

Monthly
Farming
Update

Chavereys

CHARTERED
ACCOUNTANTS



July 2017

Policy issues

1 Rabobank has forecast that the Brexit process will be prolonged and unpredictable and will lead to higher food price inflation and result in delay in investment decisions.

2 A 25-year food and farming plan, promised by Liz Truss in 2015, has been dropped from the Conservative Party manifesto.

Reform

1 The Scottish Government has extended its farm payment deadline to 15 October for the second successive year.

Grants / regulations / legislation / environment

1 Since 1976 the habitat specialists' butterflies index has fallen by 74 per cent while the index for species of the wider countryside has fallen by 57 per cent. Habitat specialist species showing the greatest decline include the wood white, Lulworth skipper, pearl-bordered fritillary and heath fritillary. The greatest increases have occurred in the silver-spotted skipper, dark green fritillary and large heath. Species of the wider countryside showing the greatest decline include the white-letter hairstreak, wall and small tortoiseshell. The greatest increases have been seen in the ringlet, scotch argus and comma.

2 Defra has published "Protecting our Water, Soil and Air", a code of Good Agricultural Practice for farmers, growers and land managers.

3 Information released by Defra reveals that funding for the National Bee Unit has fallen from £2.519 millions in 2012/13 to £2.130 millions in 2015/16.

Other matters of farm finance and tenure

1 An NFU survey of labour providers has revealed the number of seasonal workers coming to British farms has fallen by 17 per cent. The proportion of returnees fell from 65 per cent to 33 per cent through the first 5 months of the year while there were 1,500 unfilled positions in May.

2 A CAAV survey has revealed the average length of farm business tenancies in England and Wales in 2016 increased by 8 months to 4½ years. Average terms for fully equipped farms were 14 years, for units greater than 200 acres 9 years and for units less than 25 acres 2½ years.

3 Updated figures from the Farm Business Survey show that the average arable farm in 2015 lost £34 per tonne of wheat produced, £50 per tonne of winter barley, £69 per tonne of winter oilseed rape and £89 per tonne of spring beans. However, fixed costs fell by £29/ha, labour costs fell by 4 per cent and machinery costs by 9 per cent.

4 Average rural house prices increased by 1.4 per cent in the last quarter of 2016 to £308,900 and by 5 per cent compared to a year earlier. The unemployment rate in rural areas fell 0.1 per cent to 2.6 per cent in the first quarter of 2017 but the percentage of working age population on Jobseeker's Allowance rose 0.1 per cent to 0.5 per cent. The number of redundancies per 1,000 workers fell from 5.2 to 3.8.

5 The monthly price index for all outputs in April rose by 13 per cent compared to a year earlier while the index for inputs rose by 5.7 per cent.

Product prices

A. Crops

1 Wheat prices weakened marginally this month before recovery in the latter stages brought prices back to where they started. Barley prices shifted to the new crop, dropping 6 per cent in the process. Concerns over the condition of the US spring wheat crop and ongoing dry/hot weather in Western mainland Europe have lifted prices and futures alike and added a little strength to milling

premiums. Despite these concerns, the medium term outlook is better, meaning market reactions have been tempered so far. Sterling weakened further against the Euro this month, with a monthly spread of between 86.7 and 88.7 p per €, closing 0.4p down at 87.7p per €; meanwhile against the US\$ the movement ended up going the other way, weakening to 79.4p per \$ before recovering to close 1.2p stronger at 76.8p per \$. Crude oil prices were broadly negative, with Brent crude dropping to \$45 per barrel from a start-point of \$52; a partial recovery saw it close the month at \$48.77 per barrel. LIFFE feed wheat futures improved at all levels, gaining largely throughout the month, faltering as July approached, to close notably stronger nonetheless. In late June, deliveries for November 2017 and 2018 both stood at £148/tonne (+6) and £150/tonne (+8) respectively; March 19 deliveries had improved to 152/tonne (+7).

Average spot prices in late June (£/tonne ex-farm): feed wheat 142 (-); milling wheat 148 (+1); feed barley 113 (-7); oilseed rape 300 (-22); feed peas 178 (+17); feed beans 187

(+12).

2 2016 crop potato prices took a material hit this month. As warm weather encouraged a Mediterranean diet and the lifting of early varieties started in earnest, the eye of the consumer was pulled away from old-crop; further compounded by processors falling back on contracted tonnages, the average price fell and average free-buy price plummeted. The GB average, from an opening position of £205 per tonne, gained £1 early on before dropping back to a late June average of £184 per tonne (£21 below the May close, £56 below the price a year earlier). The free-buy average was negative throughout the month, particularly in the final stages, dropping from a starting point of £229 to a late June average of £166 per tonne (£63 below the previous month's close and £111 below the price a year earlier). 2017 crop development is good but limited by below average rainfall; recent rains have arrived a little too late for early crops and are instead hampering harvest. Later varieties are growing well in the recent conditions but blight remains a concern.

2016 crop prices for grade 1 in mid-June: Estima had fallen back harshly to between £60 and £140 per tonne, up to £155 for bakers. King Edward movements remained limited, with prices materially down to £210 per tonne. Maris Piper prices were also much weaker at between £200 and £225 per tonne, whilst Desiree had free-fallen to £140 per tonne (limited movement).

B. Livestock

1 Cattle prices were broadly positive this month. The average finished steer price, from its opening position of 190p/kg lw, improved week on week to close the month just above 197p/kg lw (up 7p/kg in the month to sit 20p/kg above the closing average a year earlier). The average finished heifer price followed a similar trend to start with, gaining steadily from its 199p/kg opening position. However, following an anomalous 25p spike mid-month which provided a brief peak of 230p/kg, the average finished on a downward trend dropping back to close the month 6p up overall at 205p/kg lw, 9p above the price a year earlier. The average dairy cow price remained volatile, dropping to £984 per head and spending most of the month marginally above £1,000 per head before improving to a closing average of £1,230 per head (£991 at the end of June 2016).

2 The average finished lamb price (SQQ live weight) made the switch to new season prices at the start of the month, shifting to 243p/kg from the old season's 194p/kg. The market readjusted, and the price took a 17p plunge, in the latter stages of June. From an opening new season price of 243 p/kg lw, the average price dropped back by a total of 21p/kg to a closing average of 222p/kg lw (27p/kg above the average a year earlier).

3 The average UK all pig price (APP) continued its run of improvement. The reduced domestic demand continued to be outpaced by increased exports fulfilling the rising demand from China and Central America. From the opening position of 161.9p/kg dw, the price rose steadily throughout the month to a closing average of 165.6p/kg dw (up 3.7p/kg, to sit 40.6p/kg above the June 2016 closing average).

4 The UK average milk price for May, published in late June, showed a reduction from the February/March peak of 27.46ppl; dropping to 26.78ppl (down 0.74p) to sit 6.34ppl above the price a year earlier. Whilst in the 'EU28' rankings for April, published in June, the UK average milk price gained a further place in the EU farmgate milk price, from 18th to 17th, with an average of 27.01ppl versus a weaker EU28 weighted average of 28.97ppl (down 0.57ppl).

Other crop news

1 The price index for all crop products rose by 11 per cent in April compared to a year earlier but fell by 0.5 per cent compared to March. The cereal price index rose by 28 per cent and by 0.4 per cent compared to March; the oats price index rose by 9.6 per cent on March but the barley price index fell by 2.7 per cent; the potato price index rose by 7.9 per cent but fell by 1.1 per cent compared to March; and the oilseed rape price index rose by 32 per cent.

2 In the crop period July to April, animal feed production rose by 9.7 per cent for sheep, 1.8 per cent for poultry and 0.9 per cent for cattle but fell by 6.4 per cent compared to the same period in 2015/16. The tonnage of wheat used rose by 3.1 per cent but the tonnage of barley fell by 4.1 per cent.

3 AHDB analysts have estimated that Britain's total planted area of potatoes for the coming season will increase by 4 per cent to 121,000 hectares.

4 Commodity broker Sucden has reported an increase of 15 per cent in EU beet sowings with even larger increases in France and Germany. Tereos, the French co-operative and the world's third largest sugar producer, has reported that its domestic processing volumes in 2017/18 will rise by 25 per cent.

5 Al Khaleej International is planning to build a processing plant in Yorkshire capable of producing 5,000 – 6,000 tonnes of refined sugar per day.

6 A consortium of scientists from France, Italy, Germany, Holland and South Africa has developed a high-quality genome sequence of apple which facilitates faster and more targeted breeding of new varieties with increased disease resistance, improved production traits and better fruit quality.

Other livestock news

1 The Welsh Government has decided to take a more regionalised approach to bovine TB by targeting badger culling in areas persistently affected.

2 The number of new herd bovine TB incidents in the year to March fell by 2 per cent in England compared to a year earlier with falls of 3 per cent in the High risk area and 24 per cent in the Low risk area but a rise of 12 per cent in the Edge area. There were falls of 12 per cent and 10 per cent in Scotland and Wales respectively. The number of herds not officially TB free rose by 2 per cent in England with increases of 2 per cent in the High risk area and 11 per cent in the Edge area but there was a fall of 22 per cent in the Low risk area. There was a rise of 6 per cent in Scotland but a fall of 8 per cent in Wales.

3 During May UK cattle slaughterings increased by 6.5 per cent compared to a year earlier at 173,000; beef and veal production rose by 4 per cent to 76,000 tonnes; sheep slaughterings rose by 8.6 per cent to 971,000; mutton and lamb production rose by 8.3 per cent to 23,000 tonnes; pig slaughterings rose by 0.8 per cent to 871,000; and pigmeat production rose by 1.3 per cent.

4 The price index of animals and animal products rose by 13 per cent compared to a year earlier. The pig price index rose by 38 per cent and by 3 per cent compared to March. The price index for milk was down 1.6 per cent on March.

5 Milk production in May increased by 4.7 per cent compared to April to 1,322 million litres, similar to production a year earlier.

6 Promar Milkfinder results for April report an increase in margin per cow of £37 year on year. Yield increased by 0.75 litres per cow but feed costs increased by £8 per tonne.

7 During April dairies used 926 million litres of milk, a fall of 0.7 per cent on March but a rise of 6.9 per cent on April 2015. Of the total, 47 per cent was used for liquid milk, 26 per cent for cheese, 2.3 per cent for butter and 2.1 per cent for cream.

8 Arla has increased its manufacturing standard litre price by 1.44 ppl to 29.17ppl.

9 Average butterfat content in May fell by 0.08 per cent to 3.98 per cent, roughly the same as a year earlier. Average protein content was effectively unchanged at 3.28 per cent.

10 The University of Leicester has identified a range of 20 "bacteriophages", otherwise known as bacteria eaters, which can kill common pig infections and avoid the use of antibiotics.

11 Two cases of African Swine Fever have been reported in wild boar in the Czech Republic which is a considerable movement westwards compared to other reported cases.

12 The Avian Influenza Prevention Zone has been lifted across England but a 10km Surveillance Zone is in place around one premises in Diss, Norfolk.

13 During May UK commercial layer chick placings rose by 21 per cent compared to a year earlier to 3.5 million chicks; broiler chick placings rose by 6.3 per cent to 80.9 million chicks; turkey chick placings rose by 4.4 per cent to 1 million chicks; turkey slaughterings fell by 5.2 per cent to 1.1 million birds; broiler slaughterings rose by 6.6 per cent to 79 million birds; and total poultry meat production rose by 8.4 per cent to 145,200 tonnes.

Inputs / Supply business

- 1 The European Parliament has voted to introduce a ban on the use of pesticides on nitrogen-fixing crops, fallow, cover and catch crops contributing to Ecological Focus Areas. The regulation is likely to come into force at the beginning of next year.
- 2 The British Survey of Fertilizer Practice for the 2016 crop year has been published. The total nitrogen application rate on all crops and grassland fell by 4kg/ha to 94kg/ha, driven by a 5kg/ha reduction in the overall rate on tillage crops. Application rates of phosphate and potash on all crops and grassland were 18kg/ha and 24 kg/ha respectively, the same as 2015. There was also no change in the application rate of sulphur at 31kg/ha.
- 3 Research funded by Bayer and Syngenta and conducted by the Centre for Ecology and Hydrology and which took place in Germany, Hungary and UK has suggested that exposure to treated crops reduced the overwintering success of honeybee colonies. This was found in the research in Hungary and the UK but no harmful effects were found in Germany. In all three countries, lower reproductive success was linked with increasing levels of neonicotinoid residues in the nests of wild bees.
- 4 The price index of energy and lubricants rose by 17 per cent compared to a year earlier while the index of straight feeding stuffs rose by 18 per cent.
- 5 Scotland's Rural College has identified two mutations of strains of barley disease ramularia, one which affects the performance of all SDHI fungicides and one which has a similar effect on azole fungicides.

Marketing

- 1 Figures released by Kantar Worldpanel reveal that supermarket growth reached 5 per cent in the 12 weeks to 18 June, the biggest since March 2012. Online grocery sales rose by 10.7 per cent. The growth figures include grocery price inflation of 3.2 per cent. Morrisons led the way with growth of 3.7 per cent followed by Tesco at 3.5 per cent. Lidl overtook Aldi to become the fastest-growing supermarket with growth of 18.8 per cent.
- 2 The Food and Drink Federation has reported that exports of all food and drink increased by 8.3 per cent to £4.9 billions in the first quarter of 2017, the highest on record.
- 3 The Groceries Code Adjudicator has reported that fewer direct suppliers experienced code breaches for the fourth year running. The proportion fell from 62 per cent to 56 per cent. Aldi endured least complaints with Sainsbury's best of the big four.
- 4 Research conducted by LEAF has found that 61 per cent of those surveyed were concerned about food price inflation following Brexit, 33 per cent feared fewer foods would be available while only 25 per cent were concerned about the impact on British farmers.
- 5 A partnership of Spoilt Pig and Brydock Farms is to market pork from pigs which have not been treated with antibiotics.
- 6 A survey of 5,000 children aged 5-16, conducted by the British Nutrition Foundation, has revealed that 13 per cent think pasta comes from an animal, 18 per cent think fish fingers come from chicken, 6 per cent believe dairy cows produce eggs, 14 per cent think bacon is produced by cows, sheep or chickens and 25 per cent believe fruit jam counts towards their 5-a-day target.
- 7 The Great British Pea Week runs from 10-17 July.
- 8 Applications have been made for Protected Geographical Status for Welsh Caerphilly cheese, West Country beef, West Country lamb, Ayrshire New Potatoes, Welsh cider and Welsh perry.
- 9 A survey conducted by British Sugar of 2,000 people has revealed that 60 per cent were not aware that sugar is grown in Britain.
- 10 The EU Court of Justice has confirmed a ban on products of a "purely plant-based substance" using the terms "milk", "cream", "butter", "cheese", or "yoghurt" as a marketing tool.
- 11 The Organic Processing and Trade Association has been inaugurated in Milan, an association of traders and processors of organic produce.

Miscellaneous

1 Awards in the Queen's Birthday Honours include Roger Evans OBE for services to the UK dairy industry; Jim McLaren MBE for services to farming; Professor Laura Green OBE for services to health and welfare of farmed livestock and Professor Christopher Elliott OBE for services to the agri-food supply chain.

2 Michael Gove has been appointed Defra Secretary.

Other Business

Postscripts

The Book of Jeremy Corbyn

And there came from the land of Britain a prophet, whose name was Jeremy. And he cried aloud in the wilderness, and said, Behold, I bring you hope.

And it came to pass, in the land of Britain, that the High Priestess went unto the people and said, Behold, I bring ye tidings of great joy. For on the eighth day of the sixth month there shall be a general election.

And the people said, Not another one.

And they waxed wrath against the High Priestess and said, Didst thou not swear, even unto seven times, that thou wouldst not call a snap election?

And the High Priestess said, I know, I know. But Brexit is come upon us, and I must go into battle against the tribes of France, Germany, and sundry other holiday destinations. And I must put on the armour of a strong majority in the people's house. Therefore go ye out and vote.

And there came from the temple pollsters, who said, Surely this woman will flourish. For her enemy is as grass; she cutteth him down. He is as straw in the wind, and he will blow away. And the trumpet of her triumph shall sound in all the land.

And the High Priestess said, Piece of Cake.

And there came from the same country a prophet, whose name was Jeremy. His beard was as the pelt of beasts, and his raiments were not of the finest.

And he cried aloud in the wilderness and said, Behold, I bring you hope.

And suddenly there was with him a host of young people. And he said unto them, Ye shall study and grow wise in all things, and I shall not ask ye for gold. And the stick shall be made well, and they also will heal freely. And he promised unto them all manner of goodly things.

And the young people said unto him, How shall these things be rendered, seeing that thou has no money in thy purse.

And he spoke unto them in a voice of sounding brass and said, Soak the rich. And again, Pull down the mighty from their seats.

And the young people went absolutely nuts.

And they hearkened unto the word of Jeremy, and believed. For they said unto themselves, Lo, he bringeth unto us the desire of our hearts. He cometh by bicycle, with a helmet upon his head. And he eateth neither flesh nor fowl, according to the Scriptures. For man cannot live by bread alone, but hummus is quite another matter.

And the High Priestess saw all these things and was sore. And she gathered unto her the chief scribes and the Pharisees and said unto them, What the hell is going on?

And they said unto her, It is a blip, as if it were a rough place upon the road.

But they said unto themselves, When the government was upon her shoulders, this woman was mighty. But now that she has gone abroad unto every corner of the land, she stumbleth. For surely it is written that ruling and campaigning are as oil and water, and there shall be no concord betwixt them.

And the chief scribes wrote upon tablets, saying, Jeremy is false of tongue. He hideth wickedness in his heart. And his sums do not add up.

And nobody paid any attention.

And the elders rose up and said to the young people, If ye choose Jeremy, he will bring distress in your toils and wailing upon

your streets. Do ye not remember the nineteen-seventies?

And the young people said, The what?

And the elders spoke again, and said to the young people, Beware, for he gave succour in days of yore to the I.R.A.

And the young people said, The what?

And the young people said, Jeremy shall bring peace unto all nations, for he hateth the engines of war that take wing across the heavens. And he showeth respect for all peoples, even unto the transgender community.

And the elders said, The what?

And it came to pass that the heathen of this land came among the people, with fire and sword, and slew many among the faithful. And great was the lamentation.

And the High Priestess waxed exceeding wrath and said to the people, Fear not. For I shall bind your wounds and give ye shelter from the heathen, and shall take up the sword against them.

And there came again pollsters from the temple, who said, Will the people not vote for her in this hour of need?

And nobody paid any attention.

And it came to the vote.

And the elders went up to vote, and the young people. And the young people were as a multitude. And in the hours of darkness there was much counting. And the young people watched by night, and the elders went to bed.

And there came in the morning news that the High Priestess had vanquished the prophet Jeremy. But the triumph of the High Priestess was as the width of a nail. And she was vexed.

And the elders and the chief scribes and the Pharisees spoke among themselves, yea, even in the corners of their houses.

And there was great rejoicing amidst the multitude of the young. And they took strong wine, and did feast among themselves. And there were twelve baskets left over.

And of the pollsters there was no sign.

And the people saw Jeremy and said, Surely this man has won? Doth he not skip in gladness like a young hart upon the hills?

And there was great murmuring among the elders. And they said unto themselves, Weep not. For the High Priestess doth but prepare the way. Cometh there not one who is greater than she?

And they said, Behold, for the hour of the redeemer is upon us. And his name shall be called Wonderful, Counsellor, the Prince of Peace. And they cried in one voice, Boris.

And the young people said, Oh, s..t.

And the people gave tongue, and made supplication unto the Lord, saying, Lord, let her cry come unto thee.

And the Lord thought the whole thing was absolutely hilarious.

And then the people said, Lord, what shall we do regarding Brexit? For henceforth the High Priestess shall be as weak as a newborn lamb. How shall we hope for continued access to the single market?

And the Lord said, The what?

Another residential conundrum!

With effect from 6 April 2016, a higher rate of Capital Gains Tax applies to a disposal of residential property (28%) than to a disposal of non-residential property (20%).

It may seem, on the face of it, a straightforward task to identify when a property is residential. However, as is always the case, there may be some grey areas in the legislation.

What is 'residential' property?

Consider, for example, a property that was originally constructed as a residential property, and has largely retained its original character, but throughout the ownership period has been used as an office.

The legislation states that a property is residential if 'at any time during the relevant ownership period' it 'consisted of or included a dwelling'.

A property is a 'dwelling' if 'it is used or suitable for use as a dwelling' or 'it is in the process of being constructed or adapted for such use'.

Could HMRC argue that the property is 'suitable for use' as a dwelling throughout the ownership period, because it was constructed as a residential property and has retained its character as such, even though the vendor has always used it as an office?

Is land attached to a property 'residential'?

Land that is 'occupied or enjoyed with a dwelling as garden or grounds' is 'taken to be part of that dwelling'.

This is similar to the wording used in the Principal Private Residence (PPR) legislation. Where an individual has lived in a property and the gain on that property is covered by the PPR exemption, it will be beneficial for the land attached to that property to be the garden and grounds, as any associated gain will be covered by the exemption provided it is within the 'permitted area'.

Conversely, if the PPR exemption is not available, it will not be beneficial for the land to be the garden and grounds, as this will be subject to the higher rates of Capital Gains Tax.