

Chavereys

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ACCOUNTANTS

Monthly Farming Update

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February 2010

I Policy issues

- 1 The Government has unveiled “Food 2030” which maps out the challenges and objectives for the food industry for the next two decades. The plan centres on maximising food production with minimal impact on the environment. The strategy examines food safety, natural resources and social elements in rural communities worldwide as well as demanding a “low carbon food system.”
- 2 The Government has accepted the recommendation of the Competition Commission to set up a supermarket ombudsman to enforce the Groceries Supply Code of Practice which comes into force on 4 February. However, further consultation will be required, lasting up to 3 months, to determine the make-up and scope of the new body. The British Retail Consortium claimed the “costly new bureaucracy” would “hand power to multi-national food businesses and cost customers millions of pounds in higher prices”.

II CAP (etc.) support details/payments

- 1 The Pack Inquiry has proposed that Scottish farmers must continue to receive direct farm support payments after 2013. It has also proposed Less Favoured Area support, rural development programme funding and a new top-up fund. The new fund would be financed out of the direct payment budget and would support measures such as fuel efficiency, stable beef production, renewable energy, animal health schemes and improved fertilizer use.
- 2 The Rural Payments Agency has indicated that it aims to complete its review of all producer organisations by 31 March but around half of all organisations have been advised that they will be subject to an intensive inspection. Payments to all organisations have been suspended but some interim payments were made in December.
- 3 Natural England has announced a reopening of Entry Level Stewardship applications following suspension in December.
- 4 Despite many farmers in England and Wales receiving Single Farm Payments early in December, as many as 16,000 claims have still not been settled.

III Grants/regulations/legislation/environment

- 1 A study by WWF-UK and the Food Climate Research Network estimates the food we eat accounts for 30 per cent of the UK’s carbon footprint. Production and initial processing accounts for 34 per cent of the total; manufacturing, distribution, retail and cooking 26 per cent; agriculturally-induced land use change 40 per cent. Of the total of agricultural greenhouse emissions, livestock farming contributes 57 per cent.
- 2 Under Private Water Supplies Regulations 2009 which came into force on 1 January, water distributed from mains pipes to more than one building for human consumption must be tested for “wholesomeness”.
- 3 New water abstraction legislation came into force on 1 January which results in abstraction licensing being covered by cross-compliance. Failure to report abstraction returns in accordance with the relevant licence could result in Single Farm Payment penalties.
- 4 Defra, the Environment Agency and the Welsh Assembly have published River Basin Management Plans for 10 river basin districts in England and Wales. The plans set out actions to tackle sources of pollution and to help attain EU standards on water quality. Defra has injected £7.5 millions into a fund to help farmers in priority catchment areas pay for farm infrastructure improvements.

- 5 The Voluntary Initiative has published new advice to farmers on pesticide use to help reverse the decline in important native bird species across the UK.
- 6 The Information Commissioner has ruled that the Veterinary Medicines Directorate illegally withheld information on the environmental impact of synthetic pyrethroid sheep dips.
- 7 David Leslie Fruits of Perth has become the first labour user to be prosecuted by the Gangmasters Licensing Authority for using an unlicensed gangmaster as a result of an investigation which revealed the farm had been supplied 250 strawberry pickers by an unlicensed business in Bulgaria.

IV Other matters of farm finance and tenure

- 1 EU agricultural income fell by 14.2 per cent in 2009 with the largest falls in Hungary 35.6 per cent and Italy 25.3 per cent. Ireland was down 22.3 per cent, Germany 21 per cent and France 19.8 per cent. However, the UK was one of just 5 states where income rose with a 14.3 per cent increase mainly due to a fall in input costs and a favourable exchange rate.
- 2 A survey carried out by the Institute of Biological, Environmental and Rural Sciences, based in Aberystwyth, has revealed increases in the farm business incomes of Welsh farmers in 2008/09 of 28 per cent (dairy), 24 per cent (hill sheep), 28 per cent (hill cattle and sheep), 53 per cent (upland cattle and sheep) and 40 per cent (lowland cattle and sheep).
- 3 A survey undertaken by Lloyds TSB of 377 Scottish farmers found that 84 per cent had enjoyed a profitable past year and that expansion was forecast in every sector. 87 per cent of dairy farmers were profitable, up 13 per cent on the previous year, and planned expansion would result in a 7 per cent increase in the Scottish dairy herd by 2015. Sheep and beef cattle producers forecast increases in numbers of 7.7 per cent and 2.6 per cent respectively in the next 5 years. Pig farmers forecast an increase in sow numbers of 8.3 per cent while cereal acreage is expected to rise by 5 per cent.
- 4 The NFU has forecast that farm incomes will fall in 2010 as high stock levels depress commodity prices and sterling strengthens.
- 5 The Environment Agency has reported that the 2007 floods cost the agricultural industry £66 millions, an average of £1,150 per hectare of flooded land. Farms in Yorkshire and Humberside accounted for about 50 per cent of the damage costs. More than 90 per cent of the costs to farming were losses in farm output and additional production costs.
- 6 The Scottish government has launched a farm survey to assess the damage caused by snow and ice.
- 7 HM Revenue & Customs has ruled that losses suffered by Dairy Farmers of Britain members on their Loan Stocks, Members Liability Loans, Member Capital Accounts and Member Investment Accounts will not be allowable for tax purposes.
- 8 Savills has forecast that average grade 3 arable land will rise in value by 6 per cent a year to £7,000 per acre in England and £5,000 per acre in Scotland. The best land is forecast to reach £10,000 per acre by 2015.
- 9 Knight Frank has reported that average land values rose by 3 per cent in the final quarter of 2009 to £5,123 per acre with annual growth reaching 6.8 per cent.

V Product prices

A. Crops

1. The grains market is currently somewhat bearish, with weakened prices across the board. The International Grains Council have this month predicted world wheat production for 2010/11, whilst marginally down on 2009/10, to be comparatively high at 653 million tonnes. The combination of this with the above average level of stocks carried over is leading to depressed prices. On a slightly smaller scale, Strategie Grains' view of the EU-27 is that the 2010 wheat harvest will be up 3% on that of 2009. The EU barley production is predicted to be down by 5%, but the high stock carry-over is expected to make up the shortfall. Oilseed prices too have fallen, following the lead of the Soya market. The spot market view is also being reflected in the futures market: LIFFE wheat futures in late January, for deliveries in May 2010 and November 2010 and 2011, all fell materially from December's closing position, standing at £101/tonne (down £9), £104/tonne (down £8) and £108/tonne (down £8) respectively. May 2012 futures stand at £113.

Average spot prices in late January (£/tonne ex-farm): feed wheat 94; milling wheat 111; feed barley 77; oilseed rape 225; feed peas 139; feed beans 139.

2. Average potato prices started the year with a small improvement to just below £114 per tonne. This was followed by a mid-month drop (down to £107) and a late recovery. Prices in late January stood at £111 per tonne, down by less than a per cent on last month, but still 7 per cent below prices a year earlier. The free market price also tracked a similar path to close at £92/tonne, which was 18% below the price in January 2009 (£112/tonne). Trade is generally uninspiring, with the usual good demand for premium quality samples, but with high levels of value-pack quality material continuing to depress prices.

By late January, King Edward were achieving between £90 and £110 for general pack, with top quality samples still reaching £140/tonne; Estima were obtaining between £55 and £65/tonne for general pack, up to £115 for quality samples with high baker content; Romano prices weakened slightly to between £70 and £100/tonne; Desiree prices continued to hold, still achieving between £80 and £120/tonne, £140/tonne for top quality; Maris Piper prices remain variable, sitting largely between £100 and £140/tonne for average samples but surpassing £200/tonne for best quality.

B. Livestock

- 1 Average steer prices were less buoyant this month, dropping back over the course of January by 9p/kg. The closing position of 148p/kg lw was down 5 per cent in the month and 7 percent below January 2009 prices. The average heifer price followed the same trend, closing the month down (153p/kg lw) with the premium over steers dropping to 5p/kg. The average price for dairy cows in late November stood at £1,258 per head, down 13 per cent on the average a month earlier.
- 2 Lamb prices have improved considerably on the already strong prices at the turn of the year, gaining a further 16p/kg since the year began. By late January this left the average UK lamb price at 191p/kg lw, up 9 per cent on December prices and 23 per cent above prices a year earlier.
- 3 The average pig price continued to play out the seasonal expectation by holding steady. The price throughout January stood at 139p/kg lw; 5 per cent above the average price at the end of January 2009 (132p/kg lw).

- 4 The average farmgate milk price for November (reported in January) showed a very minor improvement, up by less than a quarter of a per cent to 24.49ppl. The average price a year earlier was 2.59ppl higher (11 per cent). Milk quota prices fluctuated a little in January, with clean 4% butterfat holdings reaching 0.48ppl, but then dropping back to 0.44ppl. Leased quota (4% butterfat) dropped back to 0.07ppl.

VI Other crop news

- 1 From April, Assured Food Standards will implement Red Tractor standards which are aligned across all sectors. New requirements will be effective for farm inspections and standards are being rebranded as Red Tractor Farm Assurance.
- 2 Scottish Agricultural College has warned of no recovery in grain prices in 2010 as a result of world grain stocks being at an 8-year high.
- 3 A survey of 600 farmers by the National Farm Research Unit has revealed that increased yield and improved disease and pest resistance are key priorities for future plant breeding programmes.
- 4 Researchers at the University of Leeds have published the results of a trial to develop genetically-modified potatoes claiming the trial had made “great progress” in endeavouring to develop cyst nematode-resistant potatoes.
- 5 The forecast for this year’s Scottish malting barley crop is said to be very gloomy with no malting contracts on offer nor any indication of harvest prices for malting barley. 2009 crops sold on the spot market generated a loss of £40 per tonne.
- 6 EU sugar processors are to be allowed to export an extra 500,000 tonnes of sugar to ease the world shortage and reduce the EU surplus which is estimated to be 2.4 million tonnes. KWS and the biotechnology division of BASF are joining forces to develop a genetically modified sugar beet variety by 2020 which will have high sugar and energy yields as well as greater drought tolerance.
- 7 Potato growers in the Irish Republic have suffered at the hands of the weather with nearly 30 per cent of last year’s crop, some 6,000 acres, remaining unharvested.
- 8 Tozer Seeds has bred a new vegetable, Flower Sprout, a cross between Brussels sprout and kale. It will be sold by Marks & Spencer.
- 9 Government figures show that orchard fruit sourced by Government from British farms fell from 46 per cent in 2006/07 to 30 per cent in 2007/08; domestically sourced protected vegetables, such as tomatoes and cucumbers, fell from 46 per cent to 41 per cent; home-grown vegetables, such as asparagus, leeks and celery, fell from 61 per cent to 47 per cent; potatoes, brassicas, roots and onions all saw increases.
- 10 In the second quarterly report of 2009 published by the Pesticide Residues Committee, 490 out of 933 samples of 22 different foods had no detectable residues while 431 samples contained levels below the maximum residue level.
- 11 United Oilseeds has published its spring 2010 edition of “Growing Oilseeds”.
- 12 Worldgrain Storage in Lincolnshire has begun construction of an additional 18,000 tonne storage facility which should be complete in time for harvest 2010. The group has planning permission in place for a further 30,000 tonnes.

VII Other livestock news

- 1 The Government has published the draft Animal Health Bill. It sets out proposals to establish a new independent body for animal health. Savings for the taxpayer are estimated to be £21 millions but as the new body will have no fund-raising powers, farmers fear the Treasury will raise the required funds from the industry. The Scottish Government has agreed to provide £1 million to help farmers comply with electronic identification rules by allowing them to recover the cost of electronic ear tags and to apply for grants of up to £1,000 to buy electronic reading equipment.
- 2 Defra and the Welsh Assembly have launched consultations to determine how an emergency fund of £25.2 millions should be distributed among UK dairy farmers. Options include a payment per litre of milk produced in the year to September 2009 or a payment per litre for the first 100,000 litres and a lower payment on the excess.
- 3 The Food Standards Agency is to seek ministerial approval for the production of skin-on sheepmeat or “smokies” which is popular among some ethnic communities. It is expected that a legal trade in the commodity could contribute £3 millions to the rural economy.
- 4 The Welsh Assembly has given the go-ahead for a badger cull in West Wales following evaluation of studies showing the removal of infected wildlife can reduce the incidence of bovine TB in cattle.
- 5 First Milk is to increase its standard milk price by 0.25 pence per litre on 1 February.
- 6 Research undertaken by Meat Promotion Wales has found that farmers who rear calves sired by top-performing bulls are more likely to achieve improved profits. Those using bulls in the top 10 per cent of their breed had calves which reached 650kg between 64 and 120 days faster than average performing calves and 90 per cent of calves were born with little or no assistance.
- 7 McDonalds, the fast-food chain, has announced a 3-year study which will take place on 350 farms to find ways to cut emissions from livestock. The study will be undertaken by rural consultants Eco2 Project.
- 8 The Animal Medicines Inspectorate of the Veterinary Medicines Directorate is to conduct a 6 month trial of unannounced inspection visits to farms which mix medicated feed on-farm.
- 9 Defra tests on 3 farms have found cattle fed on imported colostrum have tested positive for enzootic bovine leukosis.
- 10 The Scottish Government has accepted the recommendation of Quality Meat Scotland and is to increase the levy rate by 93p on cattle, 13p on sheep and 21p on pigs.
- 11 Claymore Dairies at Nairn is being acquired in a management buyout from its present owners, Arla Foods and North Milk Co-op.

VIII Inputs/Supply businesses

- 1 Ammonium nitrate prices have risen rapidly for February delivery by £20 to £225 per tonne. Monammonium phosphate and diammonium phosphate have risen by £150 per tonne in the past couple of months.
- 2 Law Fertilisers has taken delivery of 2,500 tonnes of granular nitrogen, the first such shipment designed to provide an alternative to UK-based, foreign owned, premium grade ammonium nitrate.

- 3 Openfield has started to market Avail, a polymer-based coating which helps prevent lock-up in phosphorus, keeping it in plant available form.

IX Marketing

- 1 Research from IGD forecasts that online grocery shopping will almost double in value over the next 5 years reaching £7.2 billions by 2014. In 2009, 13 per cent of adults shopped on line for groceries.
- 2 Yorkshire-based tomato grower, John Baarda, has reached agreement with The Greenery UK, a subsidiary of the Dutch cooperative, Greenery BV, for the marketing of its produce.
- 3 Total Produce has restructured and rebranded its import and retail division, Redbridge Worldfresh. Total Worldfresh will provide umbrella management; Redbridge Worldfresh and Redbridge Produce Marketing will cease to be used as trading names; The Summerfruit Company will be rebranded as Total Berry UK.

X Miscellaneous

- 1 John Deere increased its share of the tractor market in 2008 by 1 per cent to 30.2 per cent; New Holland increased its share to 18 per cent; Case IH rose from 5.6 per cent to 7 per cent; Massey Ferguson slipped from 16.2 per cent to 15.7 per cent; Claas fell from 5.4 per cent to 5.1 per cent.
- 2 Hugh Kelcey, fruit grower and past Master of the Fruiterers Company, has died.
- 3 In the New Year's Honours List, Graham Robert Wynne, chief executive of the RSPB, received a knighthood for services to nature conservation; Ian Duncan Millar, director of the National Fallen Stock Company and also of the Moredun Institute, received an MBE for services to agriculture in Scotland; William Duncan, an MBE for services to horticulture in Scotland.

Postscript

Puns For Educated Minds

1. The roundest knight at King Arthur's round table was Sir Cumference. He acquired his size from too much pi.
2. I thought I saw an eye doctor on an Alaskan island, but it turned out to be an optical Aleutian.
3. A rubber band pistol was confiscated from algebra class, because it was a weapon of math disruption ...
4. No matter how much you push the envelope, it'll still be stationery.
5. A dog gave birth to puppies near the road and was cited for littering.
6. Two silk worms had a race. They ended up in a tie.
7. Atheism is a non-prophet organization.
8. I wondered why the baseball kept getting bigger. Then it hit me.
9. A sign on the lawn at a drug rehab centre said: 'Keep off the Grass.'
10. The short fortune-teller who escaped from prison was a small medium at large ..
11. The man who survived mustard gas and pepper spray is now a seasoned veteran.
12. When cannibals ate a missionary, they got a taste of religion.
13. If you jumped off the bridge in Paris, you'd be in Seine.

Foreign Invaders Sodding Things Up Again

When it comes to working out how much the Chancellor is in for, the starting point is how much money you have made. Your profit and loss account will tell you this.

So one might argue that a sensible starting point for doing any tax planning is understanding how much profit you have made and whether or not there is anything you can do to change this. It is one of the few things that you, as the customer and taxpayer, can really change.

Whether it is the recognition of the Single Payment, valuation of stock or dealing with property renovation most practitioners don't have a clue and it is up to you to ensure they get it right.

In the next few years the standards (rules) that accountants use to prepare financial statements will change.

Currently, non-publicly quoted entities use standards set in the UK. Over the next few years this will change so that standards set by an International rather than UK body are used.

Now this all sounds pretty dull and nothing of interest other than to us bean counters.

Unfortunately this is not the case and a move to International Standards could have a rather unfortunate impact on farm accounts.

Without delving into the detail, and the frankly boring history of this, the net effect is that stock valuations could change dramatically. They could all be revised upwards to market value!

Currently stock which generally represents a large figure in most farming balance sheets is (generally) valued at what it cost you rather than what it is worth. In other words all profit is deferred until it is sold. For example ignoring the last harvest, Wheat is worth say £20 per tonne more than it cost to produce. A thousand tonnes in store contains £20,000 of deferred profit; the same logic applies for all crops. Rather worryingly this would apply to all biological assets like fruit trees, woodland etc.

Don't ask us why this will change, these things are never logical.

The net result can only mean one thing, a lot more hassle and costs when doing the valuation and potentially a huge one off profit in the year we change to International standards. Whether or not this unrealised profit will be taxable is currently uncertain.

We will keep you informed as things progress but at the moment all of our efforts are going into stopping this happening.

It is likely this will take a lot of lobbying to prevent and next time you happen to speak to an industry representative you may want to mention it.

Those that are listened to are those that speak loudest.

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

Would you like more information on a particular item?

Please ring one of our agricultural specialists:

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