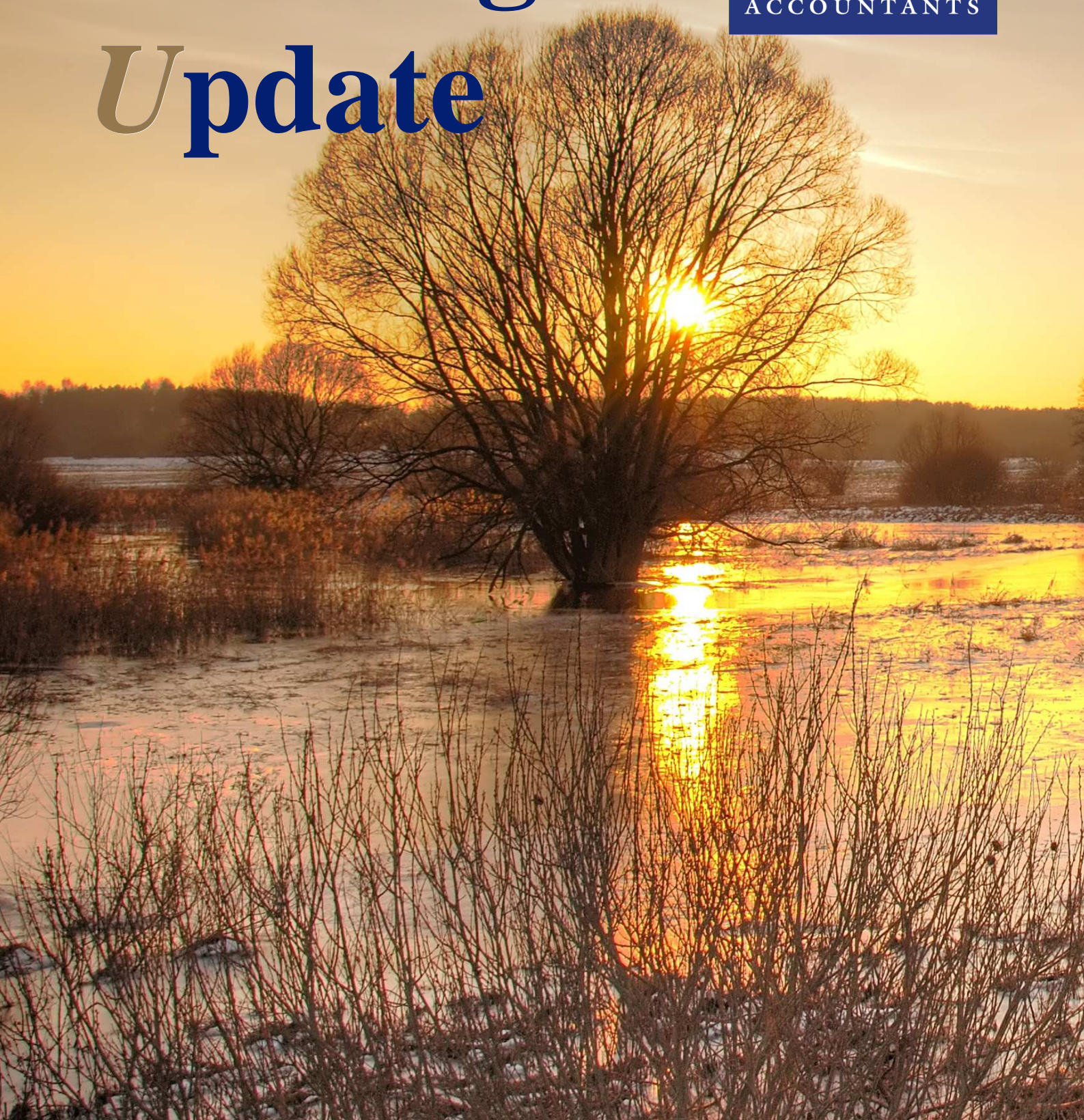


Monthly Farming Update

Chavereys

CHARTERED
ACCOUNTANTS



January 2012

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I Policy issues

- 1 Defra has announced that English farmers will be able to opt out of agri-environment agreements without penalty if they have to be changed as a result of CAP reforms.
- 2 The Welsh Government has agreed to merge the Environment Agency Wales, the Countryside Council for Wales and Forestry Commission Wales. Savings of up to £158 millions over 10 years are forecast.

II CAP (etc.) support details/payments

- 1 Defra is seeking the views of farming and other relevant organisations on the proposed CAP reforms. A questionnaire can be completed on www.defra.gov.uk/consult/2011/12/12/cap-reform-1112.
- 2 The Rural Payments Agency has advised that suspended producer organisations will learn if sanctions are to be lifted at the end of February. 17 producer organisations are affected.
- 3 Defra is seeking the views of farmers on the effectiveness of the Rural Payments Agency's Independent Agricultural Appeals Panels.
- 4 With effect from 1 January the Rural Payments Agency has taken over responsibility for cross-compliance rules from the Environment Agency.

III Grants/regulations/legislation/environment

- 1 Defra has issued a consultation paper proposing that the whole of England be designated a Nitrate Vulnerable Zone. It suggests such an approach would "remove the uncertainty and the competitive inequalities" inherent in the current designation and would "support agriculture and improve the environment".
- 2 The Government has published a water White Paper which sets out plans to modernise rules governing taking water from rivers and to encourage local organisations to improve water quality and extract water from the environment in the least harmful way.
- 3 GAEC19, which is designed to protect water from pollution by fertilizers and manures, came into effect on 1 January. The new rules mean inorganic fertilizer must not be applied within 2 metres of surface water; organic manure must not be applied within 10 metres of surface water or within 50 metres of a spring, well or borehole.
- 4 The Environment Agency is to commence "target-based inspection" focusing on farms deemed most likely to be non-compliant with new Nitrate Vulnerable Zone regulations, particularly those affecting pig and poultry producers. However, where the required slurry storage was not ready in time, the Agency would "look at the steps these farms have taken towards becoming compliant when considering enforcement action."
- 5 Linking Environment and Farming (LEAF) is to open a consultation process in advance of plans to join the ISEAL Alliance, a global association for social and environmental standards.
- 6 Eblex has published "Landscapes without Livestock", a report prepared by Land Use Consultants to illustrate what the countryside would look like without livestock.
- 7 The Grazing Advice Partnership has announced training opportunities to address the decline in traditional skills associated with livestock handling and conservation grazing.

IV Other matters of farm finance and tenure

- 1 Estimates from Eurostat reveal that agricultural income per worker increased 6.7 per cent across the EU in 2011 although the figure for the UK was only 4 per cent. Inputs grew by 9.7 per cent with feed up 16.8 per cent, fertilizer up 14.6 per cent and energy costs up 11.8 per cent.
- 2 Knight Frank has reported that farmland prices rose by 4 per cent in 2011 and are expected to increase by a further 7 to 10 per cent in 2012.
- 3 Defra has predicted that UK farm income will rise by 2 per cent to nearly £5 billions in 2011 on the back of an 11 per cent rise in agricultural output.
- 4 The Environment, Food and Rural Affairs committee has recommended Defra consider a programme of “hands-on experience with farming businesses” in an attempt to improve policy making.
- 5 Defra has announced it is to “fully explore the opportunities of earned recognition” and reward farmers who can demonstrate high standards and compliance with regulations.
- 6 NFU Mutual has launched an insurance policy to protect seed potato growers against losses from crop contamination such as herbicide drift.
- 7 Cheshire West and Chester Council has decided to sell its 47 farms covering 4,600 acres and valued at £31 millions.
- 8 The Government has confirmed that the Seasonal Agricultural Workers Scheme will be extended until 2013 with the quota remaining at 21,250 Romanian and Bulgarian workers per year.

V Product prices

A. Crops

- 1 The grains and oilseed markets remain volatile, having started December with a strongly bearish view they then progressed to a slightly more bullish slant. The early negative view was largely as a result of the Eurozone crisis, which continues to show no sign of improvement and remains in the headlines daily. However agriculture-specific factors trumped the generally dampened market outlook in the latter stages of December as concern built up in South America (Brazil and Argentina) over the lack of rain. The main crops affected, maize and soya, are thought to have irreversible damage, reducing yield potential to the extent that the world market is reacting. The net effect was a notable improvement in prices and futures. LIFFE feed wheat futures have bounced back this month. In late December, deliveries for November 2012 and 2013 stood £150/tonne (up £11) and £148/tonne (up £9) respectively. The continuation of the European debt crisis into 2012 will lead to volatility in terms of both currencies and commodity prices; prices could go either way in the New Year.
Average spot prices in late December (£/tonne ex-farm): feed wheat 145; milling wheat 160; feed barley 140; oilseed rape 339; feed peas 171; feed beans 168.
- 2 The average potato price improved further (but only marginally) this month in the lead-up to Christmas. By mid December the weekly average was up to £114/tonne, £5 above the November close but £22 below the average price in December 2010. The free-market price showed a bit more vigour, gaining £10/tonne to reach £96/tonne before Christmas. The quoted average prices did mask the fact that much of the trade was in higher quality samples, which is demonstrated by the increased spread in prices.
By late December: King Edward prices were slightly up and more spread, at between £90 and £145/tonne for grade one. Desiree prices also increased their spread upward at £100 to £140/tonne for grade one.

Estima prices remained relatively static at between £75 and £100/tonne for grade one, with 'baker' premiums relatively low; whilst Maris Piper prices were materially improved with a wide price range at between £105 and £200/tonne for grade one.

B. Livestock

- 1 Steer prices have been comparatively steadier this month, gaining 6p in the early stages to peak at 190p/kg mid-month before dropping back by a few pence. The average price in late December stood at 186p/kg; 2p above the November close and 26p/kg (16 per cent) above the price a year earlier. The average heifer price followed a similar route this month, improving early on before dropping back. By late December the premium over steers had dropped back marginally to 4p/kg; an average price of 190p/kg lw, which stood 26p/kg above prices in late December 2010. The average dairy cow price remained volatile this month to sit at £1,482 by late December (£1,101 a year earlier).
- 2 Finished lamb prices, having made such a prominent leap in November, continued to rise in the early part of December in the lead up to Christmas; the increase was a further 10p/kg lw, leading to a peak of 207p/kg. However, by late December the average price had relaxed to stand only just above the November close, at 198p/kg lw; 25p/kg (14 per cent) above the price a year earlier.
- 3 The average pig price appeared to plateau during December gaining 0.3p/kg, but holding steady thereafter. The average price in late December was 147.8p/kg lw, 11p/kg above the average a year earlier.
- 4 The average UK farmgate milk price for October (reported in December) was an improvement of 3.2 per cent (0.91ppl) over the September average of 28.09 ppl; the highest average milk price yet for the UK. The October average of 29.00 ppl was 12 per cent above the average price a year earlier but is still considerably below the EU27 weighted average of 31.40ppl. Milk quota prices have improved marginally this month; the average price for clean 4% butterfat holdings before Christmas stood at 0.28ppl, whilst leased quota (also 4% butterfat) remained static at 0.07ppl.

VI Other crop news

- 1 The UK 2011/12 oat crop is estimated by Defra to be 624,000 tonnes, 9 per cent lower than 2010/11 and the smallest since 2005. This has resulted in the price of ex-farm milling oats standing at a £33 per tonne premium to feed wheat.
- 2 HGCA has invited researchers to submit Expressions of Interest, detailing how their ideas will fill current gaps in knowledge and provide growers and agronomists with practical information on soil management. A fund of £1.6 millions is available.
- 3 The Processors & Growers Research Organisation has announced its research priorities for bean and pea growers. The Optibean project will try to establish the genetic basis of bean yield to assist breeding higher-yielding varieties; the genetic basis of pea quality is being investigated at the John Innes Centre with a view to improving pea breeding; a study will consider whether legumes contribute to a lowering of nitrous oxide emissions within arable crop rotation; BruchidCast is to be developed, a monitoring and forecasting system to warn growers of likely outbreaks of bruchid beetles; beans will be trialled as an alternative animal feed to imported soya.
- 4 UK cabbage production rose by 6 per cent in 2010 to 248,000 tonnes.
- 5 VHB Herbs, part of the Vitacress Group, has become the first glasshouse grower to sign up to the Conservation Grade Protocol, enabling it to use the Nature Friendly Farming bee logo on its products.
- 6 Stockbridge Technology Centre has called upon herb growers to submit samples of umbelliferous crops suffering from *Itersonilia* leaf blight.

- 7 Bakkavor has announced a 90-day consultation period concerning the future of its Newport-based subsidiary English Village Salads.
- 8 UK nursery Cornerways is to become a full member of the Coforta co-operative.
- 9 Sainsbury's research has found that 75 per cent of shoppers think the Australian Granny Smith is a British apple; at the same time 58 per cent would prefer to buy British.
- 10 QV Foods is to buy mushroom and vegetable specialist Greyfriars, based in Ripon.
- 11 The Horticultural Development Company has produced a guide for gooseberry growers, describing cultivation, varieties, pests and diseases and their control.
- 12 Sainsbury's has begun stocking the first commercially-grown British cranberries from Kent grower John Myatt.

VII Other livestock news

- 1 Defra has announced that two badger cull pilot areas will be selected but culling is unlikely to start until the autumn. Groups of farmers will be invited to form limited companies which will apply for licences for culling and vaccination by submitting a Badger Control Plan to Natural England; the application must cover at least 150 sq km; at least 70 per cent of land area must be accessible for culling; badger populations should be reduced by a minimum of 70 per cent; culling must be sustained for 4 years and will be limited to 6 weeks each year in each area. Farmers will pay fees based upon a combination of land area and number of cattle to cover the 4 year period.
- 2 Defra is to undertake a new national survey of badger populations in England and Wales, the last one having been completed in 1997.
- 3 The European Commission's Standing Committee on the Food Chain and Animal Health has agreed to a Defra proposal whereby there will be no need for farmers to electronically tag breeding sheep born before 1 January 2010, potentially saving the industry up to £11.5 millions. Tagging of such sheep has been deferred to the end of 2014.
- 4 The Farm Animal Welfare Committee has proposed that a Welfare Stewardship Scheme be funded under Pillar Two of CAP to reward farmers for adopting high standards of animal welfare.
- 5 The EU has agreed to a 25,000 tonnes per year increase in US beef imports while retaining the ban on hormone beef. In return, the US has agreed to drop all its trade sanctions with particular reference to BSE rules.
- 6 The Gira Meat Club has predicted that EU beef production will fall by 2.8 per cent in 2012 while beef consumption will fall by 1.6 per cent.
- 7 Meat Promotion Wales has launched a £120,000 Elite AI Bull Project designed to maximise the quality of calves in Wales.
- 8 The National Beef Association Scotland and the Scottish Beef Cattle Association are expected to merge in 2012.
- 9 The annual Eblex Business Pointers costs of production report for the year to March 2011 shows the top third lowland breeding flocks having a positive net margin before non-cash costs of £33.50 per ewe while the bottom third showed a negative margin of £50 per ewe.
- 10 The EU has decided to leave up to member states whether to make milk contracts a legal requirement. It has, however, set out conditions which should be attached to any milk contracts, including stating a price for raw milk linked to market indicators and a minimum duration of at least 6 months.
- 11 Defra figures show the average UK farmgate milk price reached 29ppl in October, the highest average ever.

- 12 Meadow Foods, the dairy ingredients manufacturer, has increased its producer milk price by 0.5ppl from 1 January taking the standard litre price to 28.88ppl.
- 13 Defra has issued a “Guidance Note” indicating it is likely the European Commission will agree to a 5 per cent tolerance in the use of non-organic ingredients in pig and poultry feeds until at least 2012.
- 14 The EU Welfare of Laying Hens Directive, which bans conventional “battery” cages came into force on 1 January.

VIII Inputs/Supply businesses

- 1 HGCA-funded research undertaken by NIAB TAG has revealed that the standard approach to predicting soil nitrogen supply by soil mineral nitrogen testing is not cost-effective. Instead field assessment method predictions, such as Defra’s RB209, should be used.
- 2 A consortium of approval holders of insecticide chlorpyrifos, comprising Dow AgroSciences, Headland Agrochemicals and Makhteshim Agan, are asking chlorpyrifos users to follow more stringent application rules than advised on labels in a bid to safeguard future use of products containing the active ingredient.
- 3 The EU standing committee is considering the introduction of measures to control Epitrix covering the main period when ware potatoes will start to move across Europe.
- 4 The European Seed Treatment Scheme, devised by the European Seed Association in response to EU Directive (2000/21) which requires insecticide seed treatments to “only be performed in professional seed treatment facilities”, is to be operated in the UK as part of the Trade Assurance Scheme for Combinable Crops.

IX Marketing

- 1 The British Retail Consortium has released its Global Standards for Food Safety 6 with expanded sections on foreign body control, hygiene and housekeeping.
- 2 The British Leafy Salads Association has received a grant of £120,000 from the EU to conduct promotional campaigns to counter damage done by the E.coli outbreak. It will support a 3-year public relations and marketing campaign to promote the health benefits of leafy salads.

X Miscellaneous

- 1 The European Parliament’s internal market committee has decided to remove utility ATVs from regulations affecting motorcycles and on-road quad bikes. Instead a new category will be created for ATVs to be included in legislation on tractors and other agricultural vehicles.
- 2 JCB is to develop a £31 millions engine project which will create about 350 jobs across its Midlands and Wales plants between 2016 and 2021.
- 3 Kubota claims to have reached agreement to buy 31.8 per cent of Kverneland, the Norwegian farm equipment manufacturer. This follows offers for the company from CNH, the manufacturer of Case and New Holland machinery and China’s Chery Heavy Industry.
- 4 NFU Mutual has advised that claims for stolen fuel oil increased by 264 per cent in January 2011.
- 5 Professor Anne Glover, Personal Chair of Molecular and Cell Biology at the University of Aberdeen, is to be the European Union’s first chief scientist to assist the European Commission on decisions relating to food security and climate change.
- 6 Defra statistics show a 13.5 per cent decrease in the number of fly-tipping incidents in England in 2010/11 but a 5.8 per cent increase in enforcement action.

- 7 Defra has launched a Farming Advice Service, a “one-stop-shop” offering advice on a variety of subjects.

Postscripts

What I owe my mother:

1. My mother taught me to appreciate a job well done.
‘If you’re going to kill each other, do it outside. I’ve just finished cleaning.’
2. My mother taught me religion.
‘You better pray that this will come out of the carpet.’
3. My mother taught me about time travel.
‘If you don’t straighten up, I’m going to knock you into the middle of next week!’
4. My mother taught me logic.
‘Because I said so, that’s why.’
5. My mother taught me more logic.
‘If you fall out of that swing and break your neck, you’re not going to the shops with me.’
6. My mother taught me foresight.
‘Make sure you wear clean underwear, in case you’re in an accident.’
7. My mother taught me irony.
‘Keep crying, and I’ll give you something to cry about.’
8. My mother taught me about the science of osmosis.
‘Shut your mouth and eat your supper.’
9. My mother taught me about contortionism.
‘Will you look at that dirt on the back of your neck!’
10. My mother taught me about stamina.
‘You’ll sit there until all that soup is gone.’
11. My mother taught me about weather.
‘This room of yours looks as if a tornado went through it.’
12. My mother taught me about hypocrisy.
‘If I told you once, I’ve told you a million times. Don’t exaggerate!’

Bucking the Trend in 2012

In an effort to keep depression at bay I have two pieces of advice for 2012.

Firstly do not read, watch, listen to or engage with anyone who is droning on about another recession.

Secondly do not visit any public places where you are likely to see just how much the UK's population has deteriorated. This was really summed up for me by a survey performed over Christmas by a very well known DIY chain.....Question – have you moved house in the last 2 years?.....Choices – Yes, No, Don't Know.

Now I am guessing but having walked around said DIY chain on a couple of occasions, I expect that the last choice of answer could well prove a popular one. On the flip side of my advice, if you do need a bit of motivation to do some tax planning then maybe a trip around a shopping centre will do the trick. I maintain that, as a sector, we are best placed to ride out the storm but everything takes some effort and my contribution to this are some prompts for those little grey cells.

- 1) Is it finally time to hedge your Single Payment? I find it difficult to see the Chinese not dipping their toe further into the European market at some stage which may shore things up. I can't see the Euro getting stronger against Sterling and if history repeats itself we could be back to 0.7 or below, can you risk it?
- 2) Are you sure that your bank facilities fit with your budget and your objectives going forward? When are your facilities up for renewal, do you have enough head room? Bank funding rates are not going to go down. My advice is to get your finances in order whilst margins and arrangement fees are still (relatively) low.
- 3) What is your forecast Income Tax position for the year to 5 April 2012? Most of you can forecast your year end so you may as well be looking at this now. You cannot tax plan after the event and we know that capital allowances are coming down.
- 4) Is your house in order? A sobering thought but what position will you be in if a member of your family is no longer here? I maintain that the tax reliefs in this sector are unique and in most cases allow farms and estates to be passed down without any consequences. Why wait until they are no longer here?
- 5) Any tax planning usually takes a year or more to be most effective. Let your advisers know what you are planning. With Income Tax at 50% and Capital Gains Tax at up to 28% plan ahead.
- 6) Lastly as a sector we have to learn that, though valuable, our asset base is not our salvation. Demonstrating that your business can stand on its own without the backing of your balance sheet is how you will obtain cheaper finance and in my view is how the sector will become leaner and more driven. If it doesn't make money then don't do it.

Best wishes for 2012 from all at Chavereys.

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?

Please ring one of our agricultural specialists:

Martyn Crawley

Richard Davis

Nick Holmes

Henry Mullens

Southern England

Mall House
The Mall
Faversham
Kent
ME13 8JL

Tel: 01795 594495
Fax: 01795 594499

East Anglia

1 Penn Farm Studios
Harston Road
Haslingfield
Cambridge
CB23 1JZ

Tel: 01223 874693
Fax: 01223 874451

E-mail:
mfu@chavereys.co.uk
www.chavereys.co.uk

If you would like to add a friend or colleague's name to the mailing list please contact Lindsay Gleed

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