegetables in places where people will be encouraged to make impulse purchases; offer fresh and frozen fruit and vegetables at affordable prices; ensure there are ranges of pre-prepared and ready-to-cook vegetables available to increase convenience for families.
- 4 A survey of consumers conducted for the Crop Protection Association has revealed that 42 per cent of shoppers believe pesticides are essential to protect crops and 35 per cent believe GM foods should be offered for sale.

X Miscellaneous

- 1 The Biotechnology and Biological Sciences Research Council is to cut jobs at Rothamsted Research after announcing that the departments covering Plant and Invertebrate Ecology, Applied Crop Science and Plant Pathology and Microbiology would be axed. The Broom's Barn campus in Suffolk will continue to be run as an experimental farm while the campus in North Wyke in Devon will be cut back on work on fermentation and anaerobic digestion, soil entomology and aspects of mathematical modelling.
- 2 Tractor registrations over 50hp in the first 6 months of the year are up 2.9 per cent on the same period in 2010 at 7,966 units.

Postscripts

Examples of Great British Education!

MATHS

I would like to be an accountant
but you have to know a lot
about moths.

THE ARTS

In last year's ~~prats~~ Christmas concert,
Linzi played the main prat. I played
one of the smaller prats and I would
like to have a bigger prat this year.

NATURAL HISTORY

Crabs and creatures like them all belong to a
family of crushed Asians.

RELIGIOUS STUDIES

If you marry two people you are a
pigamist, but morons are allowed to
do this.

HISTORY

Sir Walter Raleigh circumcised the world with a big clipper.

RELIGIOUS STUDIES

A mosque is a sort of church. The main difference is that its roof is domed.

Monthly Farming Update

The Fields are paved with Gold

A couple of weeks ago I visited a Berry Bros & Rudd bonded warehouse in Basingstoke. A relatively conspicuous building that may as well have had apples in it. Instead it had 2.5 million bottles of wine, a single pallet of which can set you back £1million.

If we go back a few years that warehouse would have been far emptier and the wine in it worth 40% of the value today.

Were I allowed to visit the vaults of the Bank of England I would find billions of pounds worth of gold, not owned by the UK I hasten to add but stored in the UK. Interestingly gold and wine have roughly tracked each other since May 2006 and today an ounce of gold is worth 2.5x that in May 2006.

Now let us look at land values. In the South East in May 2006 I could pick up an acre for £3,000. And today, well £7,500 should just about do it. Guess what 2.5x.

Lastly let us look at rents. Today people are paying £200 an acre yet in May 2006 you could get the same for £80. Guess what - 2.5x.

I will make a bet with any reader of the MFU that in another few years at least 2 of these will have crashed. Let me ask you something, what is the real market for gold compared to the other three above? One you can drink, the other two you can grow food on and gold you can.....

As human beings we are flawed. We think we are clever, we think we can read markets. But let me tell you something – we can't.

Markets are as imperfect as humans. We cannot control the weather and a whole host of other factors that will affect our markets. Therefore we cannot predict them. For example we assume that populations will continue to grow and more importantly they will continue to be able to pay for food. Supply and demand.

If you put this all together good things happen and bad things happen and this all boils down to one thing, history repeats itself. The good and the bad balance out over time ... unless of course you are stupid enough to pay heed to the British media in which case it is all bad. Supply and demand is self regulating.

If you ask me in 5 years time inflation will have taken 40-50% off the real value of everything today. Inflation will NOT go down. The question is what will keep up, what will stagnate and what will burst?

I am only human and therefore can only rely on history and tell you what definitely won't keep up. This is debt and cash.

The point is that we are all doing what we do best, creating bubbles. Don't get carried away with rents at £200 an acre or Chateau Lafite at £20,000 a case.

You'd be far better worrying about structuring any debt or cash you have to ensure you can cope with interest rates at 5%.

Bottoms up.

This report is intended as a general guide and although Chavereys have made every effort to ensure accuracy they cannot accept liability for any errors of fact or opinion

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We welcome feedback on the MFU. Does this issue raise any questions in your mind?

Would you like more information on a particular item?

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The MFU was edited from 1991 to 2006 by John Nix, Emeritus Professor of Farm Business Management