



Monthly
Farming
Update

Chavereys

CHARTERED
ACCOUNTANTS

November 2016

Policy issues

1 Defra has launched the Food Innovation Network to help identify the innovation needs of agri-food businesses and make connections with research experts.

Reform

- 1 The Basic Payment Scheme exchange rate for 2016 has been set at €0.85228 compared to €0.73129 for 2015.
- 2 The Basic Payment Scheme 2016 rules have been updated to reflect changes to the way certain penalties will be applied in the future.
- 3 Defra has published an update of the rules on cross compliance.
- 4 Those cases which have been successful in the latest round of the Countryside Stewardship Facilitation Fund applications have been announced involving 593 applicants covering an area of 134,397 hectares.

Grants / regulations / legislation / environment

1 Defra has published updated guidance on the amounts of livestock manure which can be applied to grassland in nitrate vulnerable zones.

Other matters of farm finance and tenure

- 1 Average farm business income in 2015/16 fell to £31,400, the lowest figure since 2005/06 and the lowest in real terms since records were introduced in 2003. There were falls of 50 per cent in dairy income; 55 per cent in pigs; 35 per cent in lowland livestock; 21 per cent in cereals; 17 per cent in mixed farming; 16 per cent in poultry; and 11 per cent in horticulture. However, less favoured area livestock income rose by 31 per cent while general cropping income increased by 21 per cent. Meanwhile average net farm income fell to £17,700, the lowest since 2002/03 and the lowest in real terms since 2000/01. The average cash income fell to £62,200, the lowest since 2008/09 and the lowest in real terms since 2006/07.
- 2 The think tank Migration Watch has recommended that a new visa scheme for seasonal agricultural workers is not introduced after Brexit, rather that wages should be raised and working conditions improved to encourage local workers to pick fruit and vegetables.
- 3 The agricultural workforce in England fell by 1.1 per cent compared to a year earlier to 302,000. This includes owners, family members and employees. The number of employees fell overall by 2.3 per cent with reductions of 0.9 per cent in regular full time workers, 4.6 per cent in regular part time workers and 2.3 per cent in casual workers.
- 4 Figures to June show the utilised agricultural area of England rose 1.1 per cent to 9,006,000 hectares compared to a year earlier representing 69 per cent of the country as a whole. The total croppable area rose by 0.6 per cent to 4,836,000 hectares. The area actually cropped rose 0.2 per cent to 3,993,000 hectares comprising cereals 3,857,000 hectares; oilseeds 571,000 hectares; potatoes 104,000 hectares; other crops 564,000 hectares; and horticultural crops 136,000 hectares.
- 5 The August Agricultural Price Index for all outputs rose by 3.4 per cent compared to a year earlier while the index for inputs fell by 1.9 per cent.
- 6 The National Council of Real Estate Investment Fiduciaries in the US has reported a 0.2 per cent fall in farmland values in the 3 months to September, the first fall since 2010.

Product prices

A. Crops

1 Crop prices have strengthened notably this month, continuing the positive trend of the latter part of September; this was almost

wholly attributable to weaker Sterling. By contrast, the underlying world market factors indicate greater world stocks than originally anticipated, suggesting lower prices on a world stage. Sterling dropped to its weakest position against the Euro since October 2009, losing a further 3p to sit at 90.4p/€. The US\$ exchange movement was similar, closing 4p stronger against Sterling at 82.1p/\$. Despite an increase in the feed wheat price, milling wheat premiums have taken a material hit this month, halving to a late October level of £8/tonne. Oilseed prices, assisted materially by Sterling, soya prices and concerns over rising oil prices, improved by almost 10 per cent. LIFFE feed wheat futures closed materially up in the short to medium term; improving to a lesser extent in the longer term. In late October, deliveries for November 2016, 2017 and 2018 stood at £138/tonne (+11), £141/tonne (+9) and £142/tonne (+5) respectively.

Average spot prices in late October (£/tonne ex-farm): feed wheat 129 (+11); milling wheat 136 (+4); feed barley 111 (+8); oilseed rape 343 (+31); feed peas 132 (+4); feed beans 142 (+6).

2 2016 crop potato prices weakened further this month. The GB average, from its opening price of £166 per tonne, relaxed marginally in the early part of the month but suffered a £10 drop mid-month, before continuing to drop further at a more sedate rate. By late October the average had reduced to £152 per tonne (£14 lower than the previous month but £12 above the price a year earlier). The free-buy average continued to sit above the GB average and was largely insulated against the month's negative forces. Having opened the month at £183 per tonne, the average was propped up by buyers seeking premium crop to supplement contracted purchases, resulting in a late October close of £182 per tonne (a £1 reduction to sit £41 above the price a year earlier). Lifting of the 2016 main crop is all but complete, thanks to a largely unbroken, mild week, bringing progress back within five-year average levels.

2016 crop prices for grade 1 in late October: Estima had improved to sit between £180 and £240 per tonne whilst slow movement of King Edward saw prices holding steady at between £170 and £190 per tonne. Maris Piper prices had improved at the lower end to between £180 and £200 per tonne, whilst Desiree, having opened the season well, had dropped back to between £190 and £220 per tonne.

B. Livestock

1 Cattle prices fell back further in small increments over the course of the month. The average finished steer price, from its opening position of 185p/kg lw, dropped steadily back to a closing average of 180p/kg lw (5p/kg down in the month, to sit 4p below the closing average a year earlier). The average finished heifer price, by contrast, was a little more unpredictable: dropping from its opening position of 199p/kg lw in the early part of the month, only to bounce back to 200p/kg mid-month. The second half of the month saw a further 3p reduction and a closing average of 197p/kg lw (2p/kg below the previous month, to sit 1p below the price a year earlier). The average dairy cow price remained volatile, albeit about the £1,000 per head level. The price dropped to £960 per head but closed at £1,019 per head (£1,199 a year earlier).

2 The average finished lamb price (SQQ live weight) dropped back steadily week on week, despite animal movement being well behind the prior year and a reduction in market throughput. From an opening position of 171p/kg lw, prices fell to a month-close of 161p/kg lw (a 10p drop in the month but remaining 18p above the closing average a year earlier).

3 The average UK all pig price (APP) retained its new-found buoyancy, partly thanks to the weak Sterling, and improved for a further month, at a point in the season when a year earlier it was weakening. From an opening position of 142.5p/kg dw, the average price improved to a late October close of 147.3p/kg (a 4.8p/kg gain in the month to sit 15.0p/kg above DAPP from a year earlier).

4 The UK average milk price for September (published in late October) reported a continuation of the improvements of recent months, gaining 1.24ppl to reach an average of 22.58ppl, 1.14ppl below the price a year earlier. Meanwhile, the UK dropped a further 5 positions in the EU farmgate milk price 'EU28' rankings for August (down to 21st) with an average of 20.95ppl, in comparison to an improved EU28 weighted average of 23.25ppl (up 1.14ppl). This is largely attributable to the weakness of Sterling.

Other crop news

1 Provisional figures suggest the UK wheat yield from the 2016 harvest fell by 12 per cent to 7.9 tonnes per hectare compared to the 2015 harvest; barley yields also fell by 12 per cent, down to 5.9 tonnes per hectare; oats yields fell by 6.7 per cent in England but rose by 11 per cent in Scotland; and yields of oilseed rape fell by 22 per cent to 3.1 tonnes per hectare.

2 Figures to June show the wheat area fell by 0.5 per cent to 1,683,700 hectares compared to a year earlier; the barley area

increased by 5.7 per cent to 791,300 hectares entirely as a result of an 11.5 per cent increase in the area of spring barley; the oats area increased by 4.3 per cent to 102,400 hectares; the potato area increased by 8.1 per cent to 104,100 hectares; but there were falls of 4.8 per cent in the sugar beet area at 85,900 hectares and 11.2 per cent in the area of oilseed rape at 542,800 hectares.

3 The provisional wheat harvest for the UK is 14.5 million tonnes, down 12 per cent on the 2014 and 2015 harvests but consistent with the 5-year average to 2015. The barley estimate is 6.7 million tonnes which is consistent with the 5-year average of 6.5 million tonnes.

4 The International Grain Council has raised its forecast for world wheat production to 747 million tonnes, an increase of 11 million tonnes on last year with stocks of 231 million tonnes at the end of the year, an increase of 13 million tonnes.

5 The price index in August for all crop products rose by 7.2 per cent compared to a year earlier and by 5.5 per cent compared to July. The cereal price index rose by 3.6 per cent compared to August 2015 and by 3.5 per cent compared to July. The fresh fruit index rose by 19 per cent and the fresh vegetables index by 12 per cent.

6 During August, animal feed production rose by 25 per cent for sheep and 7 per cent for poultry but fell by 2.7 per cent for pigs and 0.2 per cent for cattle compared to a year earlier. The usage of wheat increased by 12 per cent but 11 per cent less barley was used.

7 Scotland's Rural College is forecasting an increased wheat bulb fly threat to crops in the south and east of the country.

8 A trial conducted by a Norfolk farmer has suggested potential sugar beet yield increases of up to 39 per cent where an oil radish cover crop is planted prior to planting thereby reducing numbers of beet cyst nematodes.

9 Intercrop, in association with breeder Rijk Zwaan, has produced the first UK outdoor crop of melons in Kent.

Other livestock news

1 The Welsh Government has proposed dividing the country into low, intermediate and high risk areas for the purpose of bovine TB. High risk areas will be subject to six-monthly testing while chronic breakdown herds will have individual action plans.

2 The number of bovine TB new herd incidents in the year to July fell by 1 per cent in England compared to the previous year and fell by 3 per cent in the High risk area but there were increases of 15 per cent in the Edge area and 2 per cent in the Low risk area. New herd incidents fell by 19 per cent in Wales but rose by 10 per cent in Scotland. The number of herds not officially TB free remained unchanged in England with falls of 2 per cent in the High risk area and 5 per cent in the Low risk area but an increase of 21 per cent in the Edge area. In Wales there was a fall of 10 per cent but an increase of 8 per cent in Scotland.

3 The total number of cattle and calves on farm in June fell by 2.7 per cent compared to a year earlier to 5,378,000. There were falls of 1.6 per cent in the dairy herd and 0.2 per cent in the beef herd. The total number of sheep and lambs rose by 0.9 per cent to 15,283,000 with the female breeding flock showing an increase of 0.8 per cent to 7,114,000. The total number of pigs rose by 2.2 per cent to 3,911,000 with the female breeding herd increasing by 2 per cent to 334,000. The poultry flock increased by 2.7 per cent to 128,879,000 birds with the breeding flock increasing by 4.4 per cent to 7,750,000 birds.

4 UK prime cattle slaughterings in September rose by 8.5 per cent compared to a year earlier to 165,000; beef and veal production rose by 8.1 per cent to 76,000 tonnes; sheep slaughterings fell by 8.6 per cent to 1,300,000; mutton and lamb production fell by 9.2 per cent to 28,000 tonnes; pig slaughterings rose by 2.6 per cent to 910,000; and pigmeat production rose by 3.9 per cent to 78,000 tonnes.

5 The price index for animals and animal products fell by 0.2 per cent in August compared to a year earlier. The pig price index rose by 3 per cent and by 6 per cent compared to July. The sheep and lamb price index rose by 21 per cent in the year but was down 1.2 per cent on July. The index for animal products fell by 9.4 per cent but rose by 2.4 per cent compared to July. The milk index fell by 9 per cent but rose by 2.7 per cent compared to July. The index for animal feedstuffs fell by 1.3 per cent and by 1.4 per cent compared to July.

6 Russia has reported an outbreak of Foot and Mouth serotype Asia-1 disease in the west of the country.

7 A further 229 outbreaks of bluetongue virus have been reported in France in the past month, mainly in cattle, with one case close to the border with Belgium.

8 During September, UK milk production fell by 6.4 per cent, compared to August, to 1,053 million litres, a fall of 9.7 per cent compared to the same month last year. Butterfat content rose 0.1 per cent to 4.08 per cent while Protein rose 0.08 per cent to

3.33 per cent.

9 Rabobank has forecast a global reduction of surplus milk production by 3.4 million tonnes in the second half of 2016 with a further reduction of 2.5 million tonnes in 2017.

10 During August, dairies used 799 million litres of milk, a fall of 7.9 per cent on the same month last year. Of the total, 51 per cent was used for liquid milk production, 25 per cent for cheese production, 2.3 per cent for butter and 2.1 per cent for cream.

11 Muller is to increase the price paid on non-aligned contracts by 2ppl to 24.3ppl with effect from December. The increase will also apply to Direct Milk producers.

12 Research undertaken by the University of Nottingham on farms in Cornwall and north Devon has revealed that the amount of silage eaten by starlings amounted to between 18 and 43 per cent of ration samples on a daily basis. In particular there was a significant decrease in feed components of less than 4mm suggesting the birds were selecting the cereal and protein components equivalent to a cost of £0.97/cow/day while the 14 per cent reduction in dry matter during the day equates to a yield loss of 7.5 litres/cow/day.

13 Arla has increased its liquid milk price by 1.49ppl to 23.14ppl.

14 During September, UK commercial layer chick placings rose by 11 per cent to 2.7 million chicks; broiler chick placings rose by 3.5 per cent to 78.2 million chicks; turkey chick placings fell by 21 per cent to 1.7 million chicks; turkey slaughterings rose 10 per cent to 1.3 million birds; broiler slaughterings rose 3.2 per cent to 76.5 million birds; and total poultry meat production rose 5 per cent to 140,000 tonnes.

Inputs / Supply business

1 Proposals from the European Commission, which have been passed by the European Parliament, will allow organic and waste-based fertilisers to be traded in the same way as mineral fertilizers by defining, safety, quality and labelling requirements. Strict limits would be imposed for cadmium in phosphate fertilizers.

2 A six-year survey carried out by Yara's Lancrop Laboratories has found that almost all soils growing wheat and oilseed rape are sulphur deficient thereby affecting both yield and quality.

3 The UK Cereal Pathogen Virulence Survey has confirmed the presence of the "Kranich" race of wheat yellow rust in the 2015 crop and also a potential new race which has provisionally been named "Invicta".

4 The price index for fertilizers and soil improvers fell by 19.5 per cent compared to a year earlier but rose by 2.9 per cent compared to July.

5 An AHDB Cereals and Oilseeds trial has demonstrated statistically significant yield responses following the use of biostimulants. Yield increases were detected in sites using seaweed extracts, humic substances, phosphate and plant growth promoting bacteria.

6 Syngenta and Rijk Zwaan have entered into an agreement on native traits in vegetables to boost innovation and more quickly introduce improved varieties.

7 Bayer has been granted approval for Lunar Sensation, a fungicide co-formulation of fluopyram with trifloxystrobin for the control of foliar diseases and fruit rots in strawberries.

Marketing

1 The International Action Plan for Food and Drink has been launched by Defra. The plan has identified nine markets across 18 countries with the best potential for food and drink exports.

2 Hybu Cig Cymru has reached agreement with Canadian supermarket Loblaw's to promote Welsh lamb in 300 stores across the country.

3 The European Commission has reported pork exports of £960 millions in July, an increase of 29 per cent on the same period last year.

4 Defra has published an updated guidance on the information which must be provided to comply with the European Food

Information to Consumers Regulations.

5 Eurostat has reported that the UK is top in Europe for people eating five portions of fruit and vegetables with 33.1 per cent of those aged 15 or over including such food in their daily consumption, followed by Denmark at 25.9 per cent and the Netherlands at 25 per cent. Across the EU as a whole, more than 34 per cent failed to eat a single piece of fruit or vegetables on a daily basis.

6 Kantar data has revealed increased sales of 1.3 per cent at Tesco in the 12 weeks to 9 October and an increased market share of 28.2 per cent, its first increase since 2011.

7 In association with Tesco, Branston has opened a new "prepared foods" factory which will process 3,500 tonnes of potatoes each week.

8 First Milk has sold CNP Professional to The Protein Partners, a business specialising in sports nutrition.

9 Tesco has launched a new range of mushrooms with enhanced levels of vitamin D grown by Monaghan Mushrooms in Ireland.

10 Flavoured milk brand Moo, produced by Crediton Dairy, is to be sold in Harvester restaurants nationwide.

Miscellaneous

1 Lloyds Bank has announced a 10-week summer placement for penultimate year agricultural students and post-graduates to learn about agricultural banking.

Other Business

Why Marry?

1. "Aren't you wearing your wedding ring on the wrong finger?"

"Yes, I am. I married the wrong man."

2. A lady inserted an ad in the classified:

'Husband Wanted'.

Next day she received a hundred letters.

They all said the same thing:

'You can have mine.'

3. When a woman steals your husband, there is no better revenge than to let her keep him.

4. A little boy asked his father, "Daddy, how much does it cost to get married? Father replied, "I don't know son, I'm still paying."

5. A young son asked, "Is it true Dad, that in some parts of Africa a man doesn't know his wife until he married her?" Dad replied, "That happens in every country, son."

6. "I never knew what real happiness was until I got married and, by then, it was too late."

7. If you want your spouse to listen and pay strict attention to every word you say – talk in your sleep.

8. Just think, if it weren't for marriage, men would go through life thinking they had no faults at all.

9. First guy says, "My wife's an angel!" Second guy remarks, "You're lucky, mine's still alive."

10. A husband and his wife are waiting at the bus stop with their nine children. A blind man joins them after a few minutes.

When the bus arrives they find it overloaded. Only the wife and the nine kids are able to fit onto the bus.

So the husband and the blind man decide to walk.

After a while, the husband gets irritated by the blind man's stick ticking as he taps it on the pavement. He says to him, "Why don't you put a piece of rubber at the end of your stick? That ticking sound is driving me crazy."

The blind man replies, "If you had put a rubber at the end of yours, we'd be riding the bus, so shut up."

Maybe you're not the farmer you thought you were!

An interesting case appeared before the Upper Tax Tribunal earlier this year which revolved around the growing of asparagus. The crux of the matter was whether the growing of asparagus is a trade of farming or a trade of market gardening.

There has been a substantial growth in the asparagus trade in recent years with most of the UK crop grown by farmers. But is the activity farming? The automatic thought is "does it matter"? Strangely, it could do.

All farming carried on by a person or a group of persons, is a single trade. If the growing of asparagus is deemed to be farming, the financial results of the enterprise simply merge with those from other farming enterprises to arrive at the profit or loss of the business. If, however, asparagus growing is deemed to be market gardening, the results of the farming enterprise and the market garden enterprise must be separated. This does not necessarily produce the same tax result.

Take the case of a struggling farming enterprise which is made profitable by the growing of asparagus. It may be that the farming enterprise consistently incurs losses, after time HM Revenue & Customs may refuse to allow relief for the losses but will seek to tax the profits from the asparagus enterprise.

There has also been an upsurge in income generated from solar panels installed on the farm buildings. After all, farmers are encouraged to diversify and maximise the use of their assets. But the trade of electricity generation has nothing to do with farming just as the regular letting of farm property has nothing to do with farming.

Tax is not simply payable on the "bottom line" and a nasty surprise can be in store for those who do not have at least a basic concept of how a business can be treated from a tax perspective.

A ruling on the asparagus case is awaited with interest.