

Monthly Farming Update

Chavereys

CHARTERED
ACCOUNTANTS



March 2011

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I Policy issues

- 1 The Government has accused the EU Agricultural Commissioner Dacian Ciolos of a “lack of ambition” in its response to the European Commission’s consultation on post – 2013 CAP reform. It states “The CAP cannot be immune to the hard choices being made elsewhere in the EU. There must therefore be a very substantial cut to the CAP budget during the next Financial Framework”.
- 2 The EU’s Standing Committee on Food Chain and Animal Health has agreed to allow up to 0.1 per cent of non-EU approved GM in feed imports.
- 3 The Government has stated that it will consider introducing compulsory set-aside in England and Wales unless more arable farmers become involved with the Campaign for the Farmed Environment.
- 4 The Food Standards Agency has advised the Government there are no food safety grounds for regulating foods from the offspring of cloned animals.
- 5 The Government has announced a halt to the consultation into the public forest estate and the removal of all forestry clauses in the Public Bodies Bill.

II CAP (etc.) support details/payments

- 1 Defra is to issue guidance to all producer organisations to help create a better understanding of how they should operate and be structured.
- 2 “Farming in the Uplands”, the report of the Environment, Food and Rural Affairs Committee, suggests the Government should consider reintroducing headage payments for hill farmers in the uplands. It recommends that stocking rate decisions should be based on an agreed environmental outcome, such as achieving a set sward length rather than setting the number of livestock and the grazing season.

III Grants/regulations/legislation/environment

- 1 A consortium comprising the John Innes Centre, the University of Bristol, NIAB, the University of Nottingham and Rothamstead Research has been awarded a grant of £7 millions by the Biotechnology and Biological Sciences Research Council to identify new genetic variation from ancient sources of wheat germplasm to accelerate the genetic improvement of modern UK wheat. Commercial wheat breeders will use the new germplasm for crossing with their own elite breeding lines to develop new varieties.
- 2 The Scottish Government has announced a £2.4 millions fund for the development of renewable energy schemes in rural Scotland. From April the existing Communities and Renewable Energy Scheme will be opened to farmers and other land managers. The scheme, which provides loan finance, is designed to take the risk out of the pre-planning stage of renewable energy schemes provided there is a minimum community benefit from the project.
- 3 The next annual round of EU funding for the marketing and promotion of agricultural and horticultural products has been announced by the Rural Payments Agency. The marketing activity must be aimed at increasing information on – and sales of – products of EU origin in specified non-EU countries.
- 4 A study published in the Journal of Applied Ecology carried out on 71 arable and mixed lowland farms in Eastern Scotland between 2003 and 2009 has shown that, where no agri-environment measures were in place, corn bunting numbers fell by 14.5 per cent per year while numbers remained roughly stable where basic measures were employed.

- 5 The Scottish Government has announced that, with effect from 1 April, the Crofting Counties Agricultural Grant Scheme will be targeted exclusively at Scotland's crofters. All crofters will be treated equally with the removal of the Economic Status Test.
- 6 Farmgen has signed a £30 millions contract with Kirk Environmental to build a network of anaerobic digestion plants across the UK.
- 7 R&K Drysdale has been awarded a grant of £647,647 under the Food Processing, Marketing and Co-operation Scheme of the Scottish Government for a new processing, packing and storage building, refrigeration equipment and grading line. The company is the largest producer of swede in the UK.
- 8 A Rural Development Programme for England grant of £400,000 has enabled Lincolnshire Herbs to start work on a finishing and mechanical packing centre at Bourne.
- 9 The Rural Development Programme for England has announced funding of up to £25,000 for farmers in Yorkshire for the purchase of heat capture units, voltage optimisation, heat exchangers, rainwater harvesting, slurry or silage store roofs, slurry separators and slurry distribution kit.

IV Other matters of farm finance and tenure

- 1 Defra's Farm Business Income Forecasts for 2010/11 predict a 24 per cent fall in farm business incomes for dairy farmers while pig farmers will see incomes fall by 66 per cent. Incomes from grazing livestock farms on lowland units will drop by 34 per cent. However incomes from cereal farms will rise by 73 per cent while general cropping units will see an increase of 58 per cent.
- 2 Average farm business incomes in Wales in 2009/10 increased by 7 per cent to £33,600 but in Scotland the equivalent figure fell by 12 per cent to £34,400.
- 3 Knight Frank's Farmland Index shows the average price of farmland is now £5,803 per acre and forecasts that values will rise by 7 per cent in 2011.
- 4 Trades union Unite has submitted a claim for a "substantial counter-inflationary" pay increase for farmers in England and Wales.
- 5 Savills latest "Spotlight on International Farmland Markets" reveals the average value of grade 3 arable land across Great Britain rose by 3.5 per cent in the third quarter of 2010 to £5,180 per acre.
- 6 RBS, the main creditor, has effectively put up for sale the world's largest farm. Ivolga controls 1.5 million hectares across Russia and Kazakstan.

V Product prices

A. Crops

- 1 The grains market continued to improve in the early part of February as the US growing conditions gave cause for concern, the Saudi Arabians came to the global market for 2 million tonnes of feed wheat and exports suggested a low EU stock level at the end of the season. From the middle of the month onwards, however, the world market turned slightly sour and prices weakened. By the end of February the political instability in the Middle East and North Africa had led to serious concerns over future global growth, which in turn pushed down expectations of demand for commodities. The investment funds then compounded the problem by selling stakes, resulting in spot prices dropping quite rapidly. The oilseed market also came under pressure this month as prices followed the Soyabean market's downward trend, but also as a result of over three quarters of a million tonnes of Australian crop being imported into the EU.

With continued fluctuation of the Euro: Sterling exchange also in the mix, the market is set to remain volatile. LIFFE wheat futures remained fairly steady in the longer term but, due to the current market trend, the shorter term position has weakened: In late February, deliveries for November 2011 and 2012 and May 2013 stood at £167/tonne (down £8), £147/tonne (static) and £152/tonne (static) respectively.

Average spot prices in late February (£/tonne ex-farm): feed wheat 185; milling wheat 206; feed barley 162; oilseed rape 364; feed peas 229; feed beans 243.

- 2 The early part of the month saw the average potato price drop back marginally, but recover again. However, the latter half of the month saw the price improve further. By late February the average price was up £8 at £173/tonne; £62/tonne higher than the average in February 2010. Much of the improvement is thought to be as a result of movement under contract. The free market average price, by comparison, did not weaken early on but followed a similar trend so that by late February it was up £9 at £187/tonne; £97/tonne above prices a year earlier. Exports are now starting to reduce to expected levels, with demand from the Canary Islands improving as the Russian demand is being curtailed by cold weather restricting movement. UK buyers are still actively seeking higher quality crop, but are reluctant to increase the offered price this early in the season. As a result, very few growers have been tempted to open their cold stores so far. By late February: King Edward prices had improved further; sitting between £200 and £230/tonne, with a few reaching £250. Desiree prices were more variable at between £175 and £230/tonne but still peaking at £240 for top quality. Other red varieties were selling at between £170 and £220/tonne. Estima prices remained strong at between £200 and £250/tonne for grade one; samples with high baker content reaching £275/tonne; Maris Piper supply remains slightly restricted leading to buoyant prices of between £220 and £270/tonne; £280 for best quality.

B. Livestock

- 1 Steer prices strengthened marginally during the month. By late February the average finished steer price was up by 2p (1 per cent) from January's close at 151p/kg lw, remaining on a par with the price a year earlier. The average heifer price roughly followed that of steers but the premium over steers increase to 6p/kg, giving a late February average price of 157p/kg lw (4p above the price a year earlier). The average dairy cow price remained volatile: dropping down to £1,134 per head; reaching £1,885 mid month, but closing the month back down at £1,197 - similar to last month's close but 13 per cent below the February 2010 closing price.
- 2 The finished lamb price improved week on week over the course of the month. The average UK lamb price by the end of February was up 15p/kg at 188p/kg lw, which stands 4p/kg above the price in late February 2010.
- 3 The average pig price has broken away from the seasonal trend that has been played out for a number of seasons by dropping back. The average price by the end of February was down 1.6p/kg to close at 135.1/kg lw; 6p/kg (4 per cent) below the prices seen a year earlier.
- 4 The average UK farmgate milk price for December (reported in February) confirmed that the market had plateaued by the end of November and reported a small decline to stand at an average of 26.14ppl (down a small fraction of one per cent). The average price in December 2009 was 5 per cent lower at 24.70ppl. Milk quota prices dropped back materially this month. The average price for clean 4% butterfat holdings in February was 20 per cent down at 0.25ppl, whilst leased quota (also 4% butterfat) held steady at 0.09ppl.

VI Other crop news

- 1 Duties on low and medium quality wheat imported into the EU have been suspended until the end of June in view of high prices.
- 2 East Malling Research has developed research showing it is possible to produce one tonne of grade 1 potatoes using 23 tonnes of water compared to the 42-60 tonnes currently used on average.
- 3 The highly aggressive AYPR strain of rhizomania has been confirmed for the first time in crops of sugar beet in Norfolk.
- 4 The Food Standards Agency is seeking opinions on draft EU legislation concerning nitrate levels in green leafy vegetables. The proposals cover rocket for the first time and derogations for lettuce and spinach have been removed.
- 5 Research undertaken by the Department of Life Sciences at Imperial College has uncovered the molecular mechanism that allows crops such as tomatoes, cucumbers and beans to become infected with the bacterium *Pseudomonas syringae*.
- 6 The European & Mediterranean Plant Protection Organisation has drawn up a pest risk analysis of the European status of pepino mosaic virus in tomatoes and the Food & Environment Research Agency is seeking the assistance of growers in developing a UK policy.
- 7 A study conducted by the University of Warwick School of Life Sciences has found that UK strawberry growers perceive the biggest threats to their industry to be labour issues; loss of chemicals due to policy changes; cheaper, imported fruit; disease and pest pressure. Climate change was only ranked 11th out of 14 threats.
- 8 The annual report of the International Service for the Acquisition of Agri-biotech Applications shows that more than 2.47 billion acres of GM crops have been planted globally in the past 15 years.
- 9 East Malling Research has signed agreement with Beijing Plant Protection Station to explore the commercialisation of technology in the management and monitoring of strawberry and cherry disease, as well as water-saving technologies that can be applied to commercial production in China.
- 10 Okanagan Speciality Fruits Inc is to make submissions to the Food and Drug Administration, the Canadian Food Inspection Agency and Health Canada for approval for GM apples Arctic Granny Smith and Arctic Gold Delicious. The Arctic brand refers to a non-browning trait.

VII Other livestock news

- 1 The Government has announced a delay until May at the earliest of its plans to introduce a badger cull in England. It has decided it needs to develop a robust mechanism to ensure the licence conditions are adhered to by groups of farmers; it needs to decide how the licence conditions should be shaped to minimise the effect of perturbation along the boundary around the culling area; it needs to address various “law and order” issues including the risks to farmers and contractors and the safety of the public.
- 2 Latest statistics show a 28 per cent fall in the number of cattle slaughtered because of bovine TB in Wales between January and October 2010 compared to the same period in 2009.
- 3 Robert Wiseman Dairies is to increase its standard farmgate milk price to 26.72 ppl with effect from 1 April.

- 4 An investigation into Wiltshire-based labour provider Marden Management by the Gangmasters Licensing Authority has resulted in 21 dairy farmers facing charges of employing labour from an unlicensed provider. One of the farmers is Gwyn Jones, the NFU vice-president.
- 5 First Milk has increased liquid pool producer prices by 1.12 ppl from March to 25 ppl.
- 6 Arla has increased its standard milk price by 2 ppl to 26.5 ppl with effect from March.
- 7 First Milk has announced that Eilers and Wheeler, a London-based company with Dutch origins, will be its preferred partner for export sales of cheese and packet butter.
- 8 Nocton Dairies has withdrawn its application for a 3,770 cow dairy farm in Lincolnshire.
- 9 Cogent Breeding is to acquire the business and marketing rights of World Wide Sires UK and Dairy Daughters.
- 10 An outbreak of Infectious Bovine Rhinotracheitis at Ireland's National Cattle Breeding Centre in County Meath has put at risk of slaughter 50 of the country's top breeding bulls.
- 11 Research undertaken by the Scottish Agricultural College and York University has indicated that, by 2020, serious epidemics of the liver fluke parasite among cattle and sheep in Scotland could be the norm and epidemics will become severe in Wales by 2050. Milder winters are expected to increase the survival of larvae and change the threat from seasonal to year long.
- 12 The British Egg Industry has reported a 5 per cent increase in volume sales in the last quarter of 2010 while overall the egg market grew by 1.6 per cent in volume in the year as a whole and by 2.6 per cent in value.
- 13 German meat and poultry production hit a record 8 million tonnes in 2010, an increase of 3.9 per cent over 2009.

VIII Inputs/Supply businesses

- 1 Full approval has been given for BASF's fungicide Invader for the control of downy mildew in bulb onions, garlic and shallots and the reduction of white tip in Leeds.
- 2 Supplies of the soil insecticide Mocap are expected to be short this season because of limited availability of the active ingredient ethoprophos.
- 3 Foliar spray insecticide Biscaya, produced by Bayer CropScience, has been approved for the control of cabbage and peach potato aphids in Brussels sprouts and willow carrot aphid in carrots and parsnips.
- 4 Herbicides used in sugar beet are forecast to be in short supply this year due to a shortage of active ingredient metamitron.
- 5 Insecticide Majestik has been approved for the control of spider mite in field vegetables.
- 6 Seguris, a fungicide based on isopyrazam produced by Syngenta Crop Protection UK, has received approval for use in winter wheat, winter and spring barley, rye and triticale.
- 7 Omex Agriculture has acquired a 50,000 tonne storage facility at Ipswich docks for the storage and distribution of liquid fertilizer.
- 8 BASF's fungicide Scala, which treats Botrytis, has been approved for use on blackberry and raspberry crops.

IX Marketing

- 1 The latest Freshfel Consumption Monitor shows that per capita intake of fresh fruit fell in 2009 by 6 per cent to below the average of the previous 5 years. Fresh vegetable consumption fell to 11.7 per cent below the 5-year average although it was only 0.5 per cent down on 2008.

- 2 Kantar Worldpanel figures for the year to January show that the organic sector has suffered a fall in value of 6 per cent and a fall in volumes of 8.5 per cent.
- 3 A partnership of Produce World in the UK and Unica and EI Dulze in Spain has created UPFresh to market produce under the “Green Giant Fresh” brand.
- 4 The British Leafy Salads Association has abandoned plans for a marketing campaign after an appeal to its membership for funding of £45,000 raised just £27,000.
- 5 Blas Y Tir (Taste of the Land), owned by Puffin Produce, has been launched in Welsh supermarkets to meet growing demand for authentically regional produce.
- 6 MVS Food Services Ltd of East Peckham in Kent has gone into administration.

X Miscellaneous

- 1 A Defra progress report on the Taylor Review has revealed a deal between the Agriculture and Horticulture Development Board and the NFU to persuade farmers and growers to support the use of commercial farms for research rather than create new research facilities.
- 2 The National Institute of Agricultural Botany in Cambridge and the Institute of Biological, Environmental & Rural Sciences at Aberyswyth University have joined forces with Waitrose to create the Centre of Excellence for UK Farming.
- 3 The Agricultural Engineers Association has reported tractor registrations of 604 in January, up 17.1 per cent on 2010.
- 4 Nigel Miller, a beef and sheep farmer and vet from Stagehall, Stow, Selkirkshire, has been elected the president of NFU Scotland.

Postscripts

Thank goodness for church bulletins!

1. The Fasting & Prayer Conference includes snacks and meals.
2. The sermon this morning: 'Jesus Walks on the Water.' The sermon tonight: 'Searching for Jesus'.
3. Ladies, don't forget the rummage sale. It's a chance to get rid of those things not worth keeping around the house. Bring your husbands.
4. Remember in prayer the many who are sick of our community. Smile at someone who is hard to love. Say 'Hell' to someone who doesn't care much about you.
5. Don't let worry kill you off – let the Church help.
6. Miss Charlene Mason sang 'I will not pass this way again' giving obvious pleasure to the congregation.
7. For those of you who have children and don't know it, we have a nursery downstairs.
8. Next Thursday there will be tryouts for the choir. They need all the help they can get.
9. Irving Benson and Jessie Carter were married on October in the church. So ends a friendship that began in their school days.
10. A bean supper will be held on Tuesday evening in the church hall. Music will follow.

Monthly Farming Update

MOT

The world has always been a volatile place.

Today the bank base rate is 0.5%, in 1979 it hit 17%. Inflation stands at 4.5%, in 1975 it stood at 24%. Some of you will remember an 83% tax rate in the 70's.

Whether you like it or not you cannot ignore it!

Today we have historically low tax rates in the UK. Our sector also benefits from unique tax reliefs that do not exist in other sectors, for example Agricultural Property Relief and Farmers Averaging.

The main drivers of tax are politics and economics. Since 1997 the Labour Government massively complicated the tax system to attack 'avoidance'. This caused volatility in terms of lots of new taxes and now this trend will reverse with "The Office of Tax Simplification". The bad news here is that our unique reliefs may well fall under the cosh because they are perceived as complicated.

This is why, for example, Agricultural Buildings Allowances disappeared. So simplification may lead to increased volatility.

We then have the obvious economic issues that mean tax rates will probably continue to rise and certainly not fall.

But what can you do about it?

The first thing you need to do is work out where you sit. What does your structure mean for tax purposes and how much flexibility does it afford you.

It is worth noting that specialist advice is absolutely vital in this sector:

- www.eca.gov.uk
- carving up expenditure for capital allowance purposes
- depreciation in stock
- reduction in capital allowances from 2012
- reform of CAP
- forecasts for 2011, 2012 harvests and beyond

Tax planning should not be retrospective and you must look forward.

Income Tax is just half of it. **Capital tax is just as important.** The ability to pass the farm from one generation to the next "tax free" is vital to the continuance of all businesses in this sector. Some simple advice, start from the beginning:-

What are you trying to achieve? What are your objectives? What does your current structure achieve? Income Tax, Capital Tax, Indirect Tax? Other financial considerations? Who owns what?

What do the documents that govern your personal affairs and your business affairs achieve? Your will, your partnership agreement, shareholders agreement etc – are these consistent with your structure? Does this achieve your answer to the first question? If not what are you going to do about it?

A simple process that should be performed every year.

You should have a full structural review, an MOT, that is rolled forward every year. Remember when you have done it once it will become easy. You cannot plan 'navigate' if you do not know where you currently are and where you are trying to get to. This is the only way to be prepared for volatility.

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