



CHAVEREYS

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MONTHLY FARMING UPDATE

February 2018



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I Policy issues

- 1 The Government has published “A Green Future: Our 25 Year Plan to Improve the Environment.” Proposals include a crackdown on plastics; 500,000 hectares of new habitats for endangered species; funding of £5.7 millions to create a new Northern Forest; consulting on a new environmental watchdog; creating a new approach to agriculture and fisheries management; the creation of “nature friendly schools”; and reviewing the effectiveness of National Parks.
- 2 The European Court’s Advocate General has determined that organisms derived by gene editing technologies are exempt from EU rules on growing and marketing genetically modified crops. However, the head of molecular genetics at Kings College, London has suggested that exempting new plant-breeding technologies from GM laws is “wrong and potentially dangerous.”
- 3 The Environment, Food and Rural Affairs Select Committee has criticised the Animal Welfare Bill arguing it is “vague and ambiguous” and could result in unaffordable costs for Defra.

II CAP/Brexit (etc.) support details/payments

- 1 Rumours abound that Defra is considering a cap of £100,000 on Basic Payments from 2020 or 2021 with the cap gradually reducing until 2024.
- 2 Those farmers who have not received Basic Payment by the end of March will be offered a bridging payment of 75 per cent in April. By the end of January 93 per cent of claimants had been paid.
- 3 It is estimated that 4,500 Scottish farmers have not taken up the offer of interest free loans equivalent to 90 per cent of 2017 Basic Payments.
- 4 A new round of the Agri-Environment Scheme in Scotland has opened. The scheme supports environmentally friendly land management practices that aim to safeguard and improve Scotland’s natural heritage and help businesses to adapt to climate change. The application window will remain open until 13 April.
- 5 Applications have opened for the 2018 Countryside Stewardship Scheme.
- 6 The CAP Greening Group in Scotland has published a discussion paper which looks ahead to future policy and mechanisms which could support more environmentally sustainable farming and the delivery of public goods.
- 7 Applications have opened for the Countryside Stewardship Woodland Creation Grant whereby a 2-year capital grant of up to £6,800 per hectare is available as well as annual maintenance payments for a 10-year period.

III Grants/regulations/legislation/environment

- 1 A ban has been introduced on the use of “microbeads” in cosmetic products.
- 2 Defra Secretary Michael Gove has intimated that the Environment Agency may be restructured. This follows a report from the Natural Capital Committee claiming the Agency could not address environmental protection when its spending and workload is dominated by flooding.

- 3 The Agricultural and Horticulture Development Board is to invest £5 millions over the next 5 years in supporting PhD university students in an effort to overhaul the industry's "fragmented" innovation and skills pipeline.

IV Other matters of farm finance and tenure

- 1 In 2016 the productivity of the food chain increased by 1.9 per cent while the wider economy decreased by 0.3 per cent. This follows the previous 10 year period where the average annual figures were increases of 0.4 per cent and 0.3 per cent respectively. In 2016 the wholesale sector increased by 3.4 per cent but the catering sector fell by 2.7 per cent.
- 2 Defra has published an analysis of the profitability and resilience of farms in England in 2016/17. The average level of liabilities across all farms was £202,100 per farm, similar to 2015/16. 13 per cent of farms had liabilities of at least £400,000 while 28 per cent had liabilities of less than £10,000. The highest liabilities were found in specialist pig and poultry farms (£363,100), dairy farms (£360,100) and general cropping farms (£301,300). The least debt was found in less favoured area grazing livestock (£83,400) and lowland grazing livestock (£88,200). Farms in the South East had the greatest average liabilities of £262,500. The average net worth was £1.8 millions with 40 per cent having net worth of at least £1.5 millions. Mixed, owner occupied farms had the highest average net worth at £2.46 millions while wholly tenanted farms had an average net worth of £270,000. Cereal farms had an average net worth of £2.56 millions, that of general cropping farms was £2.97 millions while horticulture farms had the lowest net worth of £790,000. The average gearing was 10 per cent; 51 per cent of farms had gearing of less than 5 per cent while 8 per cent of farms had gearing of over 40 per cent. Pig and poultry farms had average gearing of 24 per cent, owner occupied farms 7 per cent and wholly tenanted farms 29 per cent. Average liquidity was 224 per cent with two-thirds having at least 200 per cent but 18 per cent had liquidity of less than 100 per cent. Grazing livestock farms had the highest liquidity at 314 per cent for lowland areas and 298 per cent for less favoured areas while dairy farms had the lowest liquidity at 152 per cent. The average return on capital employed was 0.46 per cent but 56 per cent of farms had a negative return.
- 3 While total farm income from farming in Scotland rose by 5 per cent in 2016 to £672 millions, it is estimated to have risen by 36 per cent in 2017 which will be the third highest since 2000 in real terms.
- 4 In November the price index of all outputs rose by 6.9 per cent compared to a year earlier and by 0.9 per cent compared to October. The index for inputs rose by 4.1 per cent and 1.4 per cent respectively.
- 5 The Scottish Government has introduced plans to reform the Scottish Crown Estate, capital value estimated at £275 millions with an annual revenue of £15 millions. The Scottish Crown Estate Bill will establish a framework for changes in the management of Estate assets and give communities a stronger say including the opportunity for councils and communities to participate in management.
- 6 Savills has reported falls in land coming to the market of 40 per cent in Wales, 16 per cent in England and 11 per cent in Scotland.
- 7 The Scottish Government has published a report on ways of achieving a fair, sustainable rent level for both landlord and tenant without recourse to the Land Court.

V Product prices

A Market background

- I Sterling saw a higher level of volatility against the Euro this month, with a general trend of improvement. From an opening position of 88.8p per €, the rate weakened (peaking above 89.0p) and gained (dropping below 87.0p), before closing 1.3p stronger overall at 87.5p per €. The US Dollar / Sterling exchange rate movement was far more marked; from a starting point of 74.0p per \$, sterling improved for most of the month, with \$1 dropping below 70p in the latter stages, before a late US recovery led to a closing rate of 70.8p per \$, 3.2p stronger overall. Crude oil prices were buoyant but volatile throughout the month with Brent crude, from a start point of \$67.23 per barrel, twice peaking above \$70, before closing the month at \$68.58 per barrel.

B Crops

- I Wheat prices remained flat for the second month in succession. Initial concerns that the wheat crops of Russia and Ukraine would suffer from frost damage have been alleviated by recent snow cover; a good harvest is predicted, meaning downward pressure on prices. Meanwhile in the US, dry conditions in the central states, from where more than half the US winter wheat production comes, are having an opposite effect on world prices. Oilseed prices fell further this month, again falling foul of a stronger Sterling position, particularly against the US\$, but also as a result of changes to biodiesel import duties, encouraging imports. LIFFE feed wheat futures, despite closing at the same level as a month earlier, were volatile throughout the month with swings in excess of £3/tonne. In late January, deliveries for November 2018 and 2019 stood at £142/tonne (-) and £144/tonne (-) respectively.

Average spot prices in late January (per tonne ex-farm): feed wheat £136 (-); milling wheat £149 (-2); feed barley £126 (+3); oilseed rape £287 (-13); feed peas £139 (+6); feed beans £147 (+5).

- 2 Potato prices remain under similar levels of pressure as a result of the volumes of crop still available at this point in the season. The packing trade remains steady and mostly contract driven, whilst the bagging trade is reportedly slow; both of which are putting pressure on free-buy prices. Crops are understood to be storing well, with limited instances of wet rots. The average potato price gained £4 over its opening position of £141 per tonne to reach a January close of £145 per tonne (£56 below January 2017); whilst the free-buy average dropped back materially, early on (from £95 per tonne to £77) before gaining some traction to pull back to a January close of £87 per tonne (£8 down overall and £156 below January 2017).

2017 crop prices for grade 1 in late January (per tonne ex-farm): Maris Piper had both improved and tightened its spread to between £175 and £250, whilst Desiree were tighter-spread but weaker at between £115 and £145. King Edward had weakened materially to between £100 and £160, whilst Estima and other white varieties were steady at between £50 and £100.

C Livestock

- I Cattle price movements were generally negative this month. The average finished steer price held relatively steady for most of the month, staying within £1 of its opening position of 196p/kg lw, but fell back in the closing stages to a closing average of 189p/kg lw (7p down in the month and 2p/kg above the closing average a year earlier). The average finished heifer price fell back earlier in the month, having peaked at 210p/kg lw it dropped back to close the month 8p lower at 201p/kg lw (1p above the price a year earlier). The average dairy cow price peaked, from its opening position of £1,094, at £1,291 per head before dropping back to £1,238 where it closed the month (compared to £990 in January 2017).

- 2 The lamb market was, conversely, volatile and generally bold. The average new season finished lamb price (SQQ live weight) opened at 178 p/kg lw, peaking at 188p/kg lw and dropping to 181p/kg in the first half of the month. The remainder of the month saw improvement, with a flourish in the final week to close the month at 191p/kg lw (up 13p in the month to sit 21p/kg above the average a year earlier).
- 3 The average UK all pig price (APP), dropped below the prior year average for the first time since September 2016, opening at 155.0p/kg dw the average declined to a closing position of 151.0p/kg dw (down 4.0p/kg, to sit 2.8p/kg below the closing average a year earlier).
- 4 The UK average 'all milk' price for November, published in late January, reported a small improvement, gaining 0.09p to give an average of 31.88ppl (6.34ppl above the price a year earlier) well above the 5 year average of 28.09ppl. In the context of the 'EU28' farmgate milk price, the UK's ranking for November remained steady at 17th. The EU28 weighted average for November was 34.59ppl (0.27ppl above the October 2017 average).

VI Other crop news

- 1 An ADAS survey has found that sterile brome was the second most problematic grassweed in the UK with 59 per cent of those sampled believing incidence had increased over the past 10 years.
- 2 The price index for all crop products rose by 1.8 per cent in November compared to a year earlier but fell by 0.2 per cent compared to October; the index for cereals rose by 13 per cent and 0.7 per cent respectively; the index for wheat rose by 14 per cent and 1.2 per cent respectively; the index for barley rose by 11 per cent compared to a year earlier but fell by 0.3 per cent compared to October; and the index for potatoes fell by 27 per cent compared to a year earlier but rose by 9 per cent compared to October.
- 3 In November animal feed production rose by 11 per cent for sheep compared to a year earlier with increases of 9.4 per cent for cattle, 6.2 per cent for poultry and 3.6 per cent for pigs. Usage of wheat rose by 6.1 per cent while usage of barley rose by 20 per cent.
- 4 Celtic Renewables has been granted permission to build a commercial demonstrator plant at Grangemouth at a cost of £5.25 millions. The plant will be capable of producing 500,000 litres of biobutanol annually.
- 5 The European Food Safety Authority Panel on Plant Health has categorised the Guatemalan potato tuber moth as a Union quarantine pest for the EU. Moth larvae feed exclusively on *Solanum tuberosum*. The pest was first found in Costa Rica but has spread throughout Central America and has now reached Spain.
- 6 Proposals to build a new sugar beet factory in North Yorkshire have been deferred following a dispute between the County Council and a Middle East sugar company, Al-Khaleej International.
- 7 Soft fruit growers in Perthshire, Angus and Fife represented by Angus Growers Ltd have estimated a loss of income in 2017 of £625,000 as a result of a shortage of labour to pick fruit.
- 8 Engineers at the University of Colorado are endeavouring to develop a scalable, cost-effective greenhouse material which will split sunlight into photosynthetically efficient light and divert inefficient infrared light to aid in solar-driven water purification.

VII Other livestock news

- 1 Defra has approved expenditure of £7 millions on a new national import control system for animals, animal products and high-risk food and feed.

- 2 In the year to October the number of bovine TB new herd incidents rose by 2 per cent with increases of 2 per cent in the High risk area and 6 per cent in the Edge area but a fall of 9 per cent in the Low risk area. There was a fall of 13 per cent in Scotland but a rise of 11 per cent in Wales. The number of herds not officially TB free rose by 12 per cent in England with increases of 11 per cent in the High risk area, 39 per cent in the Edge area and 13 per cent in the Low risk area. There was a fall of 8 per cent in Scotland but a rise of 16 per cent in Wales.
- 3 In December slaughterings of UK prime cattle fell by 5.9 per cent compared to a year earlier to 147,000 head; beef and veal production fell by 5 per cent to 69,000 tonnes; sheep slaughterings rose by 3.5 per cent to 1.25 millions while mutton and lamb production rose by 2.6 per cent to 27,000 tonnes; and pig slaughterings fell by 6.1 per cent to 803,000 head while pigmeat production fell by 6.2 per cent to 68,000 tonnes.
- 4 In November the price index for animals and animal products rose by 11 per cent compared to a year earlier and by 0.3 per cent compared to October while the index for milk rose by 25 per cent and 0.3 per cent respectively.
- 5 The latest Global Dairy Trade auctions saw the price index rise by 2.2 per cent given the impact of dry weather on New Zealand milk production.
- 6 First Milk has reduced its producer price by 1ppl.
- 7 The Scottish Dairy Cattle Association has reported a fall of 39 in the number of dairy farms in 2017 although the average herd size increased by 14 to 195 cows.
- 8 Meadow Foods has reduced its standard litre price by 0.75ppl to 29ppl.
- 9 Milk production in December reached 1,212 million litres, up 5 per cent on a year earlier and up 3.6 per cent on November. The butterfat content was the same as a year earlier at 4.19 per cent but rose 0.02 per cent compared to November. The protein content was down 0.02 per cent both compared to a year earlier and to November.
- 10 All suppliers of goats milk to Arla have had their contracts terminated.
- 11 In December, UK dairies processed 1,149 million litres of milk, 3.2 per cent up on November and 3.4 per cent up on a year earlier. Liquid milk consumed 49 per cent, cheese 0.3 per cent, butter and milk powder each 1 per cent.
- 12 Barbers has reduced its milk price to 29.051ppl to ensure “sales competitiveness within the broad customer base which ultimately underpins our supply chain.”
- 13 Promar’s Milkfinder costed herds report for the year to October has revealed a 5.2 per cent increase in average milk production to 1.67 million litres per herd per year.
- 14 Arla is to invest £72 millions in production in the UK. Its facility in Aylesbury will become the home of its Lactose free range of products.
- 15 Muller has reduced the price of a standard litre by 1ppl to 28ppl.
- 16 Aldi has announced that Arla will become its main supplier of milk and cream in England and Wales although Trewithen Dairies will supply part of the South West. Graham’s Family Dairy will supply Scotland.
- 17 The only abattoir on Orkney Islands, which claims to have the highest density of cattle in Europe, has closed.
- 18 Welfare codes are to be updated for pigs, laying hens and meat chickens. Animal keepers will be expected to maintain a more enriched environment to enable them to display more of their natural behaviours, such as foraging. Consultation will last for six weeks.
- 19 Defra is to invest £1.6 millions on a new IT system to license and market veterinary medicines.

- 20 Avian influenza has been identified in wild birds in Dorset with the strain being closely related to the H5N6 strain that has been prevalent in Europe. As a consequence a prevention zone has been declared across the whole of England. Following the Dorset outbreak, 13 dead wild birds were discovered in Warwickshire and there have been reports from Hertfordshire, Rutland, Yorkshire and London. It is therefore a requirement that bird keepers ensure the areas where birds are kept are unattractive to wild birds, feeding and watering must take place in areas inaccessible to wild birds, movement in and out of bird enclosures must be minimised, footwear must be disinfected and the area where birds are kept must be clean and all concrete areas must be disinfected and marshy areas fenced.
- 21 Scientists at the Pirbright Institute have identified a new type of immune cell in chickens involved in the development of Marek's disease virus which causes a deadly cancer of the lymph nodes and suppression of the immune system.
- 22 In the 3 months to December, 7.5 million cases of eggs were packed, 4.3 per cent up on the same period in 2016 but 0.5 per cent down on the 3 months to September. The average farm-gate price was 69.7p per dozen, 1.4 per cent down compared to a year earlier but 0.5 per cent up on the 3 months to September. The production of egg products was 23,000 tonnes, 11 per cent down on the same period in 2016 and 4.2 per cent down on the 3 months to September.
- 23 In December, commercial layer chick placings rose by 5.6 per cent compared to a year earlier to 2.7 million chicks; broiler chick placings rose by 6.5 per cent to 84.6 million chicks; turkey chick placings fell by 6.5 per cent to 800,000 chicks; turkey slaughterings rose by 8.1 per cent to 1.9 million birds; broiler slaughterings rose by 2 per cent to 76.4 million birds; and total poultry meat production rose by 2.6 per cent to 140,100 tonnes.

VIII Inputs/Supply businesses

- 1 Scientists at the University of Illinois have found that, given a choice, honey bees prefer to collect sugar syrup laced with the fungicide chlorothalonil over simple sugar syrup. The study found the honey bees preferred the naturally occurring chemical quercetin which is found in pollen and nectar but also sugar syrup laced with glyphosate at 10 parts per billion but not at higher concentrations. The bees avoided sugar syrup containing the fungicide prochloraz but would take sugar syrup laced with chlorothalonil at 0.5 and 50 parts per billion but not at 500 parts per billion.
- 2 A survey commissioned by Arysta Life Science UK has found that 80 per cent of those sampled expect to increase their use of biostimulant products as a result of reduced pesticide registrations and a need to embrace new technologies.
- 3 Defra has approved expenditure of £5.8 millions on a new IT system to enable registration and regulation of chemicals.
- 4 A study undertaken by the University of Sussex has suggested that neonicotinoids may not be causing the decline of bee populations as any negative effect can be offset by an adequate food supply.
- 5 A survey on behalf of the Pesticide Action Network and campaign group SumOfUs has revealed that 67 per cent of those sampled wish to see a reduction in pesticide use, 78 per cent would like the Government to provide more support to farmers to cut pesticide use and 63 per cent want to retain EU regulations on pesticides after Brexit.
- 6 United Utilities has joined forces with the Welsh Dee Trust and Dee Valley Water to provide a facility to dispose of illegal pesticides safely and free of charge.
- 7 In November the price index for energy and lubricants rose by 7.7 per cent compared to a year earlier and by 8.2 per cent compared to October while the index in respect of the costs of maintaining buildings rose by 5.7 per cent and 0.9 per cent respectively.

IX Marketing

- 1 China has agreed to lift its ban on British beef which has been in place since 1996 because of BSE.
- 2 The Food and Drink Sector Council has met for the first time. It agreed priorities for the next 12 months including a focus on boosting skills, agricultural productivity and improving the nation's nutrition.
- 3 International assurance body GLOBAL G.A.P. has confirmed that growers who export fruit and vegetables who meet Red Tractor standards will no longer require an additional audit.
- 4 In the 12 weeks to the end of December, both Aldi and Lidl grew sales by 16.8 per cent at an annualised rate while Tesco grew sales by 3.1 per cent. Sales at the Co-op fell by 0.2 per cent.
- 5 The merger of the world's largest fruit and vegetable supplier, Greenyard, and US-based Dole Food has collapsed.
- 6 Tesco has announced that, with effect from April, Red Tractor standards will be recognised as equivalent to its Nurture scheme.
- 7 Figures released by Statistics Netherlands (CBS) and Wageningen Economic Research show that Dutch exports of agricultural goods reached a record €91.7 billions in 2017, up by 7 per cent on the previous year. Imports increased by 9 per cent to €62.6 billions leaving an agricultural surplus of €29.1 billions. Horticulture was the biggest exporter at €9.1 billions, followed by dairy at €8.9 billions, meat €8.3 billions and vegetables €6.7 billions. Germany took over 25 per cent of Dutch exports with the UK third largest at €8.6 billions.

X Miscellaneous

- 1 In 2016/17 the rate of violence against individuals was 14.1 per 1,000 population in predominantly rural areas compared to 22.2 per 1,000 in predominantly urban areas. Vehicle offences in rural areas were 3.9 per 1,000 compared to 8.5 per 1,000 in urban areas.

Postscripts

If only Winston was here today!

1. Diplomacy is the art of telling people to go to hell in such a way that they ask for directions.
2. You will never reach your destination if you stop and throw stones at every dog that barks.
3. Fear is a reaction. Courage is a decision.
4. A nation that forgets its past has no future.
5. The POSITIVE THINKER sees the INVISIBLE, feels the INTANGIBLE, and achieves the IMPOSSIBLE.
6. If you're not a liberal at twenty you have no heart, if you're not a conservative at forty, you have no brain.
7. Socialism is a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery.

8. There is nothing government can give you that it hasn't taken from you in the first place.
9. The best argument against democracy is a five-minute conversation with the average voter.
10. Success consists of going from failure to failure without loss of enthusiasm.
11. A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.
12. The main vice of capitalism is the uneven distribution of prosperity. The main vice of socialism is the even distribution of misery.
13. You don't make the poor richer by making the rich poorer.
14. If Britain must choose between Europe and the open sea, she must always choose the open sea.

Monthly Farming Update

The crystal ball has just got a little darker!

Well, we all knew it was coming. Philip Hammond, the Chancellor who has a penchant for proposing particularly unpopular changes to tax and funding legislation and seems to have no concept of real life, has instructed the Office of Tax Simplification to carry out a review of Inheritance Tax.

The OTS was a good idea. It was introduced in 2010 and its first results were to persuade the Chancellor at the time to abolish 43 tax reliefs, most of which were so obscure that there was little impact on any UK citizen but, like any quango, it had to justify its existence. Its impact on the Exchequer was less than negligible.

However, complex as Inheritance Tax can be, there is a sinister backdrop to the instruction. The announcement states the review “will focus on the technical and administrative issues ... such as submitting returns and paying the tax due.” Not simple issues but a lot less complex than most aspects of tax legislation. However, it also states it will “examine matters of routine estate planning and disclosure.” It has been suggested there should be a simplification of the reliefs for businesses, for example removing the need for farmers to claim both agricultural and business reliefs.

Little publicised, a “committee” has been examining the reliefs available to businesses.

To tax agricultural property would be total madness. An industry which has a return on capital of less than 1 per cent cannot afford penal capital taxes when no cash is generated. But the 100 per cent relief can just as easily apply to “investment assets” such as cottages which have become surplus to agricultural requirements. If they are “surplus” many would say the Inheritance Tax exemption should not apply.

When you look into your crystal ball to plan the future of your farm, your family, your business, spare a thought for how legislation will develop. It cannot get any more favourable than it is at present. You may need to act before it is too late.

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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