



CHAVEREYS

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MONTHLY FARMING UPDATE

November 2020



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I Policy issues

- 1 The Government is to give the Food Standards Agency and the Environment Agency powers to approve illegal behaviour under the Covert Human Intelligence Sources Bill to protect consumers and the food industry from food crime.
- 2 The Environment, Food and Rural Affairs Select Committee's proposal for a Food Security Minister to be appointed has been rejected by the Government.

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

- 1 Less than two months to go, no news in the meantime.

III Grants/regulations/legislation/environment

- 1 Defra has concluded that the negative effects of gamebird releases on protected sites tend to be localised and that there are minimal or no effects beyond 500 metres from the point of release. As a result of the review Defra has proposed an interim licensing regime for the 2021 release of common pheasant and red-legged partridge within European protected sites and within a 500 metre buffer zone around these sites; improvements to the Animal and Plant Health Agency poultry register; a review of the existing consenting regime; and improved monitoring of Special Areas of Conservation and Special Protection Areas.
- 2 The third round of the Countryside Productivity Small Grants Scheme has opened whereby a total of £25 millions is available to provide grants of between £3,000 and £12,000 to buy new and innovative equipment.
- 3 The Welsh Government has published a GB-wide strategy for forestry. The priorities include research on; sustainable forest management; markets for forest products and services; societal benefits from trees, woods and forests; multiple ecosystem benefits; woodland creation and expansion; and tree health and biosecurity.

IV Other matters of farm finance and tenure

- 1 UK organic farming statistics for 2019 have been published. The total area of land farmed organically rose by 2.4 per cent to 485,000 hectares with the fully organic land area increasing by 3.6 per cent but the area is down by 34 per cent from the peak of 2008. The organically farmed area represents 2.7 per cent of the total farmed area. The area in conversion fell by 15 per cent, the first such fall since 2014. Permanent pasture accounts for 63 per cent of the organic area followed by temporary pasture at 20 per cent and cereals at 8 per cent. Organic poultry increased by 2.5 per cent representing 1.9 per cent of the poultry population; organic sheep fell by 5.4 per cent; organic pigs fell by 9.3 per cent; and organic beef fell by 7.2 per cent. There were 6,100 registered organic producers and processors in 2019, a fall of 1 per cent on 2018.
- 2 The Agricultural Price Index for August shows outputs rising by 5.9 per cent, compared to a year earlier, but falling by 3.8 per cent compared to July. Inputs fell by 0.7 per cent, compared to a year earlier, but rose by 0.3 per cent compared to July.

V Product prices

A Market background

- 1 Sterling exchange rates improved against the Dollar and Euro, albeit with plenty of variation throughout the month. From an opening position against the Euro of 91.0p per €, Sterling fell to 91.4p on two separate occasions but, despite this, improved to a late October close of 89.9p per € (1.5p up overall). Against the US Dollar, Sterling opened at 78.3p per \$ and, in spite of increased volatility, peaked at 75.9p before falling back to close at 77.2p per \$ (1.1p stronger overall). Crude oil prices improved in the first half of the month but, as news of further CV19 lockdowns across Europe was released, prices fell back. The Brent Crude oil price, from a starting position of \$41.94 per barrel, peaked at \$43.34 before closing the month at \$37.46 per barrel (down \$4.48).

B Crops

- 1 Cereal prices remained bullish this month, gaining further on the back of the interaction of world weather and demand and all this despite the stronger Sterling. With UK harvest complete (and per DEFRA's provisional estimates thought to be the smallest wheat crop since 1981) it is the UK 'import/export balance' that is driving price, along with volatility added by speculative traders. Poor planting conditions in the US, South America and also the Black Sea region are helping keep prices buoyant, despite the large (but recently down-graded) global wheat surplus predicted by the International Grains Council. Milling premiums still sit at £18 - £20. LIFFE feed wheat futures made gains in the short, medium and long term markets over much of the month and, despite falling back in the final days, prices closed up across the board. By late October, deliveries for November 2020, 2021 and 2022 were £187/tonne (+5), £157/tonne (+4) and £154/tonne (+1) respectively. Oilseed rape prices have benefited from high Soya demand, tempering the downward price pressures despite the falling crude oil price. The influence of tight supplies globally and the high demand from China was helped by news of poor germination moisture levels in Brazil. Pulse pea and bean prices continued to increase gradually over the month.

Average spot prices in late October (per tonne ex-farm): feed wheat £182 (+7); milling wheat £201 (+5); feed barley £136 (+4); oilseed rape £341 (-5); feed peas £197 (+5); feed beans £205 (+5).

- 2 The average potato price for 2020 crop, having improved at the very end of September, continued its decline this month albeit with far smaller movements, while the free-buy price improved slightly. With the ever-evolving CV19 guidance from UK government to combat the second spike in cases, buyers' appetites, and therefore prices, remain suppressed; the recently announced November lockdown will only serve to push this down further. With harvest of maincrop finished in some areas, harvesting conditions for those continuing have been hampered by heavy rain and storms. By late October the average potato price had dropped a further £19, from its opening position of £151 per tonne, to close at £132 per tonne (£8 below the October 2019 closing average). The free-buy average opened at £108 per tonne and, having dropped as low as £85, it closed the month down £4 at £104 per tonne (£16 below the October 2019 close). 2020 crop prices for grade 1 packing, in late October (per tonne ex-farm): Maris Piper had a broader spread at between £90 and £190; reds and King Edwards were lower, at between £160 and £200; whilst white varieties were slightly stronger and broader spread at between £55 up to £120.

C Livestock

- 1 Cattle prices were more volatile this month, with demand and supply mismatched by the fast-changing CV19 effect; the impact, however, was broadly negative. The average finished steer price, from an opening position of 201p/kg lw, dropped to just below 196p/kg mid-month. A small recovery to 197p/kg was soon eroded to a closing average of 193p/kg lw (down 8p overall but sitting 21p above the closing average a year earlier). The average finished heifer price movements were totally divorced from those of steers; initially improving from an opening position of 213p/kg lw to peak just below 215p/kg, before falling back for most of the month to a low of 206p/kg but eventually closing after a small recovery at 208p/kg (down 5p to sit 19p above the price a year earlier). The average dairy cow price recovered some volatility this month; starting at £1,168, it peaked at £1,288, fell to £1,136 before improving again to close the month at £1,247 (an improvement of £79, to sit £313 above the closing average a year earlier).
- 2 The average finished lamb price (SQQ live weight) was also more volatile this month, but with an underlying negative trend. The average dropped sharply at the start of the month from an opening position of 209p/kg lw to 196p/kg; the partial recovery to 201p/kg was followed by a further fall, returning to a closing average of 196p/kg lw (down 13p to sit 29p/kg above the average a year earlier).
- 3 The average UK all pig price (APP) continued the trend of decline this month. Opening at 164.4p/kg dw, the average fell throughout the month to a close of 161.5p/kg (down 2.9p to sit 2.5p/kg above the closing average a year earlier).
- 4 The UK average 'all milk' price for July and August, both reported last month, showed improvements across both months – first to 27.73 then to 27.92ppl; gains of 0.58ppl and 0.19ppl respectively (closing August 0.70ppl below the average in August 2019 but 0.39ppl above the rolling 5 year average of 27.51ppl). In the rankings against the 'EU28' farmgate milk price for June, published in August, the UK ranked 21st against a stronger EU28 (ex UK) weighted average of 30.66ppl.

VI Other crop news

- 1 Provisional information from Defra indicates that UK wheat production fell by 38 per cent, from 16.2 million tonnes in 2019 to 10.1 million tonnes in 2020; barley production increased by 3.9 per cent, from 8 million tonnes to 8.4 million tonnes; oat production fell by 5.5 per cent to 1 million tonnes as a result of a 19 per cent yield reduction to 4.8 tonnes per hectare; and oilseed rape production fell by 38 per cent to 1.1 million tonnes with the yield down by 16 per cent to 2.8 tonnes per hectare.
- 2 Based upon the lowest level of wheat production for 40 years, AHDB is forecasting a 23 per cent reduction in wheat availability and a 76 per cent reduction in the stock at the end of the season. Imports are expected to be double that of the previous year.
- 3 An NFU survey has revealed that 2020 wheat and winter barley yields are down by an average of 18 per cent, spring barley yields are down an average of 6 per cent and oilseed rape yields are down an average of 15 per cent.
- 4 Despite the English oats area being up 19 per cent, provisional figures indicate the harvest is down 11 per cent. However, while the oats area rose by 7 per cent in Scotland, the harvest is forecast to be up 19 per cent.
- 5 Provisional estimates from Scotland indicate that winter barley production is down by 21 per cent caused by falls in both yield and cropping areas but yields for spring barley and oats are up by 11 per cent. Wheat production is down 14 per cent mainly due to a fall in the cropping area of 13 per cent. The area of vegetables rose by 13 per cent to 21,200 hectares while the soft fruit area rose by 7 per cent to 2,200 hectares.

- 6 The GB potato planted area for 2020 is 117,470 hectares, the third smallest on record. The main falls are in the East and West Midlands and the North West regions.
- 7 The Agricultural Price Index for August shows increases of 24.5 per cent for wheat, compared to a year earlier, 3.4 per cent for barley, 12.7 per cent for oats, 1.4 per cent for potatoes, 4 per cent for oilseed rape, 35.7 per cent for forage plants and 25.4 per cent for fresh fruit but there was a fall of 1.8 per cent for fresh vegetables. Compared to July, there were increases of 0.7 per cent for barley, 3.3 per cent for oilseed rape and 5.3 per cent for forage plants but falls of 1.3 per cent for wheat, 0.8 per cent for oats, 23.6 per cent for potatoes, 6.5 per cent for fresh vegetables and 44.3 per cent for fresh fruit.
- 8 In 2020 the area of horticultural crops increased by 3.7 per cent to 169,000 hectares with vegetables and salads up by 6.2 per cent to 122,000 hectares.
- 9 FAST has launched the School of Fruit Growing to include modules on nutrition, crop physiology, growing systems, financial management and ISP.
- 10 AHDB has launched a research project involving the James Hutton Institute, University of Worcester, NIAB EMR, Stockbridge Technology Centre and RSK-ADAS into the control of downy mildew and late blight in horticultural crops.
- 11 Chambers, based in Kent, has launched a major independent raspberry trial to review 47 commercially licensed varieties from 9 countries.
- 12 Hugh Lowe Farms has launched 'Mini Berries' in Waitrose and Ocado, mini heart - shaped strawberries.

VII Other livestock news

- 1 As at June, the number of cattle and calves in the UK was down by 1.6 per cent, compared to a year earlier, at 9.6 millions; the female pig breeding herd was down by 2.6 per cent at 403,000 although the overall herd was unchanged; and the female sheep breeding flock fell by 1.6 per cent while the overall sheep flock fell by 0.8 per cent.
- 2 Livestock numbers are expected to have fallen in Scotland in 2020 with a fall of 1 per cent in cattle and a 2 per cent fall in dairy, taking numbers to a 60-year low.
- 3 France has reported 32 new outbreaks of bluetongue virus BTV-8, equally in cattle and sheep, all in the southwest regions. Luxemburg has reported eleven outbreaks in cattle while Germany has reported two cases in cattle close to the border with Luxemburg. North Macedonia has reported 153 new cases of BTV-4, all but one in sheep. Bulgaria has reported three cases of BTV-4 in deer, Greece has reported 159 new cases, mainly in sheep, Italy has reported 8 new cases, equally in cattle and sheep, while Croatia has reported its first cases since 2017, four in cattle.
- 4 In July, the number of new herd bovine TB incidents fell by 8 per cent in England, compared to a year earlier, with falls of 8 per cent in the High risk area, 6 per cent in the Edge area and 27 per cent in the Low risk area. There was a rise of 20 per cent in Scotland but a fall of 11 per cent in Wales. Compared to a year earlier, the number of herds not officially TB free fell by 11 per cent in England with falls of 12 per cent in the High risk area and 39 per cent in the Low risk area. There was a rise of 8 per cent in Scotland but a fall of 7 per cent in Wales.
- 5 During September, UK prime cattle slaughterings fell by 3.2 per cent, compared to a year earlier, to 169,000; beef and veal production fell by 1.3 per cent to 78,000 tonnes; sheep slaughterings rose by 1.6 per cent to 1,211,000; mutton and lamb production fell by 0.5 per cent to 27,000 tonnes; pig slaughterings rose by 1.1 per cent to 910,000; and pigmeat production rose by 4.7 per cent to 83,000 tonnes.

- 6 Latest estimates suggest that GB dairy producers fell by 4.7 per cent to 8,310 over the past year but the average production has risen from 1.45 million litres to 1.51 million litres.
- 7 The latest Global Dairy Trade auction index rose by 0.4 per cent with skimmed milk powder down 0.2 per cent, whole milk powder up 0.3 per cent, butter up 3.3 per cent and cheddar up 3 per cent.
- 8 During September, 1,113 million litres of milk was available to processors, down 1.3 per cent on August; liquid milk production fell by 1.3 per cent to 499 million litres; cheese production fell by 0.8 per cent to 37,900 tonnes; butter production fell by 9.5 per cent to 12,800 tonnes; but milk powder production rose by 10.2 per cent to 7,100 tonnes.
- 9 During September, average butterfat content rose by 2.8 per cent, compared to August, to 4.15 per cent and by 0.2 per cent compared to a year earlier. Average protein content rose by 3.3 per cent compared to August, to 3.39 per cent but fell by 0.5 per cent compared to a year earlier.
- 10 The Agricultural Price Index for August shows increases of 12.5 per cent for cattle and calves, compared to a year earlier, 6.1 per cent for pigs, 17.2 per cent for sheep and lambs and 8.2 per cent for eggs but there were falls of 0.6 per cent for poultry and 3.5 per cent for milk. Compared to July, there were increases of 0.9 per cent for cattle and calves and 0.8 per cent for milk but falls of 1.3 per cent for pigs, 5.2 per cent for sheep and lambs and 1.3 per cent for poultry.
- 11 During October, Romania has reported 76 cases of African Swine Fever in domestic pigs including 2 cases in domestic premises. Russia has reported an outbreak in a commercial pig farm of 38,960 pigs. There have also been outbreaks in domestic pigs in Bulgaria, Poland, Moldova and Ukraine as well as outbreaks in wild boar in Germany.
- 12 Since June, Japan has reported one outbreak of Classical Swine Fever in domestic pigs and 407 cases in wild boar.
- 13 In the three months to September, 7.7 million cases of eggs were packed in UK egg packing stations, 0.5 per cent up on the June quarter but 3.3 per cent down on the same period a year earlier. The average farm-gate price was 81p per dozen, up 3.2 per cent on the June quarter and up 15 per cent on a year earlier. The production of egg products totalled 18,100 tonnes, 6.5 per cent up on the June quarter but 25 per cent down on a year earlier.
- 14 In September, UK commercial layer chick placings fell by 27 per cent, compared to a year earlier, to 2.4 million chicks; broiler chick placings fell by 1.2 per cent to 82.2 million chicks; turkey chick placings fell by 1.1 per cent to 1.6 million chicks; turkey slaughterings fell by 36 per cent to 600,000 birds; broiler slaughterings rose by 7.7 per cent to 87 million birds; and total poultry meat production rose by 3.9 per cent to 152,980 tonnes.

VIII Inputs/Supply businesses

- 1 The Lower House of the French parliament has voted to allow neonicotinoids in beet seed coating.
- 2 Emergency authorisation has been granted for Funguran Progress, a copper hydroxide fungicide developed by Certis for use on conventional hops for the control of *Alternaria alternata* and the control of downy mildew in organic hops. It has also been approved for the control of late blight in organic potato crops.
- 3 The EU Standing Committee on Plants, Animals, Food and Feed has decided not to renew approval for mancozeb, a fungicide used to control potato late blight and *alternaria*.

- 4 The Agricultural Price Index for August shows increases of 0.6 per cent for seeds, compared to a year earlier, 13.8 per cent for chemicals, 3.3 per cent for feedingstuffs and 2.8 per cent for vehicle maintenance but there were falls of 16.5 per cent for energy and lubricants, 14.2 per cent for fertilizers, 0.4 per cent for veterinary services and 0.6 per cent for building maintenance. Compared to July, there were increases of 1.1 per cent for energy and lubricants, 2 per cent for fertilizers, 0.8 per cent for veterinary services and 0.7 per cent for vehicle maintenance while there were falls of 0.3 per cent for feedingstuffs and 0.2 per cent for building maintenance.

IX Marketing

- 1 The Government has set out new rules and logos guaranteeing the authenticity of regional and traditional foods. Following completion of the Transition Period, new and independent Geographical Indications schemes will be granted special status to mark authenticity and origin. Produce will benefit from intellectual property protection to prevent imitation. The schemes cover Protected designation of origin (PDO); Protected geographical indication (PGI); and Traditional speciality guaranteed (TGI). Users will have until 1 January 2024 to change from the existing to the new logos.
- 2 Figures from Kantar reveal that grocery sales grew by 10.4 per cent in the 4 weeks to 12 October while sales of flour increased by 64 per cent in the 7 days from 21 September.
- 3 Imports of beef in August rose by 1 per cent but were down 10 per cent, year-on-year, at 199,000 tonnes. Exports fell by 20 per cent in August but are only down 3 per cent, year-on-year, at 120,000 tonnes, although there has been a 21 per cent fall in exports to the Netherlands and a fall of 12 per cent to France.
- 4 The EU has forecast an increase of 1.4 per cent in milk production from its 27 member states in 2020 and an increase of 0.8 per cent in 2021. Exports of butter are forecast to rise by 5 per cent in 2021, cheese by 3 per cent and skimmed milk powder by 5 per cent but exports of whole milk powder are forecast to fall by 2 per cent. Imports are forecast to be static.
- 5 UK exports of sheep meat fell by 7 per cent in August, compared to a year earlier, to 7,900 tonnes with exports to France down 19 per cent but exports to Italy and Ireland up 53 per cent and 29 per cent respectively. Imports fell by 3 per cent to 3,900 tonnes although imports from New Zealand increased by 7 per cent to 2,300 tonnes.
- 6 Exports of New Zealand lamb in 2020/21 are forecast to fall by 6.5 per cent, year-on-year, with mutton down by 10 per cent. Due to drought, a smaller lamb crop is expected and more ewes are likely to be retained for flock rebuilding.
- 7 Imports of pig meat in August fell by 14 per cent, compared to the previous year, to 60,000 tonnes while exports fell by 2 per cent to 32,000 tonnes.
- 8 The Chinese Government has set a target of 95 per cent self-sufficiency in pigmeat.

X Miscellaneous

- 1 Farm fires cost the agricultural industry £49.1 millions in 2019, with arson attacks up by 40 per cent to a cost of £9 millions, but the largest cost was electrical faults at £25 millions.
- 2 AHDB has confirmed there will be a ballot on the continuation of the statutory levy in horticulture. The voting process is expected to commence in January.
- 3 The latest edition of the John Nix Pocketbook has been published.

Postscripts

Who do you think you are kidding Mr Johnson? ...



Monthly Farming Update

Annual Investment Allowance ('AIA')

The Annual Investment Allowance ('AIA') gives most businesses a 100% allowance for capital expenditure on plant and machinery up to a specified amount. The AIA limited applies for a 12 month accounting period.

From 1 January 2016, the AIA limited was set at £200,000. From 1 January 2019, the AIA limit was temporarily extended for 2 years to £1,000,000. This limit will revert to £200,000 from 1 January 2021.

Where a business has a chargeable period that spans the date of reversion, transitional rules will apply. Consequently, careful consideration must be given to the timing of expenditure during the period including the reversion.

Transitional rules example – chargeable period spanning the date of reversion to £200,000.

A business with a 12 month chargeable period from 1 April 2020 to 31 March 2021 will calculate its maximum AIA entitlement based on:

- a) the proportion of the period from 1 April 2020 to 31 December 2020, that is, $9/12 \times £1,000,000 = £750,000$ plus
- b) the proportion of the period from 1 January 2021 to 31 March 2021, that is $3/12 \times £200,000 = £50,000$

The business' maximum AIA for this transitional chargeable period will therefore be the total of (a) + (b) = $£750,000 + £50,000 = £800,000$.

However, in relation to (b) (the period falling on or after 1 January 2021), no more than £50,000 of the business' actual expenditure in that period will be eligible for the transitional AIA.

Consideration should therefore be given to bringing forward capital expenditure planned for the final three months of the year, incurring it prior to 1 January 2021 to ensure use of the AIA is maximised. In the example above, AIA on expenditure incurred between 1 January 2021 and 31 March 2021 is limited to £50,000, with any excess expenditure qualifying instead for writing down allowances at 18% or 6%.

For capital allowances purposes, the rules governing the relevant expenditure date can be complicated. In most cases, it is the date on which there is a legal obligation to pay, but care should be taken with hire purchase terms and non-standard agreements. If in doubt seek guidance in advance.

We welcome feedback on the MFU.

Does this issue raise any questions in your mind?

Would you like more information on a particular item?

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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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