



CHAVEREYS

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## MONTHLY FARMING UPDATE

# August 2018



### **I Policy issues**

- 1 An interim report has been published by Dame Glenys Stacey, Chair of the Farm Inspection and Regulation Review. While highlighting the extensive degree of regulation which is a consequence of the Common Agricultural Policy, the report discusses the opportunity to use a single field force to conduct more meaningful farm inspections covering a simpler and more targeted regulatory system. It also recommends better use of technology, such as satellite imagery, to check compliance.
- 2 The Government has published a policy paper 'Surface Water Management'.

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

- 1 The Welsh Government has launched a consultation on proposals for two schemes following Brexit. The Economic Resilience Scheme will provide targeted support to allow farmers and the wider supply chain to increase their market potential, boost productivity, diversify, improve knowledge exchange, skills and innovation and manage risk. It will provide funding for investment in machinery and buildings. The Public Goods Scheme will assist farmers tackling problems such as soil degradation and habitat loss, preserving heritage and increasing recreation in the countryside.
- 2 The Welsh Government has announced derogations to assist Glastir farmers and landowners in view of the dry weather. These include a blanket derogation on the establishment of root crops until 15 August, allowing the harvesting of unsprayed spring sown cereals from 15 July and allowing the cutting of hay before 15 July.

### **III Grants/regulations/legislation/environment**

- 1 Defra has published a Code of Good Agricultural Practice for reducing ammonia emissions from the storage and application of organic manures, the application of manufactured fertilizer and through modifications to livestock diet and housing.
- 2 An Accord has been launched by National Parks England and the Forestry Commission. It is intended to bring together decision makers to ensure woodland is managed sustainably and in line with a natural capital approach.
- 3 With support from the EU, the Welsh Government is to invest £7.3 millions to address skills gaps and assist businesses in the food and agriculture sector develop new products and services. Aberyswyth University's Institute of Biological, Environmental and Rural Sciences is to combine with Swansea University to form BioInnovation Wales to help employers address high level skills shortages in the agri-food and biotech sectors. Future Foods, working with BIC Innovation, will attempt to drive forward growth among Welsh food businesses, improving their competitiveness through research, science and technology.
- 4 Defra has published an updated version of 'Protecting our Water, Soil and Air.'
- 5 Allfleet's Marsh and Brandy Hole, part of the Crouch and Roach estuaries in Essex, have been made Special Protection Areas, Sites of Special Scientific Interest and designated as a Ramsar wetland of international importance.
- 6 Defra has announced additional funding of £40 millions to unlock flood defence schemes and help support economic growth and regeneration in areas which have suffered from flooding in recent years. Areas to benefit include Weymouth, St Austell, Rochdale, Great Yarmouth and Bury and Radcliffe.
- 7 The Welsh Government has awarded £46,000 to the Wales Farm Safety Partnership to promote health and safety within the agricultural and forestry sector.

## **IV Other matters of farm finance and tenure**

- 1 An NFU survey in Yorkshire has revealed that 71 per cent of farmer respondents and 82 per cent of food, drink and wider supply chain companies are positive about their businesses but the figures fall to 37 per cent and 51 per cent respectively once Brexit is implemented.
- 2 Final figures have been published for the productivity of the UK food chain in 2016. Productivity increased by 1.9 per cent while the wider economy remained unchanged. In the 10 years prior to 2016 the average annual growth rate of the food chain was 0.4 per cent while the wider economy grew at an annual rate of 0.3 per cent. The wholesale sector generated the biggest increase at 2.8 per cent but the catering sector fell by 1.1 per cent. The total value of Gross Added Value was £104 billions representing 9 per cent of the non-financial business economy.
- 3 The Government has increased by £45 millions the funding available to the Rural Broadband Infrastructure Scheme. The money will be made available through grants to local authorities.
- 4 Figures have been released from the 2013 Farm Structure Survey. This shows a third of holders of farm holdings were over 65; 16 per cent of holders were female; 50 per cent of holders worked full time on the holding compared to only 25 per cent of female holders; and the youngest holders worked mixed livestock farms or specialist pig and poultry farms. In the case of managers, 85 per cent of holders also acted as farm managers while only 39 per cent of managers had formal agricultural training. The farm labour force was equally split between family and non-family workers; 50 per cent of family workers were female but females only made up 24 per cent of non-family workers; and 44 per cent of the male family workers were employed full time compared to only 20 per cent of female family workers. The smallest farms employed 40 per cent of family workers while the largest farms employed 25 per cent.
- 5 A Watchdog report issued by Creditsafe has reported that bad debts owed to the agriculture sector have increased by 362 per cent over the past year while the number of company failures in the sector has increased from 8 to 16.
- 6 The agricultural price index for all outputs in May fell by 0.3 per cent compared to April but was up 1.6 per cent compared to a year earlier. The index for all inputs fell by 0.4 per cent compared to April but rose by 4.7 per cent compared to a year earlier.
- 7 UK Co-operative Economy has reported a 5 per cent increase in the income of UK co-operatives to £7.7 billions.

## **V Product prices**

### **A Market background**

- 1 The net weakening of Sterling seen in June continued in July, with the inevitable fluctuations throughout the month. After a marginal gain against the Euro in the early stages Sterling lost ground, particularly mid-month, dropping from the opening position of 88.5p per € to 89.6p, before a resurgence saw it eventually closing the month at 89.0p per € (0.5p weaker). Against the Dollar the pattern was similar; Sterling improved marginally in the first half of the month to peak at 74.9p per \$ but then dropped to a low point of 77.1p mid-month before closing at 76.3p per \$ (0.6 p weaker than its starting point of 75.7p per \$). Brent Crude oil prices have dropped back this month. From a three-year high of \$79.23 per barrel, the price dropped below \$72.00 before recovery saw the price close the month at \$74.29 per barrel.

## B Crops

- 1 The grains markets made significant gains this month at a time when the market historically drops. The combined effects of weaker Sterling; ongoing rumblings over global trade disputes; speculative trading; the ongoing dry hot weather; and, most notably, the initial 2018 harvest results from Northern Europe and Russia, all led to a material increase in the feed wheat price; whilst the general expectation, that milling quality will be more likely achieved with the lower yields, suppressed the milling premium. The progress of the (generally low yielding) northern hemisphere harvest meant LIFFE feed wheat futures found a new level of strength across all quoted dates, but particularly in the shorter term, despite a small mid-month lull in all cases: In late July, deliveries for November 2018 and 2019 stood at £185/tonne (+25) and £174/tonne (+16) respectively, whilst March and May 2020 futures improved to £174/tonne (+13) and £173/tonne (+11) respectively. November 2020 futures opened at £172 but closed the month at £165/tonne.

Average spot prices in late July (per tonne ex-farm): feed wheat £170 (+9); milling wheat £183 (+2); feed barley £153 (+18); oilseed rape £299 (+14); feed peas £164 (-); feed beans £172 (-).

- 2 The average potato price regained this month what it lost last month, as the market struggle sought to find equilibrium, with the large tonnages of 2017 crop remaining and the reduced demand. By late July the average potato price had gained a net £16 (having peaked £6 higher) over its opening position of £149 per tonne, to close at £165 per tonne (£15 below the July 2017 closing average). The free-buy average remained under similar levels of pressure as in previous months, closing at the same £98 per tonne at which it opened the month (£36 below the July 2017 close). The continuation, and accentuation, of last month's hot and dry weather has led to wilting of crops and potentially irreversible damage to yields and quality, particularly where irrigation has not been available. Concern remains that localised thunderstorms may address the rain deficit in too short a time-frame and cause new issues without solving the existing ones. 2017 crop prices for grade 1 in late July (per tonne ex-farm): Maris Piper had fallen back materially at the top end to between £180 and £200; Desiree had improved marginally to between £90 and £100; King Edward had improved at the top end to between £130 and £195; Estima and other white varieties held at between £50 and £100.

## C Livestock

- 1 Cattle prices, over the course of July, fell back in the first half of the month and held steady for the remainder. The average finished steer price, from its opening position of 198p/kg lw, dropped back to 188p/kg lw where it closed the month (10p lower and 7p/kg below the closing average a year earlier); whilst the average finished heifer price, from an opening position of 206p/kg lw dropped back to 201p/kg lw where it closed (5p down in the month and 7p below the price a year earlier). The average dairy cow price, after some initial volatility, dropped from its opening position of £1,127 per head to close at a historically low level of £811 per head (£316 below June and £294 below the average a year earlier).
- 2 Lamb prices, by contrast, continued to fall materially for most of July, wiping over 18 per cent off the average price, before a partial recovery at the end of the month. The average new season finished lamb price (SQQ live weight) opened at 221p/kg lw, dropped to 179 p/kg but closed at 187p/kg lw (down 34p overall to sit 10p/kg below the average a year earlier).

- 3 The average UK all pig price (APP) improved by the smallest of margins during July, opening at 152.9p/kg dw and gaining 0.2p/kg to close at 153.1p/kg dw (sitting 14.6p/kg below the closing average a year earlier).
- 4 The UK average 'all milk' price for May, published in July, reported a drop of 0.75p to give an average of 26.68ppl (0.16ppl below the average in May 2017 and 1.29ppl below the rolling 5 year average of 27.97ppl). The most recent update of the UK's ranking against the 'EU28' farmgate milk price, also for May, placed the UK 21<sup>st</sup> (down two further places) against a weaker EU28 weighted average of 28.99ppl (down 0.32ppl in the month).

## **VI Other crop news**

- 1 The AHDB 2018 planting survey has revealed the wheat area at 1.74 million hectares, 2 per cent down on 2017; spring barley area at 768,000 hectares, up 4 per cent; winter barley area at 385,000 hectares, down 7 per cent; in England and Scotland the oilseed rape area is 608,000 hectares, up 9 per cent; and the oats area in England and Scotland is 156,000 hectares, up 2 per cent.
- 2 Stocks of wheat at the end of June 2017 fell by 48 per cent compared to a year earlier to 1.4 million tonnes following a 13 per cent reduction in harvested tonnage. Stocks of barley fell by 34 per cent to 510,000 tonnes while 80,000 tonnes of oats and 280,000 tonnes of maize were in stock.
- 3 The European Court of Justice has ruled that organisms obtained by mutagenesis are genetically modified organisms and are therefore subject to the obligations laid down by the Genetically Modified Organisms Directive. Rothamsted Research and John Innes Centre have expressed regret at the ruling.
- 4 The agricultural price index for crop products in May fell by 0.4 per cent compared to April and by 0.7 per cent compared to a year earlier; the index for barley fell by 0.9 per cent but was up 11 per cent on a year earlier; the index for potatoes was up 4.4 per cent but down 22 per cent on a year earlier; the oilseed rape index was down 0.4 per cent and 14 per cent respectively; the index for forage plants fell by 1.1 per cent but was up 40 per cent on a year earlier; and the index for fresh fruit fell by 21 per cent but rose 19 per cent compared to May 2017.
- 5 The area planted by the North-Western European Potato Growers has increased by 1 per cent. The organisation predicts an oversupply subject to yields.
- 6 British Onions has forecast the onion harvest to be down 25 per cent on 2017 both in terms of tonnage and the size of the onions.
- 7 Angus Cereals, the co-operative based in Montrose, has entered administration.
- 8 There is forecast to be a lower than anticipated yield of apples and pears due to a high level of June drop largely caused by cold weather across the South East at the end of March.
- 9 Berry Gardens is working with the University of Lincoln and Saga Robotics of Norway to trial the use of the Thorvald agricultural robot in fields of soft fruit. The main element of the trial is to transport boxes of harvested fruit from picking areas to the collection point allowing workers to concentrate on picking.
- 10 Dutch grower Flevo Berry has released Sonsation, a new mid-season fruiting strawberry with reportedly a good tolerance to Phytophthora.

## VII Other livestock news

- 1 Defra is seeking views on its proposal to extend the use of Approved Tuberculin Testers in England to private veterinary practices to perform skin testing on cattle. The consultation period closes on 7 September.
- 2 In the year to April there was a 4 per cent reduction in bovine TB new herd incidents in England compared to the previous year with a fall of 5 per cent in the High risk area but a rise of 16 per cent in the Low risk area. There was an increase of 10 per cent in Wales. There was no change in the number of herds not officially TB free in England with a fall of 2 per cent in the High risk area but increases of 9 per cent and 32 per cent in the Edge and Low risk areas respectively. There were increases of 3 per cent in Scotland and 13 per cent in Wales.
- 3 Slaughterings of UK prime cattle in June fell by 1.6 per cent compared to a year earlier to 160,000; beef and veal production fell by 1.1 per cent to 73,000 tonnes; sheep slaughterings fell by 16 per cent to 872,000; mutton and lamb production fell by 16 per cent to 20,000 tonnes; pig slaughterings fell by 1.9 per cent to 832,000; and pigmeat production fell by 1 per cent to 72,000 tonnes.
- 4 The agricultural price index for animals and animal products in May was up 0.8 per cent on April and 3.1 per cent on a year earlier; the index for sheep and lambs fell 0.1 per cent but was up 20 per cent on a year earlier; and the index for milk fell by 2.3 per cent but was unchanged compared to May 2017.
- 5 Milk production in May fell by 6.7 per cent, compared to April, to 1,285 million litres but rose by 1.5 per cent compared to a year earlier.
- 6 Dairy Crest has increased the price of a manufacturing standard litre by 1.75ppl to 30.4ppl.
- 7 Average butterfat content in June fell by 1.3 per cent, compared to May, to 3.93 per cent but was 0.1 per cent higher than a year earlier. Average protein content fell by 0.9 per cent to 3.23 per cent compared to May and by 0.4 per cent compared to a year earlier.
- 8 First Milk has increased the price of a standard litre by 0.8ppl to 28.95ppl.
- 9 During May dairies processed 1,308 million litres of milk, 8 per cent up on April. Liquid milk production rose by 3.4 per cent to 570 million litres, cheese production increased by 10 per cent to 47,000 tonnes, butter production increased by 5 per cent to 15,000 tonnes and milk powder production increased by 18.2 per cent to 7,800 tonnes.
- 10 Meadow Foods has increased the price of a standard litre by 0.5ppl to 28.5ppl.
- 11 Prices fell by 5 per cent at the latest Global Dairy Trade auction with whole milk powder down 7.3 per cent, butter down 4 per cent and skim milk powder down 4.6 per cent.
- 12 Arla has increased its conventional milk price by 0.88ppl to 31.38ppl.
- 13 Barber's cheesemakers has increased the price of a standard litre by 1.25ppl to 29.3ppl.
- 14 The Animal and Plant Health Agency has increased the disease risk level to "medium" following outbreaks of Newcastle Disease in poultry flocks in Belgium, Luxembourg and the Netherlands.
- 15 In June commercial layer chick placings rose by 44 per cent, compared to a year earlier, to 3.6 million chicks; broiler chick placings fell by 0.9 per cent to 81.9 million chicks; turkey chick placings fell by 1.8 per cent to 1.3 million chicks; turkey slaughterings rose by 10 per cent to 900,000 birds; broiler slaughterings rose by 2.5 per cent to 82.7 million birds; and total poultry meat production rose by 8.3 per cent to 136,400 tonnes.



## **VIII Inputs/Supply businesses**

- 1 The British Survey of Fertilizer Practice has published details of fertilizer usage on farm for the 2017 crop year. Nitrogen use fell across the board compared to 2016 with average application rates per hectare of 137kg on tillage crops, 54kg on grassland and 91kg on all crops and grass. Phosphate rates increased to 30kg on tillage crops but fell to 8kg on grassland, overall the rate remained unchanged at 18kg. Potash rates fell to 37kg on tillage crops but remained unchanged at 12kg on grassland, overall there was a fall to 23kg. Sulphur application rates increased to 34kg on tillage crops but remained unchanged at 3kg on grassland leading to an overall increase to 17kg.
- 2 The agricultural price index for energy and lubricants in May was up 3.7 per cent on April and 12 per cent on a year earlier.
- 3 Omex Agriculture has opened a 16,000 tonne facility at the Port of Dundee to store and distribute liquid nitrogen and sulphur.

## **IX Marketing**

- 1 The Competition and Markets Authority has approved the liquid milk, butter and cheese partnership proposed by Arla and Yeo Valley.
- 2 Tesco has announced a strategic alliance with Carrefour.
- 3 In the three months to June, Morrisons was the fastest growing retailer with an increase of 1.9 per cent followed by Asda at 1.8 per cent and Tesco at 1.4 per cent but Sainsbury's sales fell by 0.2 per cent.
- 4 Costcutter has rejected a £15 millions takeover bid from the Co-op.
- 5 Quality Meat Scotland, Hybu Cig Cymru and the AHDB are together to commit £2 millions to communicate the benefits of red meat as part of a balanced diet.
- 6 European members of the World Union of Wholesale Markets have signed the first ever European Wholesale Markets Declaration which seeks to recognise the role wholesale markets play in Europe's agri-food chain.
- 7 Application has been made for protected geographical status for Cambrian Mountains Lamb.
- 8 LacPatrick Dairies and Lakeland Dairies, both co-operatives, have announced they are in merger talks.
- 9 British Cherry Growers has set a target of 20 per cent of the UK cherry crop for export this season.
- 10 Application has been made for protected geographical status for Devon Cider.
- 11 Latest figures from Kantar show that supermarket sales have risen for 25 consecutive periods and by 2.1 per cent over the past year.
- 12 Trials in Kenya have led to the approval of seed potato varieties Cara, Gemson and Lady Balfour.
- 13 While South African worldwide apple exports have fallen by 4 per cent in the year to July, those to the UK have increased by 20 per cent.
- 14 Wellocks has been bought by William Jackson Food Group.

## **X Miscellaneous**

- 1 Cheffins has reported a 13 per cent increase in the value of second-hand machinery with 80 per cent being exported, Ireland being the largest buyer.

- 2 The Health and Safety Executive has reported 29 farmworker deaths in 2017/18 compared to 27 in 2016/17 and that agriculture remains the second highest sector for worker fatalities.
- 3 The NFU and Crimestoppers have launched an anonymous tip-off phone line, the 'Rural Crime Reporting Line', 0800 783 0137.
- 4 JCB is to invest £50 millions in a new production facility for cabs used in its Loadall telehandler and Fastrac tractor ranges.

## Postscripts

### Seniors with Daughters!

A retired older couple returned to a Mercedes dealership where the salesman had just sold the car they had been keen on buying to a beautiful, leggy, busty blonde in a mini-skirt and a halter top.

The old man was visibly upset. He spoke to the salesman sharply:

"Young man, I thought you said you would hold that car until we raised the £55,000 asking price. Yet I just overheard you close the deal for £45,000 to that lovely young lady there ... And if I remember right, you had insisted there was no way you could discount this model."

The salesman took a deep breath, cleared his throat and reached for a large glass of water.

"Well, what can I tell you? She had the cash ready, didn't need any financing help, and, Sir, just look at her, how could I resist?, replied the grinning salesman sheepishly.

Just then the young woman approached the senior couple and gave the car keys to the old man.

"There you go," she said. "I told you I could get that idiot to lower the price. See you later Dad, Happy Father's day."

Once again, don't mess with seniors.



## How to win and lose in one move!

And now for some good news! At last a taxpayer has won a case concerning the application of Inheritance Tax Business Property Relief to a furnished holiday letting business. But before you breathe a sigh of relief and recalculate the tax cost of your children's inheritance, beware, there is a sting in the "tale".

Joyce Graham ran a country house hotel on the Isles of Scilly, at first with her husband and later with her daughter. Due to decreasing demand, they created four flats in and adjoining the main building. The flats were all self-contained and the main house also offered two guest bedrooms.

The property was set in grounds of one acre with award-winning gardens, a croquet lawn and a swimming pool. There was a games room, a sauna, laundry room and a barbeque area. On arrival guests were offered refreshments while each flat was provided with flowers, wine, home-made bread, tea, coffee etc. Barbeques were organised during the holiday season and the owners would shop for their guests on occasions. The occupancy rate averaged 90 per cent and many were repeat bookings, apparently because of the level of service.

It was estimated by the Tribunal that the owners and staff spent 3,300 hours each year maintaining the property and managing the lettings and 3,800 hours providing additional services.

As with previous cases, the principal question was whether or not the business was "mainly the holding of investments"?

The Tribunal took the view that a substantial amount of time was employed in the provision of services to guests and that such services were not merely ancillary to the use of the property.

The Tribunal went on to decide that the case was "exceptional, which does, just, fall on the non-mainly investment side of the line. The pool, the sauna, the bikes, and in particular the personal care lavished upon guests ... distinguished it from other "normal" actively managed holiday letting businesses."

Note the use of two words, "exceptional" and "just".

The taxpayer may have won in this case but it has further enhanced the view that a "normal" holiday letting business will fail to attract relief.

# Monthly Farming Update

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:

**Karen Blackiston**

**Nick Holmes**

**Iain Morris**

**Henry Mullens**

**Ben Wilkinson**

**South**

Mall House  
The Mall  
Faversham  
Kent  
ME13 8JL

Tel: 01795 594495

Fax: 01795 594499

**East**

I Penn Farm Studios  
Harston Road  
Haslingfield  
Cambridge  
CB23 1JZ

Tel: 01223 874693

Fax: 01223 874451

E-mail: [mfu@chavereys.co.uk](mailto:mfu@chavereys.co.uk)  
[www.chavereys.co.uk](http://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 at Imperial College London



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