

Monthly *Farming* *Update*

Chavereys
CHARTERED
ACCOUNTANTS



October 2016

Policy issues

1 The agricultural industry has agreed to Government targets to reduce antibiotic use in livestock by 19 per cent by 2018 in response to growing pressure surrounding antimicrobial resistance in humans. Meanwhile Brendan Gilmore, professor of pharmaceutical microbiology at Queen's University, Belfast, has claimed that rates of resistance will increase to 100 per cent within 10 years if infection rates remain at current levels and the cost of growing resistance could be £76 trillions a year by 2050.

Reform

1 The Scottish Government has agreed a £300 millions loan scheme to ensure farmers receive 80 per cent of Basic Payments in November irrespective of whether or not the application has been processed.

2 Defra has published updated guidance on how 2015 Basic Payment Scheme payments are calculated.

Grants / regulations / legislation / environment

1 'State of Nature', a report produced by a consortium of more than 50 nature conservation and research organisations, has claimed that farming has been "by far the most significant driver" in the loss of British wildlife over the past 45 years. In that period 40 per cent of species are said to have shown "strong or moderate declines". The report claims that the UK has lost significantly more nature over the long term than the global average. It risks losing 1,000 species altogether including 12 per cent of farmland species. Farmland birds have declined by 54 per cent and butterflies 41 per cent although bats have increased by 23 per cent since 1999.

2 Total emissions from the food chain amounted to 70 million tonnes of CO2 equivalent in 2015 with farming accounting for 56 million tonnes.

3 There were 1,514 food, feed and environmental contamination incidents investigated by the Food Standards Agency in 2015.

4 Scientists from Rothamsted Research and London Queen Mary University have tracked the entire lives of bumble bees using transponders picked up by harmonic radar.

Other matters of farm finance and tenure

1 In 2015/16 agricultural debt grew by 6 per cent to £17.7 billions and agriculture is the only sector which has increased debt every year since 2010. Total debt has risen by 51 per cent since 2010, the highest of any sector.

2 In July the agricultural price index for all outputs rose by 0.2 per cent compared to a year earlier while the index for all inputs fell by 3.4 per cent.

3 Final estimates of crop areas and livestock numbers on commercial agricultural holdings as at June have been published. The utilised area in England increased by 1.1 per cent, compared to a year earlier, to 9 million hectares. The total croppable area accounts for 54 per cent at 4.8 million hectares while permanent grassland accounts for 3.8 million hectares.

4 The percentage of working age people in employment in 2015 in rural settlements was 77 per cent while those over 16 and unemployed was 3.2 per cent.

5 Figures from Defra show that the agri-food sector contributed £108 billions to Gross Value Added in 2014, 6.8 per cent of the total; in March 2016, 13.5 per cent of national employment was in the agri-food sector; and the average UK household spend on food that could have been eaten but is thrown away is £470.

6 The US Department of Agriculture has forecast falling farm sector profitability for the third year in succession. Average farm income of farm households is expected to be a negative £1,014, offset by an increase in off-farm income of £51,865.

7 Ireland's Agriculture and Food Development Authority has reported that only 37 per cent of farms were economically viable in 2015, 29 per cent were only viable because of off-farm income and 34 per cent were economically vulnerable.

8 Strutt & Parker has reported 25 per cent fewer farms coming to the market in England and Scotland in the first six months of

2016 compared to the same period last year although the number of livestock farms on the market fell by 75 per cent.

9 Arun District Council has approved a Local Development Order for the horticultural sector which should make the planning process easier for growers wishing to develop new glasshouses in the area.

Product prices

A. Crops

1 Crop prices have weakened in comparison to the previous month's closing figures but, during the month, prices were lower still and the markets approached the end of September on a positive trend, largely on the back of weakened Sterling and a relaxation of Egypt's 'zero ergot' policy which has opened up new market channels to the world's largest importer of cereals. Sterling remained volatile, reaching 82.7p/€ at its strongest and dropping to 86.9p/€ at its weakest (where it closed the month). The US\$ followed suit, closing stronger against Sterling at 77.8p/\$. Milling wheat premiums appear to be holding steady at approximately £15/tonne. Oilseed prices, having dipped, have been propped up by Sterling and concerns that US soya harvest may be delayed by heavy rains. LIFFE feed wheat futures closed marginally down (or at the same level for shorter term movements). The relatively small changes compared to last month's closing figures mask larger swings of £4 to £6 during the month. In late September, deliveries for November 2016, 2017 and 2018 stood at £127/tonne (static), £132/tonne (-2) and £137/tonne (-2) respectively.

Average spot prices in late September (£/tonne ex-farm): feed wheat 118 (-1); milling wheat 132 (-2); feed barley 103 (static); oilseed rape 312 (+1); feed peas 128 (-9); feed beans 136 (-9).

2 2016 crop potato prices, after a strong start to the season, settled down to a reasonable level but retained a modicum of volatility. The GB average, from its opening price of £171 per tonne, dropped back early on before a short-lived spike saw the average peak at £177 per tonne; by late September the average had reduced to £166 per tonne (£5 lower than the previous month but £16 above the price a year earlier). The free-buy average continued to sit above the GB average; opening the month at £176 per tonne, tight supplies and the hangover from last season's high prices saw the average increase, reaching a late September close of £183 per tonne (a £7 improvement to sit £28 above the price a year earlier). Lifting of the 2016 main crop is well under way although progress to date is significantly behind the five-year average; the most recent conditions being close to ideal, subject to localised rain showers, should allow some growers to catch up, whilst others are awaiting skin-set.

2016 crop prices for grade 1 in late September: Estima were slightly weaker, at between £160 and £220 per tonne whilst King Edward started the season with a limited number of loads moving at £220 per tonne. Maris Piper prices had improved at the top end to between £160 and £200 per tonne, whilst Desiree opened the season forcefully at between £200 and £250 per tonne.

B. Livestock

1 Cattle prices have fallen back marginally over the course of the month. The average finished steer price, from its opening position of 188p/kg lw, held steady in the early part of the month, before gently weakening in the latter half to a closing average of 185p/kg lw (a drop of 3p/kg in the month, to sit on a par with the closing average a year earlier). The average finished heifer price followed a similar trend but via a different path: from the opening position of 203p/kg lw, the price dropped 2p early on, before holding steady for much of the month. The latter part of the month saw a further 2p reduction, leading to a closing average of 199p/kg lw (4p/kg down on the previous month, to sit on a par with the price a year earlier). The average dairy cow price was a little more volatile this month, albeit at a relatively low level. The price dropped as low as £895 per head but eventually closed at £1,082 per head (£1,137 in late September 2015).

2 The average finished lamb price (SQQ live weight) remained volatile. From its comparatively buoyant opening position of 180p/kg lw, it dropped to 174p/kg early on, bounced to a peak of 184p/kg and then steadily dropped back for the remainder of the month to close at 171p/kg (9p down in the month but 24p above the closing average a year earlier).

3 The average UK all pig price (APP) continued to improve for yet another month, climbing well above its prior year comparative. From an opening position of 137.3p/kg dw, once again assisted by the weakening of Sterling, the average price improved to a late September close of 142.5p/kg (5.2p/kg up in the month and 8.0p/kg above DAPP from a year earlier).

4 The UK average milk price for August (published in late September) reported a further improvement (by 0.56ppl), another step in the right direction, to an average of 21.34ppl, 2.00ppl below the price a year earlier. Meanwhile, the UK dropped three positions in the EU farmgate milk price 'EU28' rankings for July (down to 16th) with an average of 20.39ppl, in comparison to an improved EU28 weighted average of 22.10ppl (up 1.14ppl).

Other crop news

- 1 In the year to June, the total area of arable crops increased by 100,000 hectares to 3.9 million hectares. The area of cereal crops increased by 1.7 per cent to 2.6 million hectares, mainly due to an increase of 12 per cent in the area of spring barley. The oilseed rape area fell by 9.1 per cent with a 12 per cent fall in winter oilseed rape. The area of horticultural crops fell by 9.1 per cent to 136,000 hectares with an 11 per cent fall in the area of vegetables and salads.
- 2 The US Department of Agriculture has forecast Russian wheat production at 72 million tonnes with exports at 28 million tonnes overtaking EU exports estimated to be 25.5 million tonnes due to poor quality.
- 3 Results from AHDB trial sites in Lincolnshire, Norfolk, Hampshire and Fife show average winter wheat yields of 4.35 tonnes per acre, above the 5-year average of 4.3 tonnes per acre.
- 4 France AgriMer has forecast a fall in French wheat exports of 43 per cent to 11.91 million tonnes.
- 5 The agricultural price index for all crop products in July rose by 4 per cent compared to a year earlier but fell by 2.9 per cent compared to June. The cereal price index was 5 per cent lower than in July 2015 but it rose by 1.6 per cent compared to June mainly as a result of a rise of 3.4 per cent in the wheat index. The potato price index was 4.7 per cent higher in July compared to a year earlier but fell 39 per cent when compared to June. The fresh fruit index rose by 15 per cent while the fresh vegetables index rose by 12 per cent.
- 6 Recent increases in temperatures have resulted in an upsurge in numbers of cabbage stem flea beetle with some growers reporting significant losses of oilseed rape crops.
- 7 Cefetra has acquired Wessex Grain.
- 8 Scientists at the James Hutton Institute are investigating the feasibility of extracting Solanesol, a high-value compound present in the foliage and stems of potato plants that is treated as a waste by-product. Solanesol has anti-bacterial, anti-inflammation and anti-ulcer effects and is used in the manufacture of coenzyme Q10 which is found in cosmetics and drugs.
- 9 Due to lower volumes, sugar beet factories are opening two weeks later than usual.
- 10 A new research and development centre has been opened in Tienen, Belgium by SESVanderHave to accelerate the screening of sugar beet genetics.
- 11 Final figures from English Apples & Pears show that sales of English apples increased by 11.2 per cent in the 2015/16 season. Cox volumes increased by 8.3 per cent at 19,600 tonnes and Gala by 17.4 per cent to 49,300 tonnes. Bramley volumes fell by 17.7 per cent to 13,500 tonnes. Conference pear output rose 9.2 per cent to 17,800 tonnes. Sainsbury's was the leading retailer with a share of 26.8 per cent, Tesco at 26.8 per cent and Waitrose at 8.8 per cent. The Co-op increased its share from 4.4 per cent to 5.1 per cent, Asda increased from 6.3 per cent to 8.1 per cent and Morrisons from 8.6 per cent to 9.3 per cent.
- 12 Researchers at Cornell University have been awarded \$4.2 millions by the US National Foundation to explore natural genetic variation in the tomato immune system which can result in the disease, bacterial speck.
- 13 It has been reported that CPM Retail, a subsidiary of AG Thames, is growing haskap, also known as the blue honeysuckle, an anti-oxidant rich berry. However, as the berry is not recognised as a food in the EU, most of the fruit is sold in Canada. The berry is said to have twice as many anti-oxidants as wild blueberries and three times as much iron.
- 14 Selwyns Penclawdd Seafoods has applied for Protected Geographical Status for Welsh Laverbread, a delicacy made from cooked laver, or seaweed, gathered from the coastline of Wales.

Other livestock news

- 1 The total number of cattle and calves in England rose by 0.8 per cent in the year to June, to 5.4 millions, although the breeding herd remained unchanged at 1.9 millions. The dairy herd fell by 0.5 per cent but the beef herd rose by 1.2 per cent. The number of pigs rose by 2.2 per cent to 3.9 million animals with increases of 2.4 per cent in the number of fattening pigs and 0.2 per cent in the female breeding herd. The number of sheep and lambs increased by 0.9 per cent to 15.3 million animals with increases of 0.8 per cent in the female breeding flock and 1 per cent in the number of lambs.
- 2 The number of new herd bovine TB incidents in England increased by 2 per cent in England compared to a year earlier with

increases of 23 per cent in the Edge area and 14 per cent in the Low risk area but a fall of 1 per cent in the High risk area. In Scotland the number of incidents rose by 34 per cent but there was a fall of 16 per cent in Wales. The number of animals slaughtered rose by 14 per cent in England to 29,805 with increases of 15 per cent in the High risk area, 5 per cent in the Edge area and 17 per cent in the Low risk area. In Scotland the number of animals slaughtered increased by 68 per cent and in Wales by 43 per cent.

3 Statistics on the number of pedigree farm animals in the UK in 2015 show that 78 per cent of native cattle breeds are showing increases in breeding female numbers since 2002 with Beef Shorthorn recording an increase of 1,400 per cent or 8,750 animals. Holstein-Friesian is the largest herd with 680,000 pedigree breeding females but this is down 32 per cent since 2002. Next is Limousin at 38,000, up 125 per cent on 2002. In sheep, 41 per cent of native breeds have recorded increases with the Boreray breed up 293 per cent. The largest breed is the Swaledale with 167,000 breeding females but numbers have fallen by 78 per cent since 2002.

4 In August, slaughterings of prime cattle rose by 1.3 per cent compared to a year earlier at 157,000 head but beef and veal production fell by 0.2 per cent to 72,000 tonnes. Sheep slaughterings fell by 2 per cent to 1.2 million head and mutton and lamb production fell by 0.9 per cent to 902,000 head while pigmeat production fell 0.1 per cent to 76,000 tonnes.

5 The agricultural price index for animals and animal products fell by 2.6 per cent in July compared to a year earlier. The pig price index fell by 3.2 per cent but rose by 6.2 per cent compared to June. The sheep and lamb index rose by 20 per cent compared to a year earlier largely as a result of the fall in Sterling, there was a small fall of 0.5 per cent compared to June. The index for animal products fell by 13 per cent compared to July 2015 but rose by 2.9 per cent compared to June.

6 During July animal feed production rose by 18 per cent for sheep compared to a year earlier but fell by 1.5 per cent for poultry, 8.8 per cent for pigs and 9.6 per cent for cattle and calves. The amount of wheat used in feed production fell by 0.9 per cent, 12.8 per cent less barley was used.

7 A study commissioned by Alliance to Save our Antibiotics examined 189 UK-origin pig and poultry meat samples from ASDA, Aldi, Co-op, Morrisons, Sainsbury's, Tesco and Waitrose. ESBL E.coli was found on meat from all the supermarkets with 24 per cent of chicken samples testing positive compared to 6 per cent in 2015. Of those samples testing positive, 50 per cent were resistant to trimethoprim, which is used to treat urinary-tract infections, while 19 per cent were resistant to gentamicin which is used to treat serious upper urinary-tract infections.

8 The Agriculture Research Institute is co-operating with California State University to study the potential use of probiotics as an alternative to antibiotics.

9 Milk production in August decreased by 3.5 per cent compared to July at 1,125 million litres. It fell by 7.1 per cent compared to August 2015 and was at its lowest level since February 2015. Average butterfat content rose by 0.04 per cent to 3.98 per cent, almost identical to a year earlier. Average protein content rose by 0.03 per cent to 3.25 per cent, down from 3.31 per cent in August 2015.

10 Meadow Foods has increased its milk price by 1.15ppl raising the standard A litre price to 21.15ppl.

11 During July, dairies used 802 million litres of milk, a fall of 11 per cent compared to a year earlier. Of the total, 51 per cent was used for liquid milk production, 26 per cent for cheese production, 2 per cent for butter and 2.4 per cent for cream.

12 Dairy Crest has increased its Davidstow milk price by 1ppl in October and announced a further increase of 0.5ppl in November which will take the price to 24.22ppl.

13 Ornu, Ireland's largest dairy exporter, has opened a new facility in Cork with a capacity of producing 50,000 tonnes of butter each year.

14 First Milk has increased its A price by 0.77ppl and some regional milk pools by up to 1.25ppl.

15 Defra has published an update of its assessment of the risk of Chronic Wasting Disease being introduced into the UK from Norway.

16 The number of outbreaks of Bluetongue virus in Central France has increased to 381 cases. All new cases have been in cattle.

17 Rabobank has reported a recovery in the global poultry industry as a result of reductions in supply from China, Brazil and the US although Russian exports are forecast to double to 150,000 tonnes.

18 Figures for August show that commercial layer chick placings rose by 4.6 per cent on July to 2.2 million chicks; broiler chick placings rose 3.3 per cent to 77.3 million chicks; turkey chick placings fell 14 per cent to 2 million chicks; turkey slaughterings fell

2.7 per cent to 1 million birds; broiler slaughterings fell 0.4 per cent to 74.6 million birds; and total poultry meat production fell 1.9 per cent to 132,000 tonnes.

19 Since the last report in July, there have been two further HPAI H5 and three further LPAI H5 outbreaks in poultry in France but no movement in a northerly direction.

Inputs / Supply business

1 Bayer and Monsanto have signed a definitive merger agreement which will result in Bayer acquiring Monsanto for \$66 billions in cash. The merger is subject to competition authority approval.

2 The price index for fertilizers and soil improvers in July fell by 23 per cent compared to a year earlier.

3 Syngenta and Rijk Zwaan have signed a cross-licensing agreement on native traits in vegetables in an attempt to boost innovation and lead to the faster introduction of improved varieties.

4 The price index for animal feedstuffs fell by 2 per cent in July compared to a year earlier, due to low cereal prices, but rose by 1.3 per cent on June.

5 BASF has developed Revysol from isopropanol-azoles, a new class of azoles which are highly active on fungal diseases. It is reported to have demonstrated high levels of septoria control in trials and is awaiting EU approval.

6 BASF has advised it is developing a new protoporphyrinogen oxidase inhibitor herbicide for control of resistant weeds, including black-grass.

Marketing

1 Defra figures show the value of food and drink exports in 2015 as being £18 billions with beverages contributing £6.3 billions; ; total consumer spending on food, drink and catering in 2015 was £201 billions, on average 11 per cent of all household spending is on food; and purchases of 5 A DAY in 2014 was 3.9 portions but only 3.0 portions in low income group households.

2 Kantar has reported that, during the past 12 weeks, retail promotions are at their lowest level since 2010. In the period, 37.7 per cent of grocery items were bought on promotion compared to the norm of over 40 per cent.

3 The British Retail Consortium has reported food price deflation of 1.1 per cent in August.

4 Morrisons recorded sales growth of 2 per cent in the three months to June and 1.4 per cent in the six months to the same date.

5 Kantar Worldpanel has reported organic sales in the major multiples of £226 millions in the year to 14 August, a growth in value of 13.6 per cent and a volume growth of 15.7 per cent.

6 The Co-op has agreed to stock British lamb and bacon all year with effect from next May.

7 Border Counties Primestock, a new livestock co-operative, has been formed for the benefit of farmers in the border counties of England and Scotland.

8 The Real Junk Food Project has opened in Leeds. Its warehouse is stocked each day with surplus food from supermarkets and caterers and shoppers pay "what they feel."

9 Asda reported a fall of 7.5 per cent in grocery sales in the three months to June.

10 Florette UK & Ireland has bought Axxgro Foods, a beetroot farmer group.

11 The National Association of Cider Makers has unveiled a new website www.cideruk.com.

Miscellaneous

1 NFU Mutual has reported fire insurance claims totalling £47.9 millions in 2015, an increase of 14 per cent. The most common cause was electrical faults followed by arson and mechanical faults.

2 Figures show that 382 farms participated in Open Farm Sunday this year, 22 per cent of attendees had never visited a farm

before and, since 2006, 1.8 million people have attended the event.

3 AHDB has taken over management of the Bright Crop careers initiative from Farming & Countryside Education. The initiative is intended to attract young talent into the food and farming industry.

4 The Addington fund has launched the Tup1 Ewe campaign to persuade sheep farmers to donate live animals to auction markets with the proceeds used for those in the industry who need financial assistance.

Other Business

Noah today!

In the year 2016, the Lord came unto Noah, who was now living in the UK and said: "Once again, the earth has become wicked and over populated, and I see the end of all flesh before me." "Build another ark and save 2 of every living thing along with a few good humans."

He gave Noah the blueprints, saying: "You have 6 months to build the ark before I will start the unending rain for 40 days and 40 nights."

Six months later, the Lord looked down and saw Noah weeping in his yard – but no ark. "Noah!", he roared, "I'm about to start the rain! Where is the ark?"

"Forgive me, Lord," begged Noah, "but things have changed."

"I needed a building permit."

"I've been arguing with the boat inspector about the need for a sprinkler system."

"My neighbours claim that I've violated the neighbourhood by-laws by building the ark in my back garden and exceeding the height limitations. We had to go to the local Planning Committee for a decision."

"Then the local Council and the electric company demanded a shed load of money for the future costs of moving power lines and other overhead obstructions, to clear the passage for the ark's move to the sea. I told them that the sea would be coming to us, but they would hear none of it."

"Getting the wood was another problem. There's a ban on cutting local trees in order to save the Barn Owl". "I tried to convince the environmentalists that I needed the wood to save the owls – but no go!"

"When I started gathering the animals the RSPCA took me to court. They insisted that I was confining wild animals against their will. They argued the accommodation was too restrictive and it was cruel and inhumane to put so many animals in a confined space."

"Then the Environment Agency ruled that I couldn't build the ark until they'd conducted an environmental impact study on your proposed flood."

"I'm still trying to resolve a complaint with the Human Rights Commission on how many minorities I'm supposed to hire for my building crew."

"The Immigration Dept, is checking the visa status of most of the people who want to work."

"The trade unions say I can't use my sons. They insist I have to hire only union workers with ark-building experience."

"To make matters worse, HMRC seized all my assets, claiming I'm trying to leave the country illegally with endangered species."

"So, forgive me, Lord, but it would take at least 10 years for me to finish this ark."

"Suddenly the skies cleared, the sun began to shine, and a rainbow stretched across the sky."

Noah looked up in wonder and asked, "You mean you're not going to destroy the world?" "No," said the Lord. "The Government beat me to it."

No sympathy for the devil!

Times are tough. Just as some farmers see some improvement in fortunes, others see the opposite. What is clear is that farming

liquidity is not good with farming debt rising faster than any other sector. To add insult to injury, many farmers are facing tax bills in 2017 simply because they don't have the resources with which to invest in new machinery and claim tax allowances. This will come as a shock to many but those who are properly advised will have known it is coming.

It is a typical cycle. High profits create the ability to invest and minimise tax. Low profits mean low investment and the tax savings of earlier years come home to roost. Capital investment is not a tax-saving scheme, merely a tax-deferral scheme. But it is genuine and encouraged by government.

Last month HM Revenue & Customs won its 10th case against NT Advisors Ltd in respect of a wholly artificial tax-saving scheme. It is alleged that 304 investors claimed tax relief totalling £143 millions by "circulating" payments so as to create tax relief. Furthermore, the 10 successful cases have protected taxes of over £900 millions. One of the most high profile schemes involved investors supposedly owning second-hand cars. One taxpayer allegedly invested £95,000 so as to create a "tax allowable" loss of £5 millions.

There is no place for this sort of practice in our society. Those investors who are tempted into such schemes do so for one purpose.

Tax law is highly complex, so complex that it is impossible for even the most able practitioners to be aware of all legislation. This is largely caused by the need to counter tax evasion practised by the few.

It can be said that a reasonable individual should use tax law to ensure the minimum tax is paid, for the benefit of his business and his family. But investment in highly artificial tax schemes cannot be countenanced, in any circumstances. Do not have sympathy for any of the "high profile" individuals who just see "££" before their eyes. Any advisers who direct clients to such schemes should be hounded out of the professions.