

Monthly Farming Update

Chavereys

CHARTERED
ACCOUNTANTS



June 2011

I Policy issues

- 1 The Farming Regulation Task Force has published its report with the aim of “establishing an entirely new approach to and culture of regulation”. Among the recommendations are to move to a “risk-based” inspection regime where farmers who have “earned recognition” are awarded with a reduced inspection burden; lifting the six-day standstill on farm-to-farm movements; simplifying livestock movement rules; simplifying the Single Payment scheme and cross-compliance rules; ensuring planning rules support “productive farming”.
- 2 Copa President Gerd Sonnleitner has warned the European Parliament that trade liberalisation with Mercosur countries could lead to losses to EU agriculture of up to £11.7 billions coupled with significant job losses in EU rural areas. Beef is most at risk with a loss of £2.7 billions.

II CAP (etc.) support details/payments

- 1 The European Parliament’s Agriculture Committee has given support to the report drafted by German MEP Albert Dess calling for a “strong and sustainable” Common Agricultural Policy. The Committee has called upon the European Commission to submit an impact assessment on the practicalities of a “greening” component and has suggest that both compulsory and voluntary modulation should end in 2012.
- 2 Defra and the Rural Payments Agency are proposing to prioritise 2011 Single Farm Payments so that “genuine farmers who need the money for cash flow” are paid first. So called “pony paddock” claimants would have least priority.
- 3 By the middle of May Single Farm Payments had been made to 101,176 farmers totalling £1.63 billions representing 94.5 per cent of the total. An estimated 3,177 claimants have still to be paid including 700 who were advised that payment would be made in April.

III Grants/regulations/legislation/environment

- 1 Defra is to undertake a detailed review of the performance of the Campaign for the Farmed Environment. Survey results indicate the CFE is performing poorly against its target areas such as encouraging farmers to keep land out of production although participation in agri-environment schemes is above expectations. The latest results show 322,161 acres of cultivatable land not in agri-environment schemes is out of production in England compared with 385,484 acres in 2010 and 387,955 acres in 2009. The CFE set a target in 2009 to retain 442,319 acres of uncropped land. Of the farms covered by the campaign, 43 per cent have left land out of production compared with 49 per cent and 51 per cent in the past two surveys.
- 2 Research from the National Centre for Biorenewable Energy, Fuels and Materials shows that on-farm anaerobic digesters operate more efficiently when crops such as grass and maize are also added. By using 30 per cent crop material, energy output can be increased 10-fold.
- 3 The Yorkshire Dales National Park Authority is making £171,000 available to support new business ideas, community schemes and environmental projects.

IV Other matters of farm finance and tenure

- 1 Defra’s “Total Income from Farming” figures for 2010 show a 4.3 per cent fall in farm incomes mainly due to rising input costs and a lower level of direct support due to exchange rates. In real terms the figure was 12 per cent down on the high of 2008.

- 2 UK farming contributed £7.2 billions to the UK economy in 2010, up 6.2 per cent on 2009. The total value of agricultural production was £20.7 billions, up 5.3 per cent.
- 3 CGS Tyres, which produces agricultural tyres under the Mitas and Cultor brands and Continental Tyres under licence, has announced average price increases of 10 per cent while Michelin has announced increases of 6 per cent from July. Raw material prices have increased but also demand is outstripping supply.
- 4 The Welsh Assembly-funded Better Organic Business Links initiative is seeking up to 25 organic businesses to participate in a pioneering programme whereby they will receive free help and business consultancy leading to savings of up to 25 per cent in supply chain costs.
- 5 Defra has awarded Eurest Services the £12.5 millions foodservice contract at its 10 sites covering 7,500 employees.

V Product prices

A. Crops

1. Further weather issues (continued lack of rain in many parts of the UK and Northern Europe / too much rain in the US) pushed the cereal and oilseed markets even higher during May as expected yields dropped lower. In its latest revision, the International Grains Council predicted the 2010/11 harvest total grains yield up marginally at 1,733 million tonnes (56 million tonnes below the expected consumption) and the 2011/12 harvest yield estimate is now marginally down to 1,803 million tonnes (9 million tonnes below the expected consumption). External forces have also been highly influential this month with the crude oil price dropping back 10% from its three-year high, whilst continued concerns over the finances in Greece, and the knock-on effect to countries exposed to Greek trade and debt, resulted in an unpredictable and generally weak Euro. LIFFE wheat futures strengthened materially across the board, particularly in the shorter term, as a result of the increased concern over the expected outcome of the 2011 harvest. In late May, deliveries for November 2011 and 2012 and May 2013 stood at £197/tonne (up £28), £171/tonne (up £17) and £179/tonne (up £15) respectively.
Average spot prices in late May (£/tonne ex-farm): feed wheat 188; milling wheat 203; feed barley 171; oilseed rape 401; feed peas 204; feed beans 208.
2. Having reached a five-year high of £193 in the latter stages of April, the average potato price fell back to £184 in the first week of May. By late May the average price had relaxed further to £181/tonne (a £12 decrease); by comparison the average a year earlier was £54/tonne lower. The average free market price portrayed a similar trend - dropping back; minor recovery; further drop. By late May it stood £10 lower at £195/tonne (£94 above prices in May 2010). Old crop trade is already feeling the pressure from early new crop sales, something easily demonstrated by a glance at any supermarket shelf. Crop movement is relatively steady and most is under contract. With the early new season "in swing", many of the growers previously holding on to quality samples of 2010 main crop are starting to open their stores.
By late May: King Edward prices had dropped back as more quality samples came to market, sitting at between £200 to £220/tonne for grade one. Desiree prices were also slightly lower at £200 to £220/tonne for grade one, whilst other red varieties were slightly improved at between £180 and £200/tonne. Estima prices had spread to between £160 and £200/tonne for grade one with good baker content. Maris Piper prices were steady at between £200 and £250/tonne for grade one.

B. Livestock

- 1 Steer prices relaxed from 163 to 158p/kg lw in the opening half of the month before settling at 160p/kg where they stayed for the latter half. By the end of May the average finished steer price was 160p/kg lw, down 3p/kg (2 per cent) from late April, but still 19p/kg above the price a year ago. The average heifer price moved independently this month, strengthening slightly early on, stalling mid-month, followed by a late improvement. The premium over steers moved from the opening position of 1p/kg to a peak of 7p/kg and closed at 6p/kg, giving an average price of 166p/kg lw (20p higher than a year ago). Dairy cow prices remain highly volatile; at the end of May the average price was £956, having been as high as £1,335 earlier on in the month (£1,287 in May 2010).
- 2 Reporting of finished lamb prices switched from old to new season animals during the month; the effect was a marked improvement in the headline average by 23p/kg lw. This, however, masks the fact that the new season price has been dropping relatively fast in recent weeks in light of the number of animals coming to market. By the end of the month the new season average stood at 254p/kg lw; 49p/kg (23 per cent) above the price a year earlier.
- 3 The average pig price rose above the 2010 average for the first time this year, strengthening steadily over the course of the month. The average price by the end of May was up a further 7p/kg, closing at 148p/kg lw (3p/kg above the price in May 2010).
- 4 The average UK farmgate milk price for March (reported in May) saw a further gain of 0.49ppl (1.9 per cent) over February, giving an average of 26.57 ppl which sits 10 per cent higher than the average price in March 2010. Milk quota has seen a material revival this month with the average price for clean 4% butterfat holdings at the end of May reaching 0.57ppl (up 63%). Leased quota (also 4% butterfat) remains at 0.10ppl.

VI Other crop news

- 1 Rabobank has indicated that the US Department of Agriculture estimate of world wheat production of £669 million tonnes in 2011 is too high and that £657 million tonnes will be more accurate, 10 million tonnes up on the 2010 crop.
- 2 Milling wheat Gallant is now the only Group 1 variety which will be contracted by the UK's largest miller, Rank Hovis.
- 3 The Ensus bioethanol plant at Teeside has been closed for up to 4 months mainly in response to rising global grain prices and political uncertainty in the markets.
- 4 A Syngenta survey has found that 86 per cent of barley growers rate rhynchosporium as the most important to control. More than a third of growers have noticed a worsening of newer barley disorders such as ramularia and abiotic spotting.
- 5 Rothamsted Research has reported the rose-grain aphid as flying 2-3 weeks earlier than the 10 year mean; bird cherry-oat aphid 2 weeks earlier; grain aphid 2 weeks earlier; potato aphid 1-2 weeks earlier and a month ahead of forecast.
- 6 Pestwatch, which is operated by Dow Agro-Sciences and ADAS, has reported orange wheat blossom midge across southern and eastern counties of England while yellow wheat blossom midges are more common than in previous years.
- 7 Plant biologists at the University of Nottingham have found that the mechanism which controls seed germination is also responsible for the commencement of flowering. It is hoped the work could lead to identifying important factors controlling stress response contributing towards the development of new crops producing increased yields under extreme environmental conditions.
- 8 SASA has reported that there were no positive findings of potato disease dickey when taking 404 samples from 355 seed and ware potato stocks from the 2010 harvest.

- 9 The Scottish Agricultural College is offering a course on potato disease and variety recognition to counter the shortage of “tattie roguers” in Scotland.
- 10 The UK Beet Sugar Industry Sustainability Report 2011 has been published providing an overview of how the British beet sugar industry has coped with change during the past 5 years as a result of EU regime reform and details continuing investment in research, development and process efficiency.
- 11 The National Institute of Agricultural Botany is to open Innovation Farm this month. The project, which cost £6.8 millions, is a “knowledge transfer, demonstration and networking facility”. It has one hectare of demonstration plots, a glasshouse and a visitor centre.
- 12 Top-fruit growers have been warned that flat scarlet mite, which has not been an orchard pest since the 1950’s, is staging a comeback and can cause significant downgrading of fruit.
- 13 The 2010 UK grape harvest produced 30,346 hectolitres of wine or 4 million bottles.
- 14 Marks & Spencer has launched a sweet Unami tomato variety called Super Sweetini, developed by Melrow Salads.
- 15 The UK’s largest tomato nursery has been created with the opening of the 7 hectare extension to British Sugar’s Cornerways Nursery at Wissington.

VII Other livestock news

- 1 The Food Standards Agency has announced plans to allow the offspring of cloned animals into the UK food chain.
- 2 The 2010 annual carcase classification results from Eblex report an overall sustainable improvement in carcase quality compared with 5 years ago but from a sample of 396,000 cattle classified, just 49 per cent met the “R4L or better” market classification. While better than the 45 per cent of 5 years ago, the figure is down on the 50 per cent achieved in 2008 and 2009. A factor in the reduction is the fall in quality of young bulls, down to 48 per cent from 57 per cent in 2009, primarily a reflection of the greater number of pure-bred dairy animals finished in 2010.
- 3 The latest Cattle Market Outlook published by the Agriculture and Horticulture Development Board shows that, in 2010, the EU was a net exporter of fresh and frozen beef for the first time since 2003. There was increased demand from Turkey and Russia while imports from South America were lower. Exports grew by 178 per cent to 215,000 tonnes while imports fell 10 per cent to 203,000 tonnes.
- 4 The latest Eblex Beef Market Outlook forecasts firm beef prices due to a tightening of supply across the EU although there will be a slowdown in demand in the domestic market.
- 5 Morrisons, via its subsidiary Woodhead Brothers, is offering premiums of up to 20p/kg for native bred steers and heifers and forecasts a requirement for an extra 16,000 cattle a year to cope with increased sales of 8.8 per cent by value and 12.5 per cent by volume.
- 6 The Food Standards Agency has approved plans to introduce meat inspection full cost recovery over a 3 year period starting next April. New measures have been proposed including a low throughput threshold for abattoirs processing less than 5,000 units per day which will provide support totalling £3.2 millions per year for 570 abattoirs; the industry contribution to Food Standards Agency pensions will be reduced from £7.6 millions to £2.9 millions.

- 7 A total of 3,751 cattle were culled as TB reactors, inconclusive reactors and direct contacts in January, an increase of 34 per cent on January 2010. The number of cattle tested increased by 19 per cent. 3,897 herds were under restriction compared to 3,701 herds in January 2010. 12 per cent of all herds in the west of England were under restriction and 6 per cent of all herds in Wales. There were 532 new herd incidences compared to 434 in January 2010.
- 8 The UK Export Certification Partnership has confirmed the UK can export beef products to South Africa for the first time in 15 years.
- 9 The National Youngstock Association has been formed to help dairy and beef farmers cut youngstock losses. The Association claims that 8 per cent of calves are born dead or die within 24 hours while only 86 per cent of dairy heifers survive to first calving and, of those, 15 per cent are culled before second calving.
- 10 Figures from Internet/Schering-Plough Animal Health's Dairy Check and Beef Check show a disease rate of 67 per cent for BVD and 67 per cent for leptospirosis in dairy animals and 62 per cent for BVD and 43 per cent for leptospirosis in beef animals.
- 11 Research carried out by the Institute for Animal Health and Edinburgh University has identified a period of time when it is possible to identify cattle infected with foot-and-mouth disease before they become infectious.
- 12 Cogent Breeding has secured the UK semen distribution rights for the Belgian Blue bull Imperial de l'Ecluse.
- 13 The average farmgate milk price increased by 0.49 ppl between February and March to 26.57 ppl, the highest recorded figure for March. The average price is expected to continue to rise and both Rabobank and the United Nations Food and Agriculture Organisation have forecast that world demand will outstrip supply in the near term.
- 14 Arla Foods has submitted a detailed planning application for its new liquid milk dairy at Aston Clinton in Buckinghamshire.
- 15 The latest Eblex figures report costs of 164p/kg to produce a finished pig while the DAPP is hovering just above 140p/kg.
- 16 Vetoguinol UK has introduced Sodium Salicyl 80 per cent for supportive treatment of pyrescra in acute respiratory disease in calves and to reduce inflammation in pigs.
- 17 The Scottish Government has issued new rules concerning the reporting of sheep scab. It has also issued new sheep movement books and flock records which must be kept up to date.
- 18 Defra has launched an international global research project with funds from the EU to allow scientists to exchange research, establish common goals and collaborate on developing future control measures. The project will underpin early warning systems by making it easier to detect emerging disease in overseas countries which could pose a threat to UK farming.

VIII Inputs/Supply businesses

- 1 GrowHow has announced a price for 34.5 Nitram of £315 per tonne rising to £319 in July. NPK 25.5.5 is around £304 per tonne while 25.0.13+S is £305 per tonne. These prices are 50 per cent up on a year ago but the International Fertilizer Association has indicated that global nitrogen supply will increasingly exceed demand from 4 per cent in 2010 to 11 per cent in 2014.
- 2 Potato blight fungicides Consento and Prompto, produced by Bayer CropScience, have gained label extensions to protect against early blight.

- 3 Exosect has gained temporary approval for the mating disruptor Exosex LBAM Tab to control the light brown apple moth in blueberry crops.
- 4 Uralchem of Latvia has gained certification with the UK's Fertilizer Industry Assurance Scheme, becoming the first non-UK company to be so certified.
- 5 Dithane NT has been approved for use on downy mildew and rust in outdoor bulb onions and shallots and for control of alternaria leaf blight in outdoor crops of carrots and parsnips.

IX Marketing

- 1 The Government has published a draft Bill to create a groceries code adjudicator to enable pre-legislative scrutiny by Parliament. However, the full Bill will not be introduced until the next parliamentary session in May 2012 and, even then, it will have to compete with other legislation for parliamentary time. It is unrealistic to expect an adjudicator to be in place before 2013 at the earliest.
- 2 The latest Kantar Worldpanel figures for the 12 weeks to 15 May reveal a growth of 4.8 per cent in the grocery sector. Waitrose achieved growth of 8.8 per cent and increased its share to 4.3 per cent, Aldi increased its share to 3.4 per cent from 3.1 per cent a year ago. Asda fell back to 16.6 per cent with Tesco on 30.7 per cent, Sainsbury's on 16.3 per cent and Morrisons on 11.9 per cent.
- 3 Tesco has introduced a "Quality & Freshness Guaranteed" logo.
- 4 Mack is to be the principal sponsor of this year's Fruit Focus event to be held at East Mallong on 20 July.
- 5 Orchard World, the top-fruit supplier based at Colchester, increased turnover by 8.9 per cent to £40.2 millions in 2010 while profits increased to £743,000.

X Miscellaneous

- 1 A study by the University of Newcastle has found that fruit and vegetables grown without artificial fertilizers contain more vitamin C and other key nutrients. It also claims that organic food helps people to burn fat more quickly.
- 2 Tractor registrations over 50hp fell by 0.7 per cent in the first quarter of 2011 with the biggest falls being 17 per cent in the south-east and 13 per cent in the north.
- 3 Figures released by Cumbria Police reveal that farms not on the Farm Watch scheme are more likely to be targeted by thieves.
- 4 The Farm Safety Charter has been launched by farming organisations to raise awareness and to provide practical advice, training and guidance on safety.
- 5 Walford and North Shropshire College and Reaseheath College, Cheshire are considering a merger.
- 6 St John Ambulance is offering discounted on-site training to farms and agriculture-related businesses in Cumbria in an attempt to boost first aid among industry workers.
- 7 John Godfrey, formerly chairman of the National Pig Association, has been appointed chairman of the Agriculture and Horticulture Development Board.

Postscripts

Confucius didn't say

Man who wants pretty nurse must be patient.

Passionate kiss, like spider web, leads to undoing of fly.

Lady who goes camping must beware of evil intent.

Man who leaps off cliff jumps to conclusion.

Man who runs in front of car gets tired, many who runs behind car gets exhausted.

Man who eats many prunes get good run for money.

War does not determine who is right, it determines who is left.

Man who fight with wife all day get no peace at night.

Man who drives like hell is bound to get there.

Man who lives in glass house should change clothes in basement.

“A lion will not cheat on his wife, but a Tiger Wood!”

Pink Panther or Crouching Tiger

I was going to bore you with an interesting, but I fear soon to be overturned, farmhouse Case.

‘Golding v HMRC’. I have decided to trickle this out to you in a few weeks because there is something more pressing on my agenda. I will have a quick whinge at the wider press that insists on getting all excited about these cases when they can still be appealed. Back to the agenda...

Tax Investigations ...

For some years the issue of tax investigations has not been high on our agenda. This has mainly been due to the fact that on the whole we have experienced very few compared to other sectors and other firms. The beauty of being a specialist firm is that we believe we are on top of all the issues affecting the sector and generally we are.

This has not changed and our standing as one of the leading specialists in this sector has never been higher. However, it is clear that HMRC are as hungry for our sector’s blood as any other sectors’.

We are seeing specific targeting of this sector.

Some of you may have read that the ‘high net worth’ tax unit had doubled its tax take in the last year. To be clear this is the tax that they have found through investigations and resulting penalties.

Now most of you will not fall within the remit of this unit. My point is that, in the grand scheme of the population at large, this sector is wealthy and therefore a good potential source of revenue for the Revenue.

The Revenue is learning there is no point chasing dodgy builders and businessmen who cannot pay tax or penalties when they are investigated. It is far better to chase those who have assets.

Now do not panic, you are in safe hands. However, no-one pretends to be perfect and inevitably things do get missed.

This means we are undertaking an exercise to ensure you all get an MOT. You will see attached the first of your texts on Benefits in Kind.

Tax investigations are going to become a more usual occurrence in this sector. We cannot rely on the fact that the Revenue is as incompetent as Inspector Clouseau. The fact is it is not, it is increasingly well organised and increasingly employs expert agents in this sector.

For those out there not employing a firm with specialist knowledge I would think long and hard about whether or not they can defend you if the Inspector calls!

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