

Forward Planning 2013

HSBC AGRICULTURE



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Setting the scene for 2013



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Welcome to HSBC Agriculture's annual Forward Planning for the 2012/13 season. I hope that you find it informative and stimulating as you plan your farm business for the coming year.

Being the best

There are no secrets to being the best – the attributes have been well documented and include a strong desire to succeed, a clear strategy, maximising the deployment of all business resources, regular benchmarking and business planning. Last but not least, a thorough understanding of your main customers is essential.

Recent weather events have highlighted the need for planning. Price volatility on both sides of the budget mean that the range in the final margin can be wider than ever, the margin for timing difference being shorter than ever. After recent high levels of farm incomes, this has to be the year to concentrate on the basics in order to preserve margins.

Our 2012/13 assumptions

As the Eurozone continues its slow restructuring, we forecast that the euro will strengthen through 2013, to reach 87 pence this time next year. This crucial exchange rate is still a key factor for the fortunes of UK Agriculture, and is discussed elsewhere in this publication by our economist Mark Berrisford-Smith. As for interest rates, we expect UK Bank Rate to remain unchanged at 0.5 per cent throughout 2013.

We have set milk price at 28 pence/litre and feed wheat at £165/tonne, which may seem conservative compared to spot prices at the beginning of October 2012. In milk, we are mindful of the global market, and that supply chains have to be viable. In grain, the supply side looks strong, and we expect fewer unseasonal weather patterns – more like a normal year, if such a thing still exists!

Beef and sheep returns are still dependent on the various farm level subsidies which have maintained positive margins in these sectors for as long as I can remember. That said, the market price for beef is very supply driven, with many producers being very alert to the cost of replacement stores.

The basic mantra of understanding each enterprise's cost of production has never been more imperative. A focus on enterprise margins and costs of production is also a focus on management ability, and I hope they help you determine where your business stands. It is something the best do religiously.

The market place

With continued consolidation among processors in all sectors, the food sector is becoming ever more globalised, and really knowing your customer will be vital. Whether aligned food supply chains become formal or not, the drive to differentiate and deliver quality from a supply base that uses known and reducing levels of resources will dominate.

The forward budget not only allows current capital investment to be assessed prudently, it also allows producers to quickly assess the changes required in order to maintain viability as market conditions change.

CAP review

In the next few months, we are likely to see the shape of the EU's CAP for the period 2015 to 2020. Clearly, the wider economic picture across Europe, and particularly the Eurozone, will have huge bearing on the size of the EU budget over that time period, meaning that market forces will in future play a bigger role.

In light of this, we have looked at the Agriculture sector in Brazil, where a market-focused strategy has enabled farmers to export products across the world. It certainly provides a stunning contrast to matters within the EU.

HSBC Agriculture

For us as a Bank, Agriculture retains its preferred status, and with that a consistent credit policy based on farm viability. Our team is expanding, and so is our desire to work with successful businesses across all enterprises. Our preference is not for one sector against another – merely for excellent business and farm management. You will find your local specialist agriculture team at the back of this book, and they will be happy to talk about your plans for the coming year and beyond.

I wish every reader a successful farming year ahead, achieving the goals set by you and your family.

Allan Wilkinson
Head of Agriculture

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“Recent weather-related events highlight the need for good planning more than ever.”

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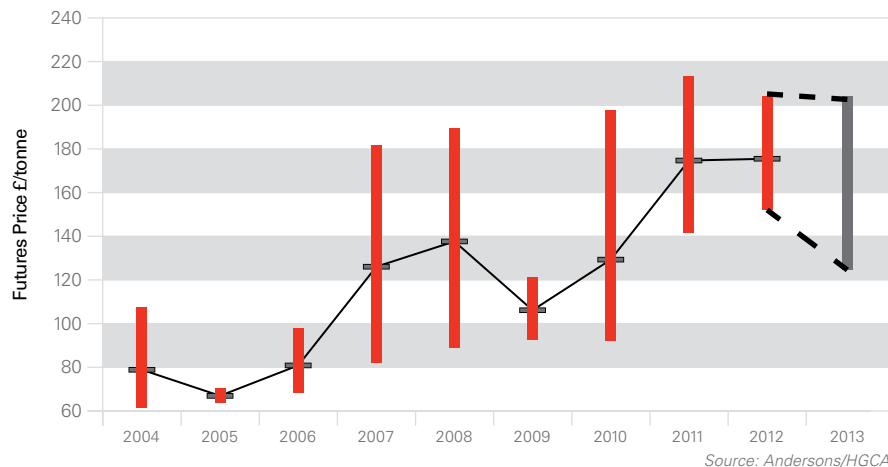
HSBC Market View 2013

// This has to be the year to concentrate on the basics in order to preserve margins.”
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Cereals

LIFFE Wheat Futures Prices 2004 to 2012 with 2013 Projection



The cereal market has again become headline news, and it is clear that the impact of weather around the world has created another bull run on soft commodities, which has in turn left many farmers wondering where all the upside went – 50% sold on 9.5 tonnes per hectare becomes 73% on 6.5 tonnes per hectare.

There are some messages from the present market situation not to be ignored:

- What goes up must come down! Harvest 2012 values £40 per tonne up on 2011
- The 2013 crop will be larger and the confidence of farmers in planting

is bound to increase against the background of present price levels

- 2013 prices are (at time of writing) significantly below 2012 harvest values (circa. £30T), and input costs are continuing to rise
- Argentina's reduced wheat plantings may hold price up
- Competitiveness of UK wheat will depend on harvest quality and currency
- The US policy on biofuel will impact on corn, and knock on to wheat if changed because of political pressure over food versus fuel, this would weaken the market

- There is a need to concentrate on marketing to secure benefit from the present conditions, and to keep faith with risk management going forward
- Many businesses may find themselves short of tonnage, cash and profit from 2012, when they might have expected to be in a strong position

The probability of decreased price in 2013 must be significant, and it will be important to secure benefit from the present market conditions.

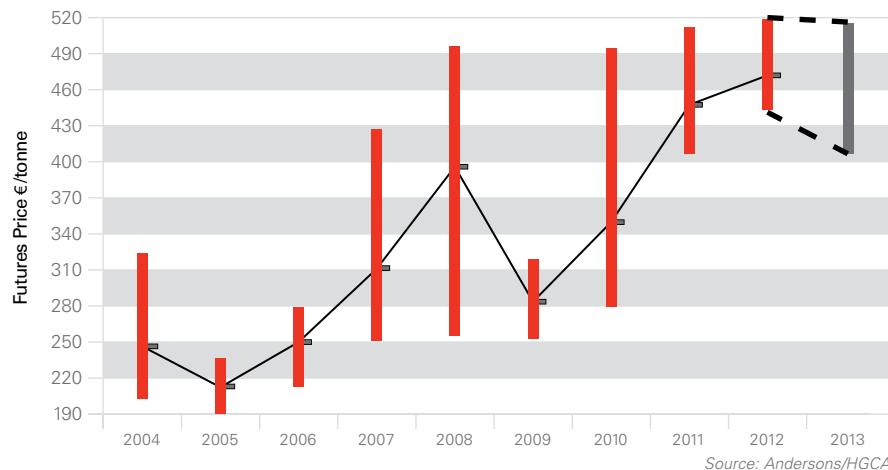
Oilseeds

- The Oilseed market is strong, and European conditions have given further impetus to the market
- As with corn in US, the EU biofuel industry may be restricted in use of oilseed, to limit the impact of the harvest shortfall, although many commentators point out the impact of food inflation to overall inflation in developed countries is much less than

often reported, leaving a prospect of continued tight markets and high price levels

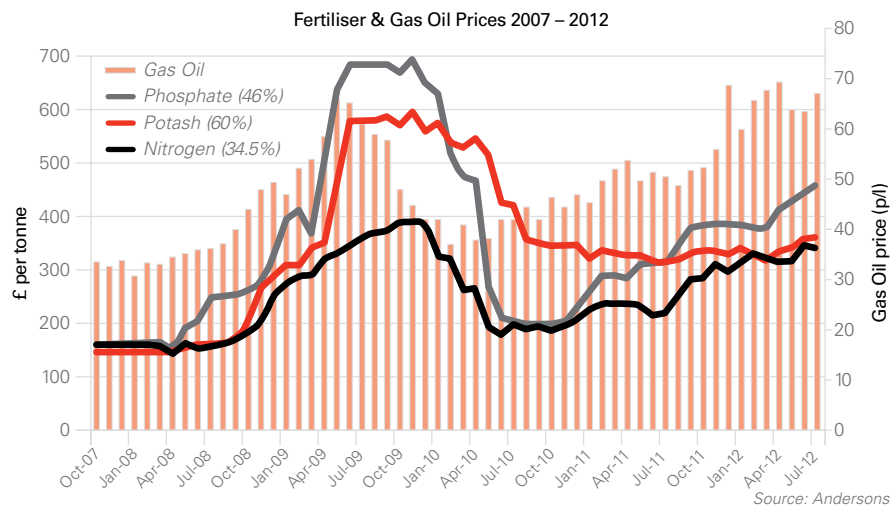
- The prospect of price stability is probably greater than last season, and the gap between 2011 and 2012 harvest values is around £30T, with MATIF now some £50T lower for November 2013 vs 2012.

MATIF Rapeseed Futures Price 2004-2012 with 2013 Projection



Inputs

- The levels of inflation in oil and energy generally have been hindered by the general world economic slowdown
- Fertiliser has been more stable with increases at lower levels for the 2013 crop, and whilst the market may well move up over the winter, the degree of inflation expected is less than expected a year ago
- The reductions in gasoil price look to hold with again a lower expected change in the coming year, oil futures are at present relatively stable over the winter period
- The impact of continued weakness in Asian economies, and instability in the Middle East remain the two greatest influences which could change all of the assumptions.



Milk

The graph opposite shows the milk price over the past 9 years; the forecast shown for 2013 and 2014 is likely to be affected by the following factors:

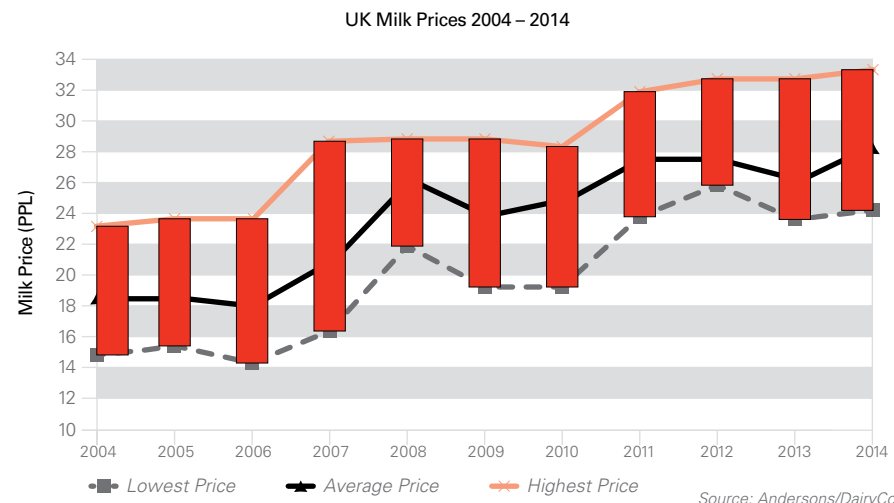
- **Farmer Power** – Recently proposed price cuts for farmers on processor and non-aligned supermarket contracts have shown how much effect farmer pressure can have on prices. Blockades and protests organised by the protest group 'Farmers for Action' have had a substantial effect in cancelling and reducing the proposed price cuts. Opportunities to establish producer organisations are currently being reviewed to assist farmers' negotiating power
- **Cost of Production** – Farmers on aligned contracts with supermarkets such as M&S, Sainsbury's and Waitrose are being paid based on cost of production, which is currently

around 30ppl. According to Barry Wilson's Dairy Industry Newsletter only 16% of farmers in Great Britain are being paid according to costs of production. With increasing input prices and greater farmer pressure, it is likely other milk contracts will need to move to this form of milk pricing

- **Value of Cream** – The main reason for recent price cuts is the fall in cream prices over the last 12 months. The wholesale price of cream fell from £1,800/tonne to £840/tonne between June 2011 and April 2012. Since April 2012, the cream price on wholesale markets has increased slightly, moving to £1,020/tonne in June 2012. Processors blamed the milk price cut on cream price saying 'the previous milk price was not sustainable.'

Although cream price has decreased rapidly in the last year, the overall trend since 2006 has been increasing prices, which should also reflect on milk prices

- **Currency** – Milk price is largely affected by exchange rates. This was apparent in the early nineties when the UK left the exchange rate mechanism causing a decline in the euro/sterling exchange rate which caused a dramatic rise in farm profitability. However, throughout July 2012 the pound to euro exchange rate was decreasing, causing a decrease in milk price and therefore reduced farm profitability
- **Support Prices** – the Single Payment is dependent on exchange rate and with CAP Reform due in 2014, support received may reduce.



Red meat

Looking forward to 2013:

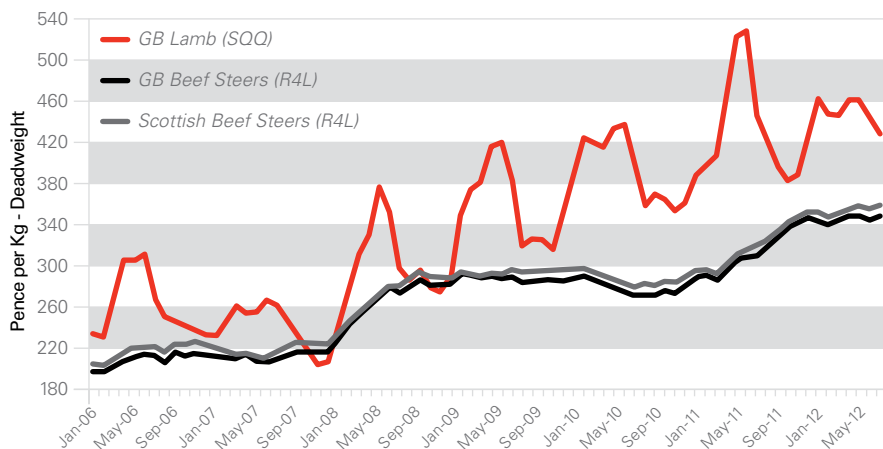
BEEF

- Expect prices to remain firm in the £3.35 p/kg to £3.45 p/kg deadweight range as supplies look set to remain tight
- UK production is unlikely to recover from current low levels when looking forward to 2013. Higher cereal prices may reduce dairy bull calf retentions, further limiting supply
- Forecasts for global beef production suggest little increase above current levels. World supplies also look set to remain tight
- Recent global shortages of beef have resulted in a dramatic increase in UK exports, offsetting falling domestic consumption and pushing up prices (see graph)
- The weak economic climate both at home and abroad could dampen UK prices or at least limit the prospects of further increases.

SHEEP

- December 2011 survey data showed a 2.5% increase in the breeding sheep flock, thanks to buoyant prices and increased optimism. This growth expected to continue into 2013
- Exports of meat continue to grow to EU and non EU destinations which looks more than capable of absorbing any increased production
- Home market consumption continues to fall
- Prices could however come under pressure from the weaker euro and growing financial concerns within the Eurozone
- 2011 may prove to have been the peak in the current profitability cycle. With supply and demand fundamentals remaining firm, we expect prices to remain in the £3.70 p/kg to £4.70 p/kg deadweight range.

Deadweight Beef and Lamb 2006 – 2012



Source: AHDB/Andersons





Mark Berrisford-Smith,
Head of Economics,
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Currencies – getting to grips with the Eurozone debt crisis

The Eurozone's sovereign debt crisis, which has now raged for nearly three years, remains the biggest danger facing the global economic and financial system. Yet for all that, important progress has been made in the past nine months. The crisis is far from sorted, but things have improved markedly since the autumn of 2011 when the crisis seemed to be spiralling out of control.

The European Central Bank (ECB) has acted aggressively on two fronts. Firstly, it undertook two long-term refinancing operations (LTROs) to provide the Eurozone's cash-strapped commercial banks with around a trillion euros of liquidity. Then on 6th September 2012 Mario Draghi announced a new backstop,

which would enable the ECB to come to the aid of countries facing surging borrowing costs, by buying their bonds in the secondary market in unlimited quantities. The ECB has undertaken such bond-buying operations in the past. The difference this time is the absence of any ceiling on the scale of such interventions, and the insistence on strict conditionality.

Meanwhile, the politicians have also been busy. The temporary rescue mechanism, launched in 2010, has now been replaced by the permanent European Stability Mechanism (ESM), with firepower of some €400 billion, even after taking account of the €100 billion which has been ear-marked for recapitalising Spain's broken banks. Second, the Fiscal Compact, agreed at an EU summit in December 2011 is due to take effect within a few months, and will provide a more credible framework for the enforcement of budgetary discipline. Finally, under the auspices of the European Banking Authority (EBA) banks across the EU have had to bolster their capital resources.

The upshot is that while the Eurozone economy is still languishing in a mild recession, the mood music around the single currency has improved. In particular, the announcement of the ECB's bond-buying backstop, and the clearing of legal hurdles to the establishment of the ESM have contributed to a modest firming of the euro against other major currencies, with the exchange rate against the dollar close to 1.30 in late September. HSBC expects that the euro will continue to strengthen, albeit gradually, with an exchange rate against the dollar of 1.40 pencilled in for the end of 2013. This view requires that the debt crisis remains under some sort of control, and that the Eurozone economy begins to heal.

Such forecasts are always hostage to the fortune of events, not least the ongoing risk of a peripheral Eurozone government renegeing on its deficit-reduction commitments in the face of widespread popular unrest. But the outlook for the euro also reflects a growing unease about the course of events in the United States. Financial markets have not only been unnerved by the open-ended nature of the Federal Reserve's third round of quantitative easing, but are concerned about the potential fiscal cliff which is confronting the US economy. A host of stimulus measures and tax cuts are due to expire at the end of 2012, and if the two warring political parties fail to reach an agreement to delay or stagger the run-down of these measures, the economy could find itself back in recession early in 2013. The fraught issue of the debt ceiling, which caused so much trouble back in the summer of 2011, will also need to be re-visited. Against this background, sentiment about the US dollar has turned decidedly bearish.

Sterling has found itself caught in the middle of this wider shift in sentiment towards the euro and away from the dollar. It has gained some ground against the greenback, while giving up some ground against the euro. The UK faces its own challenges, not least an economy which has contracted for three successive quarters, and a budget deficit which by international standards is not only large, but is no longer getting smaller. Unless a vibrant recovery gets underway in the coming months, the most likely scenario is that sterling will continue to drift lower against the euro. This offers farmers the prospect of a more favourable exchange rate for their Single Farm Payments in 2013, similar to the rates used to calculate payments in 2010 and 2011.

HSBC expects a sterling/euro exchange rate of 87p in September 2013. But given the perennial volatility of exchange rates and the risk of further shocks in the Eurozone, prudent planning assumptions should allow plenty of leeway around this figure.

Currency exchange rates and forecast

	Sep 2009	Sep 2010	Sep 2011	Sep 2012	Forecast				
					Dec 2012	Mar 2013	Jun 2013	Sep 2013	Dec 2013
US\$ per euro	1.46	1.37	1.34	1.29	1.35	1.37	1.38	1.39	1.40
US\$ per £	1.60	1.58	1.56	1.61	1.60	1.62	1.61	1.60	1.60
£ per euro	0.91	0.87	0.86	0.80	0.84	0.85	0.86	0.87	0.88

Source: HSBC Currency Outlook, September 2012



Alexander Pohl,
Director, Renewable Energy
and Infrastructure Finance,
HSBC Bank plc

Support for UK renewables, a moving but still economic feast

Since last year's edition, there has been significant change to the operation and level of both the Feed-in Tariff (FIT) and the Renewable Heat Incentive (RHI). This has resulted in a number of installers and suppliers falling into financial difficulties which emphasises the need to look at the financial stability of all partners and suppliers as part of your investment decision. Therefore, this year we will focus on the current and proposed subsidy levels and again highlight the importance of ensuring that

“Renewable energy is still an excellent opportunity for agricultural businesses.”

Alexander Pohl

any renewable energy investment decision is an informed one.

Renewable energy is still an excellent opportunity to shield an agricultural business from energy price increases as well as to enhance the cash generation of land and buildings. Even with the periodic reduction in subsidies, falling equipment costs and increasing energy prices can yield inflation-linked returns typically in the order of 8 – 12%.

The summary of the FIT and RHI rates opposite are for reference only and correct as at September 2012. As there are a number of consultations and digression mechanisms in play, we recommend that you consult a renewable energy advisor as to the rate that is applicable to your installation and the risk that there may be a digression before your installation is accredited. This will enable you to make an informed decision as to whether renewable energy is the right investment for you.

Feed-in Tariff

Technology	Band (kW)	Current Feed In Tariff (p/kWh)		FIT – Tariffs from 1 Dec 2012 (p/kWh)					
		Generation	Export	Generation	Export				
Hydro	<15	21.9	3.2	21	4.5				
	15-100	19.6	3.2	19.6	4.5				
	100-500	12.1	3.2	15.5	4.5				
	500-2,000	12.1	3.2	12.1	4.5				
	2,000-5,000	4.9	3.2	4.48	4.5				
Onshore Wind	<1.5	35.8	3.2	21	4.5				
	1.5-15	28	3.2	21	4.5				
	15-100	25.4	3.2	21	4.5				
	100-500	20.6	3.2	17.5	4.5				
	500-1500	10.4	3.2	9.5	4.5				
	1,500-5,000	4.9	3.2	4.48	4.5				
Anaerobic Digestion (AD)	<250	14.7	3.2	14.7	4.5				
	250-500	13.6	3.2	13.6	4.5				
	500-5,000	9.9	3.2	8.96	4.5				
Solar photovoltaic		Current Feed In Tariff (p/kWh)				FIT – Tariff from 1 Nov 2012 to 31 Jan 2013 (p/kWh)			
		Higher rate	Middle rate	Lower rate	Export	Higher rate	Lower rate	Lower rate	Export
	<4	16	14.4	7.1	4.5	15.44	13.9	7.1	4.5
	4-10	14.5	13.05	7.1	4.5	13.99	12.59	7.1	4.5
	10-50	13.5	12.15	7.1	4.5	13.03	11.73	7.1	4.5
	50-100	11.5	10.35	7.1	4.5	11.5	10.35	7.1	4.5
	100-150	11.5	10.35	7.1	4.5	11.5	10.35	7.1	4.5
	150-250	11	9.9	7.1	4.5	11	9.9	7.1	4.5
250-5,000	7.1	7.1	7.1	4.5	7.1	7.1	7.1	4.5	

Source: DECC, September 2012

Renewable Heat Incentive

Technology	Band	Current RHI Tariff (p/kWh)	
		Tier 1	Tier 2
Biomass	Less than 200 kWth	7.9	2.0
	200 kWth and above; less than 1000 kWth	4.9	2.0
Small ground source	Less than 100 kWth	4.5	
Solar thermal	Less than 200 kWth	8.5	

Source: DECC, September 2012



Allan Wilkinson,
Head of Agriculture,
HSBC Bank plc

Brazil – the land of milk and honey?

It's all too easy to just focus on Agriculture in the UK. But, as every sector in the industry knows, the world is becoming an increasingly smaller place, not least thanks to the revolution in communications technology. The volatility that tomorrow's Agriculture will continue to face arises partly from the rapid reporting of weather related events, as well as from the changing supply and demand dynamics produced from a rising population with an increasing affluence coming especially from the Far East.

Brazil is not only the fifth-biggest land mass in the world, it has the fifth-biggest population, and is today the sixth biggest economy. Back in the 1970s – a time coincidentally when my venerable geography teacher was telling me that there wasn't a natural resource that Brazil was not in the top ten of worldwide – Brazil decided to exercise its might and capitalise

on its vast resources. Its agricultural revolution began.

The boys from Brazil

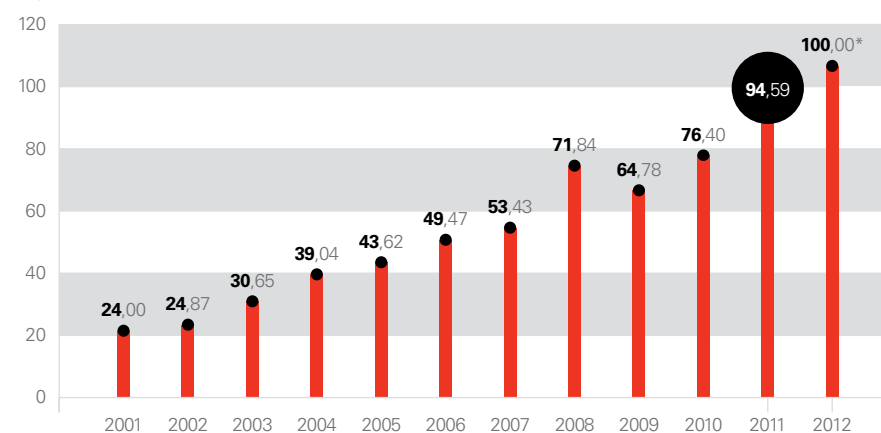
Using one of its biggest resources – people – it deployed vast numbers of undergraduates to numerous international universities where they acquired expertise in agricultural science specific to the tropical and sub-tropical climates at home. Today through Embrapa (Empresa Brasileira de Pesquisa Agropecuária = Brazilian Agricultural Research Corporation) Brazil has a tailored research and advisory service so that it can continue to develop its own industry, and to deliver on its goal of expanding output in key commodities by a further 25% by 2025 (see fig.1). In the 1970s, Brazil was a net importer of food, and as a producer was known on the world stage only for coffee and sugar production. Today it exports 20%

Fig.1 Brazil's current (2010) and anticipated (2025) positions – production and export

Product	Production		Export	
	2010	2025	2010	2025
Sugar	1st	1st	1st	1st
Orange Juice	1st	1st	1st	1st
Coffee	1st	1st	1st	1st
Soybeans	2nd	1st	1st	1st
Beef	2nd	1st	1st	1st
Broiler	2nd	1st	1st	1st
Ethanol	2nd	1st	–	1st
Biodiesel	2nd	1st	–	1st
Corn	3rd	2nd	4th	2nd
Fruits	3rd	2nd	5th	3rd
Forest products	5th	3rd	5th	2nd

Source: MAPA, 2010

Fig.2 Brazilian Agricultural Exports (US\$ billions) – 2001 to 2011



*Expected

Source: MAPA, 2012 - with data from Secex

of all it produces and holds top spot for the largest exporter of sugar (cane), orange juice, coffee, soya, beef and broiler meat; and it aims to be in top spot for ethanol and biodiesel production. These exports are conservatively valued at \$100bn – a stunning achievement, and a major turnaround since the 1970s.

Strong leadership and direction have harnessed all their natural resources. In tropical climates, the pest burden on crops and animals is usually considerable. Most tropical soils are acidic, and can often be thin, and prone to flooding. Brazil has taken the subject of soil science to a new level (how often is soil science mentioned elsewhere as key to improved fertility?), and has harnessed this expertise to achieve sustainable improvements in productivity without using additional resources.

It's not just scale

Since the 1970s, yield increases have averaged approximately 3.7% per year

“Brazil has a tailored research and advisory service so that it can continue to develop its own industry, and to deliver on its goal of expanding output in key commodities.”

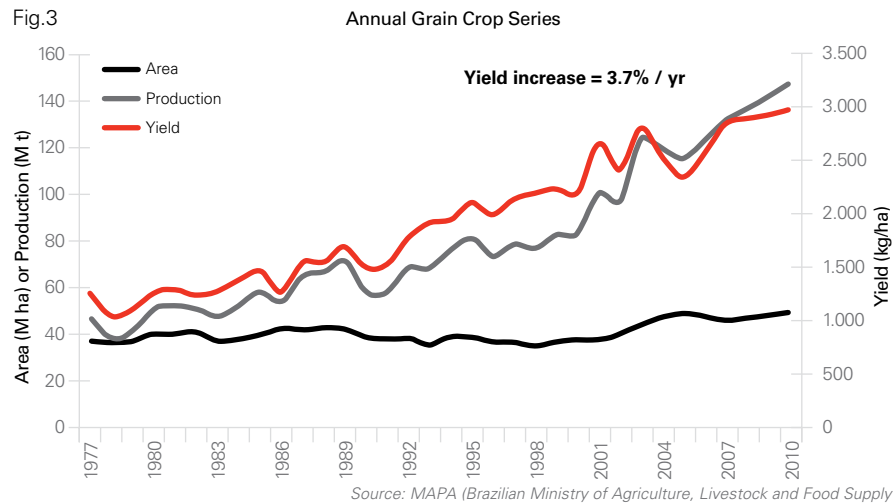
Market View, p20

// New integrated farming patterns have enabled an increasingly affluent and energy-hungry population to derive 47% of today's fuel requirements from renewable sources."

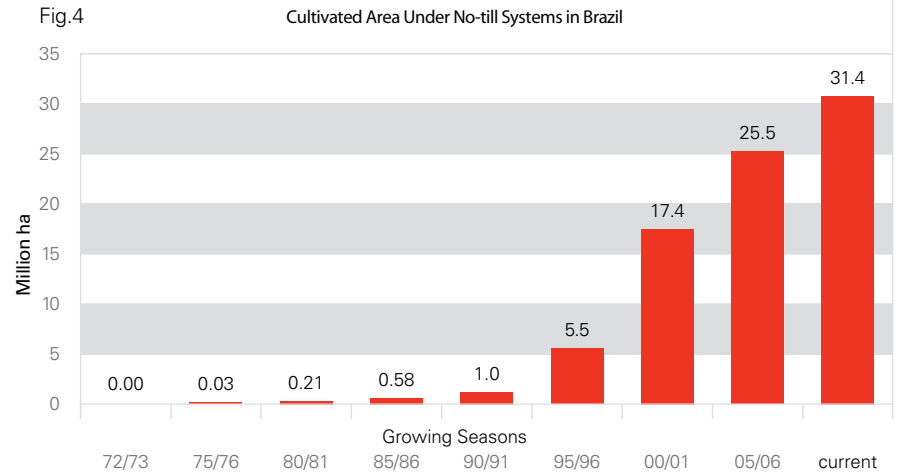
Market View, p23

across a number of crops, meaning the area of reclaimed previously derelict savannah in the Cerrado region has remained virtually unaltered at 45 million hectares of land. Brazil has approximately 30m ha of remaining derelict land still to bring back into production, which was once used for extensive beef production. So called 'min till' techniques have been deployed on a vast scale – nearly 32m ha are under such systems, whereas only 4m ha were so farmed 20 years ago. By comparison, the UK cereal acreage was estimated at 3.8m ha in 2012.

How has Brazil achieved such remarkable levels of output without taking further rainforest? (see fig.3). Well it has embraced technology to the utmost: by using nitrogen fixing strains of soya, bred specifically for the tropics; by using to good effect grass species adapted from Africa for such climates; and by cross breeding Zebu strains of cattle with the more familiar Holstein breeds to produce



Source: MAPA (Brazilian Ministry of Agriculture, Livestock and Food Supply)



Source: Emater-RS, Epagri-SC, Emater-PR, Cati-SP, Fundação MS, Apdc (cerrado) / Bigma Consultoria

a tick resistant dairy breed suitable to the local environment.

Energy and sustainability

Food and energy are increasingly considered together when debate occurs around resource allocation. They are certainly closely linked, but the world only derives at best 10% of its fuel requirement from renewable sources, and Brazil was no different in the 1970s. New integrated farming patterns have enabled an increasingly affluent and energy-hungry population to derive 47% of today's fuel requirements from renewable sources, particularly sugar cane, and hydro-electric schemes in Brazil.

This dramatic rise in output has caused some sceptics to question the sustainability of this new world. Embrapa has been particularly keen to defend Brazil's record in the preservation of its rain forests, and in the supply and management of clean water. For the

typical Brazilian, food costs have halved since the 1970's, and viewed as a bulwark against social unrest, this also has to be a key measure of a 'sustainable' society.

For the pure agriculturalist reading this paper, Brazil is now taking into account how much time a cropping programme occupies the land during a season. For instance a crop like soya only takes 42% of the total time annually, corn (maize) some 50%. Soya double cropped with corn increases that figure to some 80%. New techniques using two such crops, the second of which is undersown with those grass varieties mentioned above, and grazed with cattle produced 92% occupancy in the season. This results in much less water run off and ultimate loss, and a far higher level of overall agricultural output (see fig.4).

The Brazilian model

For some time now Agriculture has been at the forefront of Brazilian government



Left: Brazil has undergone a vast agricultural revolution since the 1970s. Above: Brazil ranks number one in the world for exports of beef.

policy to take maximum advantage of the considerable resources available in such a vast country. The deployment of undergraduate students has been a catalyst to ultimately providing substantial export revenues of core commodities. In due course, there is no doubt that Brazil will take some of their products up the value chain as they seek to retain their increasingly sophisticated customer base. For many producers, however, simply delivering considerable tonnages of commodity will satisfy their strategy of helping the world to feed itself while at the same time using lower levels of natural resources.

The focus on new research techniques to boost output, where yields appear to have plateaued, is unrelenting. As part of this process, Embrapa continues to work with centres of expertise in other

countries, including Rothamsted in the UK. Listening to their researchers, you very quickly get the impression that their vision of the future does not merely revolve around one technology: they are open to all avenues, as long as they can secure food safety in its delivery.

What does it mean for UK Agriculture?

Whether all this is viewed as a guiding light to be followed, or grounds to maintain EU controls on sensitive GM technologies, or simply prompts a concern that cheap food will increasingly flood the UK retail sector, is completely open to the reader. What is certain is that the importance of Brazilian agriculture in the global scene is only going to increase – though the sheer size of the country also means that there is a need for further

substantial investment to develop its distribution and logistics infrastructure. To match this new challenge in our own marketplace we must deliver increases in production at a cost base and a level of sustainability which is acceptable to an increasingly interested and knowledgeable consumer.

The progress made by Brazil since the period when I was at school has earned it many plaudits, but also raises some questions for us. One cannot help feeling that Brazil's Agriculture has been immensely successful, and could be a standard bearer for the future, but does this amazing revolution have lessons for the UK and the EU? It is essential that UK and EU Agriculture does not get left behind, as we have no right to complacency as regards our own precious customers.

“The importance of Brazilian agriculture in the global scene is only going to increase. The sheer size of the country also means that there is a need for further substantial investment to develop its distribution and logistics infrastructure.”
Market View, p24

ENTERPRISE
MARGIN

Arable

// The competitiveness of UK wheat will depend on harvest quality and currency."

Market View, p8

Winter wheat – feed

PERFORMANCE LEVEL				
Tonnes per hectare	8.60	10.00	8.60	10.00
	£ per hectare		£ per tonne	
Output @ £165.00 per tonne	1,419	1,650	165.0	165.0
Total gross output	1,419	1,650	165.0	165.0
Variable costs				
Seed	68	68	7.9	6.8
Fertiliser	228	246	26.5	24.6
Spray	172	198	20.0	19.8
Total variable costs	468	512	54.4	51.2
GROSS MARGIN	951	1,138	110.6	113.8
Total overheads			80.0	68.8
Total cost of production (£/t)			134.4	120.0
Net margin (before support payments) (£/t)			30.6	45.0

Crop price (£/t)	Net margin sensitivity – £/t	
	8.60 t/ha	10.00 t/ha
125.00	(9.4)	5.0
165.00	30.6	45.0
205.00	70.6	85.0

Price based on feed wheat sold mid season
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Winter wheat – milling

PERFORMANCE LEVEL				
Tonnes per hectare	8.20	9.50	8.20	9.50
	£ per hectare		£ per tonne	
Output @ £185.00 per tonne	1,517	1,758	185.0	185.0
Total gross output	1,517	1,758	185.0	185.0
Variable costs				
Seed	68	68	8.3	7.2
Fertiliser	248	298	30.2	31.4
Spray	172	198	21.0	20.8
Total variable costs	488	564	59.5	59.4
GROSS MARGIN	1,029	1,194	125.5	125.6
Total overheads			83.9	72.4
Total cost of production (£/t)			143.4	131.8
Net margin (before support payments) (£/t)			41.6	53.2

Crop price (£/t)	Net margin sensitivity – £/t	
	8.20 t/ha	9.50 t/ha
145.00	1.60	13.20
185.00	41.60	53.20
225.00	81.60	93.20

Price based on milling wheat sold mid season
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Winter barley – feed

PERFORMANCE LEVEL

Tonnes per hectare	7.25	8.75	7.25	8.75
	£ per hectare		£ per tonne	
Output @ £155.00 per tonne	1,124	1,356	155.0	155.0
Total gross output	1,124	1,356	155.0	155.0
Variable costs				
Seed	62	62	8.6	7.1
Fertiliser	219	232	30.2	26.5
Spray	146	151	20.1	17.3
Total variable costs	427	445	58.9	50.9
GROSS MARGIN	697	911	96.1	104.1
Total overheads			92.7	76.8
Total cost of production (£/t)			151.6	127.7
Net margin (before support payments) (£/t)			3.4	27.3

Crop price (£/t)	Net margin sensitivity – £/t	
	7.25 t/ha	8.75 t/ha
125.00	(26.60)	(2.70)
155.00	3.40	27.30
185.00	33.40	57.30

Price based on feed barley sold mid season
 Malting varieties can attract a premium
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Spring barley – malting

PERFORMANCE LEVEL

Tonnes per hectare	7.00	7.75	7.00	7.75
	£ per hectare		£ per tonne	
Output @ £180.00 per tonne	1,260	1,395	180.0	180.0
Total gross output	1,260	1,395	180.0	180.0
Variable costs				
Seed	68	68	9.7	8.8
Fertiliser	118	127	16.9	16.4
Spray	113	117	16.1	15.1
Total variable costs	299	312	42.7	40.3
GROSS MARGIN	961	1,083	137.3	139.7
Total overheads			96.0	86.7
Total cost of production (£/t)			138.7	127.0
Net margin (before support payments) (£/t)			41.3	53.0

Crop price (£/t)	Net margin sensitivity – £/t	
	7.00 t/ha	7.75 t/ha
145.00	6.30	18.00
180.00	41.30	53.00
215.00	76.30	88.00

Price based on malting barley sold mid season
 The value of straw is excluded from the gross margin
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Winter oilseed rape

PERFORMANCE LEVEL

Tonnes per hectare	3.40	4.50	3.40	4.50
	£ per hectare		£ per tonne	
Output @ £380.00 per tonne	1,292	1,710	380.0	380.0
Total gross output	1,292	1,710	380.0	380.0
Variable costs				
Seed	52	52	15.3	11.6
Fertiliser	262	270	77.1	60.0
Spray	149	155	43.8	34.4
Desiccation/swathing	40	40	11.8	8.9
Total variable costs	503	517	148.0	114.9
GROSS MARGIN	789	1,193	232.0	265.1
Total overheads			188.3	142.3
Total cost of production (£/t)			336.3	257.2
Net margin (before support payments) (£/t)			43.7	122.8

Crop price (£/t)	Net margin sensitivity – £/t	
	3.40 t/ha	4.50 t/ha
330.00	(6.30)	72.80
380.00	43.70	122.80
430.00	93.70	172.80

Assumes oilseed rape sold mid season
 Oil bonuses can vary and could add to this price
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Field beans (winter and spring)

PERFORMANCE LEVEL

Tonnes per hectare	4.00	4.75	4.00	4.75
	£ per hectare		£ per tonne	
Output @ £185.00 per tonne	740	879	185.0	185.0
Total gross output	740	879	185.0	185.0
Variable costs				
Seed	70	70	17.5	14.7
Fertiliser	78	84	19.5	17.7
Spray	129	142	32.3	29.9
Total variable costs	277	296	69.3	62.3
GROSS MARGIN	463	583	115.7	122.7
Total overheads			128.0	107.8
Total cost of production (£/t)			197.3	170.1
Net margin (before support payments) (£/t)			(12.3)	14.9

Crop price (£/t)	Net margin sensitivity – £/t	
	4.00 t/ha	4.75 t/ha
140.00	(57.30)	(30.10)
185.00	(12.30)	14.90
230.00	32.70	59.90

Price based on a mix of feed beans and export for human consumption
 Total overheads derived from the combinable crop unit on page 37
 Total overheads including allowance for rent, finance, drawings and tax

Potatoes – ware

PERFORMANCE LEVEL

Tonnes per hectare (sold)	45.00	48.00	45.00	48.00
	£ per hectare		£ per tonne	
Output @ £140.00 per tonne	6,300	6,720	140.0	140.0
Total gross output	6,300	6,720	140.0	140.0
Variable costs				
Seed	836	836	18.6	17.4
Fertiliser	658	677	14.6	14.1
Spray	723	767	16.1	16.0
Nematicide*	289	289	6.4	6.0
Potato council levy	46	46	1.0	1.0
Total variable costs	2,552	2,615	56.7	54.5
GROSS MARGIN	3,748	4,105	83.3	85.5
Total overheads			89.9	84.3
Total cost of production (£/t)			146.6	138.8
Net margin (before support payments) (£/t)			(6.6)	1.2

Crop price (£/t)	Net margin sensitivity – £/t	
	45.00 t/ha	48.00 t/ha
100.00	(46.60)	(38.80)
140.00	(6.60)	1.20
180.00	33.40	41.20

These are indicative margins as the sector is now so specialised
 Potato price will vary greatly according to quality, season, contract and market
 Storage can often lead to higher prices, costs of up to £40 per tonne can be incurred
 * Nematicides are assumed to only cover a proportion of the entire potato area
 Total overheads derived from the combinable crop and roots unit on page 38
 Total overheads including allowance for rent, finance, drawings and tax



Potatoes – processing

PERFORMANCE LEVEL

Tonnes per hectare (sold)	48.00	53.00	48.00	53.00
	£ per hectare		£ per tonne	
Output @ £125.00 per tonne	6,000	6,625	125.0	125.0
Total gross output	6,000	6,625	125.0	125.0
Variable costs				
Seed	770	770	16.0	14.5
Fertiliser	582	605	12.1	11.4
Spray	584	628	12.2	11.8
Nematicide*	289	289	6.0	5.5
Potato council levy	46	46	1.0	0.9
Total variable costs	2,271	2,338	47.3	44.1
GROSS MARGIN	3,729	4,287	77.7	80.9
Total overheads			84.3	76.3
Total cost of production (£/t)			131.6	120.4
Net margin (before support payments) (£/t)			(6.6)	4.6

Crop price (£/t)	Net margin sensitivity – £/t	
	48.00 t/ha	53.00 t/ha
95.00	(36.60)	(25.40)
125.00	(6.60)	4.60
155.00	23.40	34.60

These are indicative margins as the sector is now so specialised
 Potato price will vary greatly according to quality, season, contract and market
 Storage can often lead to higher prices, costs of up to £40 per tonne can be incurred
 * Nematicides are assumed to only cover a proportion of the entire potato area
 Total overheads derived from the combinable crop and roots unit on page 38
 Total overheads including allowance for rent, finance, drawings and tax

Sugar beet

Campaign 2013/14

PERFORMANCE LEVEL

Adjusted tonnes per hectare	70.00	70.00
	£ per hectare	£ per tonne
Output @ £31.00 per tonne	2,170	31.0
Total gross output	2,170	31.0
Variable costs		
Seed	230	3.3
Fertiliser	332	4.7
Spray	229	3.3
Total variable costs	791	11.3
GROSS MARGIN	1,379	19.7
Total overheads		12.6
Total costs of production (£/t)		23.9
Net margin (before support payments) (£/t)		7.1

Yield (t/ha)	Gross margin (£/ha)
50.00	759
70.00	1,379
90.00	1,999

Price includes a haulage allowance of £4.50/t

Price is contracted for 16% base sugar

Price is subject to early and late delivery bonuses

Most growers will incur contract haulage and lifting charges in the region of £475 – £550 per hectare

Total overheads derived from combinable crop and roots unit on page 38

Total overheads including allowance for rent, finance, drawings and tax

Combinable crops

ROTATION: Wheat, beans, wheat, barley, oilseed rape

GROSS MARGIN

	Area ha	Yield t/ha	Gross Margin	
			£/ha	£ Total
Wheat (feed)	256.00	8.60	951.00	243,456
Winter barley	128.00	7.25	697.00	89,216
Oilseed rape	128.00	3.40	789.00	100,992
Field beans	128.00	4.00	463.00	59,264
Fallow	10.00			
TOTAL GROSS MARGIN	650.00		758.35	492,928
Overheads				
Labour			73.26	47,619
Power and machinery (including depreciation)			222.98	144,934
Administration			48.06	31,238
Property			25.92	16,848
Overhead costs			370.22	240,639
Surplus (deficit) pre rent and finance			388.13	252,289
Farm specific overheads				
Rent and finance			129.23	84,000
Drawings and tax			130.77	85,000
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			128.13	83,289
Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	83,289	83,289	83,289	83,289
Plus Single Farm Payment*	149,420	156,750	147,339	141,426
Plus Stewardship**	4,400	4,000	18,878	19,500
Surplus (deficit) post support payments	237,109	244,039	249,506	244,215

*1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent

Combinable crops and roots

ROTATION: Wheat, sugar beet, wheat, potatoes, wheat, field beans

GROSS MARGIN

	Area ha	Yield t/ha	Gross Margin	
			£/ha	£ Total
Wheat (feed)	321.00	8.60	951.00	305,271
Field beans	107.00	4.00	463.00	49,541
Sugar beet	107.00	70.00	1,379.00	147,553
Potatoes (ware)	107.00	45.00	3,748.00	401,036
Fallow	8.00			
TOTAL GROSS MARGIN	650.00		1,389.85	903,401

Overheads

Labour			167.97	109,180
Power and machinery (including depreciation)			473.36	307,682
Administration			65.95	42,870
Property			100.92	65,600

Overhead costs

808.20 525,332

Surplus (deficit) pre rent and finance

581.65 378,069

Farm specific overheads

Rent and finance			249.23	162,000
Drawings and tax			153.85	100,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS

178.57 116,069

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	116,069	116,069	116,069	116,069
Plus Single Farm Payment*	130,847	130,946	123,084	141,426
Plus Stewardship**	4,400	4,000	18,878	19,500
Surplus (deficit) post support payments	251,316	251,015	258,031	276,995

*1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent

Arable and beef finishing

ROTATION: Wheat, barley, wheat, oilseed rape, 250 finishing cattle

GROSS MARGIN

	Area ha	Yield t/ha	Gross Margin	
			£/ha	£ Total
Wheat (feed)	112.00	8.60	951.00	106,512
Winter barley	56.00	7.25	697.00	39,032
Oilseed rape	56.00	3.40	789.00	44,184
Grassland/maize	73.00			
Fallow	3.00			
	hd		£/hd	
Cattle finishing	250		43.00	10,750
TOTAL GROSS MARGIN	300.00		668.26	200,478

Overheads

Labour			105.96	31,787
Power and machinery (including depreciation)			317.48	95,245
Administration			44.42	13,325
Property			37.00	11,100

Overhead costs

504.86 151,457

Surplus (deficit) pre rent and finance

163.40 49,021

Farm specific overheads

Rent and finance			105.00	31,500
Drawings and tax			183.33	55,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS

(124.93) (37,479)

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	(37,479)	(37,479)	(37,479)	(37,479)
Plus Single Farm Payment *	71,611	82,627	82,503	65,486
Plus Stewardship **	2,650	3,650	9,078	9,000
Surplus (deficit) post support payments	36,782	48,798	54,102	37,007

*1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent

ENTERPRISE
MARGIN

Dairy

“Farmers on aligned contracts with supermarkets... are being paid based on the cost of production which is currently around 30ppl.”

Market View, p10



Dairy cows

Quota year 2013/14

PERFORMANCE LEVEL					
Milk sales	litres per cow	7,500	9,000	7,500	9,000
		£ per cow		Pence per litre	
Output					
Milk	28 pence per litre	2,100	2,520	28.0	28.0
Plus calf	(£175 less 10% or 8% mortality)	158	161	2.1	1.8
Less cow depreciation*		(200)	(240)	(2.7)	(2.7)
Total gross output		2,058	2,441	27.4	27.1
Variable costs					
Concentrates	£275 per tonne	639	941	8.5	10.5
Vet and med		75	108	1.0	1.2
Dairy sundries (incl. recording, AI and bull depreciation)		155	170	2.1	1.9
Forage	£695 per hectare	313	313	4.2	3.5
Total variable costs		1,182	1,532	15.8	17.1
GROSS MARGIN		876	909	11.6	10.0
Total overheads				14.5	12.1
Dairy replacement variable costs				2.0	2.0
Dairy replacements				(3.8)	(3.8)
Total cost of production (ppl)				29.1	28.3
Net margin (before support payments) (ppl)				(1.1)	(0.3)

	Milk price (pence per litre)	Net margin sensitivity – ppl	
		7500 litres per cow	9000 litres per cow
Dedicated	32.0	2.9	3.7
Non Aligned	28.0	(1.1)	(0.3)

Milk prices can vary significantly within and between contracts due to issues including milk quality and volume bonuses

* Heifer value less cull value divided by expected years in herd

Forage costs include contractor's charges for specialist contracting, e.g. silaging

Total overheads derived from the 210 cow dairy unit on page 45

Total overheads including allowance for rent, finance, drawings and tax

Total cost of production net of calf sale, replacement variable costs and dairy replacement output

Dairy cows – grass based system

Quota year 2013/14

PERFORMANCE LEVEL					
Milk sales	litres per cow	4,500	5,500	4,500	5,500
		£ per cow		Pence per litre	
Output					
Milk	27 pence per litre	1,215	1,485	27.0	27.0
Plus calf	(£150 less 10% or 8% mortality)	135	138	3.0	2.5
Less cow depreciation*		(140)	(154)	(3.1)	(2.8)
Total gross output		1,210	1,469	26.9	26.7
Variable costs					
Concentrates	£265 per tonne	143	204	3.2	3.7
Vet and med		47	56	1.0	1.0
Dairy sundries (incl. recording, AI and bull depreciation)		107	117	2.4	2.1
Forage	£405 per hectare	198	198	4.4	3.6
Total variable costs		495	575	11.0	10.4
GROSS MARGIN		715	894	15.9	16.3
Total overheads				17.4	14.2
Dairy replacement variable costs				2.7	2.4
Dairy replacements				(5.1)	(4.5)
Total cost of production (ppl)				26.1	22.8
Net Margin (before support payments) (ppl)				0.9	4.2

Milk prices can vary significantly within and between contracts due to issues including milk quality and volume bonuses

Assuming spring calving and milk price reflects seasonality

* Heifer value less cull value divided by expected years in herd

Forage costs include contractor's charges for specialist contracting, e.g. silaging

Total overheads derived from the grass based 210 cow dairy unit on page 46

Total overheads including allowance for rent, finance, drawings and tax

Total cost of production net of calf sale, replacement variable costs and dairy replacement output

Dairy replacements

AGE AT CALVING (years)	2	2½
	£ per head	
Output		
Value of down calving heifer	1,400	1,600
Less calf (£250 includes 5% mortality)	(263)	(263)
Total gross output	1,137	1,337
Variable costs		
Calf rearing	96	96
Concentrates	204	244
Forage £396 per hectare	198	238
Miscellaneous	102	116
Total variable costs	600	694
GROSS MARGIN		
Per heifer reared	537	643
Stocking rate		
Hectares per heifer reared	0.5	0.6

210 Cow dairy farm

GROSS MARGIN

Farm size	118 ha
Herd size	210 cows
Milk price	28.0 ppl

	Number	Yield	Gross Margin	
	Hd	l/cow	£/Hd	£ Total
Dairy cows	210	7,500	876.00	183,960
Replacements	53		537.00	28,461
TOTAL GROSS MARGIN			1,011.53	212,421

Overheads

Labour		169.21	35,535
Power and machinery (including depreciation)		362.90	76,208
Administration		81.80	17,177
Property		76.12	15,986

Overhead costs	690.03	144,906
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Surplus (deficit) pre rent and finance	321.50	67,515
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Farm specific overheads

Rent and finance		206.72	43,412
Drawings and tax		190.48	40,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS	(75.70)	(15,897)
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Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	(15,897)	(15,897)	(15,897)	(15,897)
Plus Single Farm Payment*	45,796	38,704	40,093	25,997
Plus Stewardship**	1,740	3,468	3,982	3,540
Surplus (deficit) post support payments	31,639	26,275	28,178	13,640

If block calving, need to calve at 2 years
 Down calving heifer value is set to represent the comparable cost of purchasing the heifer
 Forage costs include contractor's charges for specialist contracting, e.g. silaging

* 1 Euro = 87 Pence
 ** Assumes Entry Level Stewardship or equivalent

210 Cow dairy farm – grass based system

GROSS MARGIN

Farm size	118 ha
Herd size	210 cows
Milk price	27.0 ppl

	Number	Yield	Gross Margin	
	Hd	l/cow	£/Hd	£ Total
Dairy cows	210	4,500	715.00	150,150
Replacements	42		537.00	22,554
TOTAL GROSS MARGIN			822.40	172,704

Overheads

Labour		73.57	15,450
Power and machinery (including depreciation)		213.21	44,775
Administration		68.29	14,340
Property		58.79	12,345

Overhead costs **413.86** **86,910**

Surplus (deficit) pre rent and finance **408.54** **85,794**

Farm specific overheads

Rent and finance		131.11	27,534
Drawings and tax		238.10	50,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS **39.33** **8,260**

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	8,260	8,260	8,260	8,260
Plus Single Farm Payment*	30,648	23,902	24,835	25,997
Plus Stewardship**	1,740	3,468	3,982	3,540
Surplus (deficit) post support payments	40,648	35,630	37,077	37,797

* 1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent

Dairy and arable farm

ROTATION: Wheat, barley, wheat, oilseed rape

GROSS MARGIN

	Area	Yield	Gross Margin	
	Ha	t/ha	£/Ha	£ Total
Wheat (feed)	104.00	8.60	951.00	98,904
Winter barley	52.00	7.25	697.00	36,244
Oilseed rape	52.00	3.40	789.00	41,028
Grassland/maize – cows	118.00			
Fallow	6.00			
	hd	l/cow	£/hd	
Dairy cows	210	7,500	876.00	183,960
Replacements	53		537.00	28,461
TOTAL GROSS MARGIN	332.00		1,170.47	388,597

Overheads

Labour		142.67	47,367
Power and machinery (including depreciation)		409.91	136,091
Administration		93.66	31,096
Property		56.70	18,826

Overhead costs **702.94** **233,380**

Surplus (deficit) pre rent and finance **467.53** **155,217**

Farm specific overheads

Rent and finance		242.26	80,430
Drawings and tax		168.67	56,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS **56.60** **18,787**

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	18,787	18,787	18,787	18,787
Plus Single Farm Payment*	100,411	98,027	95,854	72,429
Plus Stewardship**	2,810	3,682	9,974	9,960
Surplus (deficit) post support payments	122,008	120,496	124,615	101,176

	Gross Margin	Fixed Costs	Profit
	£	£	£
Arable	176,176	136,830	39,346
Dairy	212,421	232,980	(20,559)
TOTAL	388,597	369,810	18,787

* 1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent



ENTERPRISE
MARGIN

Red Meat

“ Higher cereal prices may reduce dairy bull calf retentions, further limiting supply.”

Market View, p12

Suckler cows – spring calving

Calving Spring 2012 and sold at 12 months of age as yearling stores

PERFORMANCE LEVEL				
Average liveweight sold per cow (kg)	321.9	351.0	321.9	351.0
	£ per cow		Pence per kg lwt	
Output				
Store cattle (87% calving %) - see matrix*	652		202.5	
Store cattle (90% calving %) - see matrix*		729		207.7
Less cow and bull replacement charge**	(75)	(75)	(23.3)	(21.4)
Total gross output	577	654	179.2	186.3
Variable costs				
Concentrates £230 per tonne (including creep feed)	104	115	32.3	32.8
Bulk feed	21	21	6.5	6.0
Vet and med	40	35	12.4	10.0
Bedding straw	40	40	12.4	11.4
Commission, haulage, levies, tags and sundries	38	38	11.8	10.8
Forage 0.9 ha per cow and store to sale	155	155	48.2	44.2
Total variable costs	398	404	123.6	115.2
GROSS MARGIN	179	250	55.6	71.1
Total overheads			180.5	165.5
Total cost of production (p/kg lwt)			327.4	302.1
Net margin (before support payments) (p/kg lwt)			(124.9)	(94.4)
*Store sale prices				
	kg lwt	p/kg	£/hd	£/hd
Steers	380	205	779	
Heifers	360	200	720	
Steers	400	210		840
Heifers	380	205		779

** Replacement value less cull value divided by expected years in herd plus an allowance for bulls
 Sale price assumes calves sold onto the traditionally strong spring market for grazing cattle
 Forage costs include contractor's charges for specialist contracting, e.g. silaging
 Total overheads derived from the upland beef and sheep unit on page 56
 Total overheads including allowance for rent, finance, drawings and tax

Forage based finishing store cattle

Stores purchased throughout the year 300-380 day feeding period

PERFORMANCE LEVEL						
Average liveweight sold per store (kg)	580.0	600.0	580.0	600.0		
	£ per cow		Pence per kg lwt			
Output						
Sale	1,044	1,140	180.0	190.0		
Less store purchase price - see matrix*						
£672 plus 0.5% allowance for mortality	(675)		(116.4)			
£615 plus 0.5% allowance for mortality		(618)		(103.0)		
Total gross output	369	522	63.6	87.0		
Variable costs						
Concentrates / by products £210 per tonne	168		29.0			
£200 per tonne		180		30.0		
Vet and med	18	18	3.1	3.0		
Bedding straw	45	45	7.8	7.5		
Commission, haulage, levies, tags and sundries	40	40	6.9	6.7		
Forage 0.25 ha per hd	55	55	9.5	9.2		
Total variable costs	326	338	56.3	56.4		
GROSS MARGIN	43	184	7.3	30.6		
Total overheads			44.3	42.8		
Total cost of production (p/kg lwt)			217.0	202.2		
(p/kg dwt)			401.9	374.4		
Net margin (before support payments) (p/kg lwt)			(37.0)	(12.2)		
*Purchase prices						
	kg lwt	p/kg lwt	£/hd	£/hd		
Average	320	210	672			
Above average	300	205		615		
Sale prices						
	kg lwt	p/kg lwt	kg dwt	p/kg dwt	£/hd	£/hd
Average	580	180	313	334	1,044	
Above average	600	190	324	352		1,140

Assumes killing out at 54%
 Forage costs include contractor's charges for specialist contracting, e.g. silaging
 Total overheads derived from the arable and beef finishing unit on page 39
 Total overheads including allowance for rent, finance, drawings and tax

Lowland sheep

March/April lambing flock

PERFORMANCE LEVEL

Lambs sold per 100 ewes	160	175	160	175
Average liveweight sold per ewe (kg)	64.0	70.0	64.0	70.0

£ per ewe Pence per kg lwt

Output

Lambs	40kg liveweight @ 185p per kg	118.4		185.0	
	40kg liveweight @ 185p per kg		129.5		185.0

Wool		3.3	3.3	5.2	4.7
Less ewe and ram replacement charge*		(21.0)	(21.0)	(32.8)	(30.0)

Total gross output		100.7	111.8	157.4	159.7
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Variable costs

Concentrates	£255 per tonne 50kg per ewe, 15kg per lamb	18.9	19.4	29.5	27.7
Vet and med		8.0	8.0	12.5	11.4
Commission, haulage, levies, tags and sundries		8.0	8.5	12.5	12.1
Forage	0.14 ha per ewe	18.0	18.0	28.1	25.7

Total variable costs		52.9	53.9	82.6	76.9
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GROSS MARGIN		47.8	57.9	74.8	82.8
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Total overheads				131.7	120.4
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Total cost of production	(p/kg lwt)			241.9	222.6
	(p/kg dwt)			509.3	468.6

Net margin (before support payments) (p/kg lwt)				(56.9)	(37.6)
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* Replacement value less cull value divided by expected years in flock
Assumes killing out at 47.5%

Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the lowland mixed farm unit on page 55
Total overheads including allowance for rent, finance, drawings and tax
Total cost of production net of wool sale

Upland sheep

Breeding stock and lamb production

PERFORMANCE LEVEL

Lambs sold per 100 ewes	130	145	130	145
Average liveweight sold per ewe (kg)	47.5	52.9	47.5	52.9

£ per ewe Pence per kg lwt

Output

Lambs	45% finished @ 38kg @ 180p per kg 25% store @ 32kg @ 180p per kg 30% breeding @ £80 per head	89.9	100.3	189.3	189.6
Wool		3.0	3.0	6.3	5.7
Less ewe and ram replacement charge*		(21.0)	(21.0)	(44.2)	(39.7)

Total gross output		71.9	82.3	151.4	155.6
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Variable costs

Concentrates	£255 per tonne 40kg per ewe, 10kg per lamb	13.5	13.9	28.4	26.3
Vet and med		7.0	7.0	14.7	13.2
Commission, haulage, levies, tags and sundries		7.0	7.5	14.7	14.2
Forage	0.21 ha per ewe	15.0	15.0	31.6	28.4

Total variable costs		42.5	43.4	89.4	82.1
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GROSS MARGIN		29.4	38.9	62.0	73.5
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Total overheads				119.7	107.5
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Total cost of production	(p/kg lwt)			247.0	223.6
	(p/kg dwt)			531.2	480.9

Net margin (before support payments) (p/kg lwt)				(57.7)	(34.0)
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* Replacement value less cull value divided by expected years in flock
Assumes killing out at 46.5%
Budgeted price adjusted for breeding sales

Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the upland beef and sheep unit on page 56
Total overheads including allowance for rent, finance, drawings and tax
Total cost of production net of wool sale

Hill sheep

PERFORMANCE LEVEL

Lambs reared per 100 ewes	100	115
Lambs sold per 100 ewes	75	90

£ per ewe

Output

Lambs 50% finished @ 30kg @ 170p per kg		
50% stores @ 25kg @ 170p per kg	35.1	42.1
Draft ewe	8.1	8.1
Wool	1.8	1.8
Less ram replacement charge*	(4.7)	(4.7)

Total gross output	40.3	47.3
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Variable costs

Concentrates	£260 per tonne		
	20kg per ewe, 8kg per lamb	7.3	7.6
Vet and med		5.0	5.0
Commission, haulage, levies, tags and sundries		5.0	5.0
Wintering costs		4.0	4.0
Forage		4.5	4.5

Total variable costs	25.8	26.1
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GROSS MARGIN	14.5	21.2
---------------------	-------------	-------------

Total overheads	58.9	58.9
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Net margin (before support payments) (£/hd)	(44.4)	(37.7)
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* Replacement value less cull value divided by expected years in flock
 Forage costs include contractor's charges for specialist contracting, e.g. silaging
 Total overheads derived from the hill beef and sheep unit on page 57
 Total overheads including allowance for rent, finance, drawings and tax

Lowland mixed farm

60 suckler cows, 80 cattle finishing, 500 lowland sheep

GROSS MARGIN

	Head	Area	Gross Margin	Gross Margin	
		ha	£/hd	£/ha	£ Total
Suckler cows	60	50.00	179.00	214.80	10,740
Cattle finishing	80	20.00	184.00	736.00	14,720
Lowland ewes	500	66.00	47.80	362.12	23,900
Winter barley		20.00		697.00	13,940
Spring barley		20.00		961.00	19,220
TOTAL GROSS MARGIN		176.00		468.86	82,520

Overheads

Labour			56.82	10,000
Power and machinery (including depreciation)			257.67	45,350
Administration			61.36	10,800
Property			63.07	11,100

Overhead costs			438.92	77,250
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Surplus (deficit) pre rent and finance			29.94	5,270
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Farm specific overheads

Rent and finance			75.00	13,200
Drawings and tax			170.45	30,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			(215.51)	(37,930)
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Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	(37,930)	(37,930)	(37,930)	(37,930)
Plus Single Farm Payment*	28,148	40,251	43,676	38,581
Plus Stewardship**	2,030	3,526	5,606	5,280
Surplus (deficit) post support payments	(7,752)	5,847	11,352	5,931

* 1 Euro = 87 Pence

** Assumes Entry Level Stewardship or equivalent

Upland beef and sheep farm

120 suckler cows, 1500 upland sheep

GROSS MARGIN

	Head	Area ha	Gross Margin £/hd	Gross Margin £/ha	£ Total
Suckler cows	120	108.00	179.00	198.89	21,480
Upland ewes	1,500	315.00	29.40	140.00	44,100
TOTAL GROSS MARGIN		423.00		155.04	65,580

Overheads

Labour				70.92	30,000
Power and machinery (including depreciation)				103.78	43,900
Administration				24.11	10,200
Property				29.79	12,600

Overhead costs 228.60 96,700

Surplus (deficit) pre rent and finance (73.56) (31,120)

Farm specific overheads

Rent and finance				55.00	23,265
Drawings and tax				82.74	35,000

SURPLUS (DEFICIT) PRE SUPPORTS PAYMENTS (211.30) (89,385)

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	(89,385)	(89,385)	(89,385)	(89,385)
Plus Single Farm Payment*	47,194	67,031	72,659	74,163
Plus Stewardship**	10,880	19,360	15,060	26,226
Surplus (deficit) post support payments	(31,311)	(2,994)	(1,666)	11,004

* 1 Euro = 87 Pence

** Assumes Entry Level Stewardship and Upland Entry Level Stewardship or equivalent
Areas used by individual farmers to generate this level of physical and financial output will vary considerably between country, topography and also the level of subsidy which these attract. Please be guided by and adjust for local circumstances.

Hill beef and sheep farm

35 suckler cows, 850 hill ewes, 550 hectares

GROSS MARGIN

	Head	Gross Margin £/hd	Gross Margin £ Total
Suckler cows	35.00	179.00	6,265
Hill ewes	850.00	14.50	12,325
TOTAL GROSS MARGIN			18,590

Overheads

Labour			4,000
Power and machinery (including depreciation)			21,550
Administration			6,150
Property			6,000

Overhead costs 37,700

Surplus (deficit) pre rent and finance (19,110)

Farm specific overheads

Rent and finance			9,200
Drawings and tax			20,000

SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS (48,310)

Potential support payments	N Ireland	Scotland	Wales	England
Surplus (deficit) pre support payments	(48,310)	(48,310)	(48,310)	(48,310)
Plus Single Farm Payment*	41,165	25,607	27,438	24,176
Plus Stewardship**	15,400	16,797	19,378	14,600
Surplus (deficit) post support payments	8,255	(5,906)	(1,494)	(9,534)

* 1 Euro = 87 Pence

** Assumes Entry Level Stewardship and Upland Entry Level Stewardship or equivalent

Support

“ Each country [in the UK] has a 7-year Rural Development Programme, running from 2007-13.”

Agricultural Support, p62



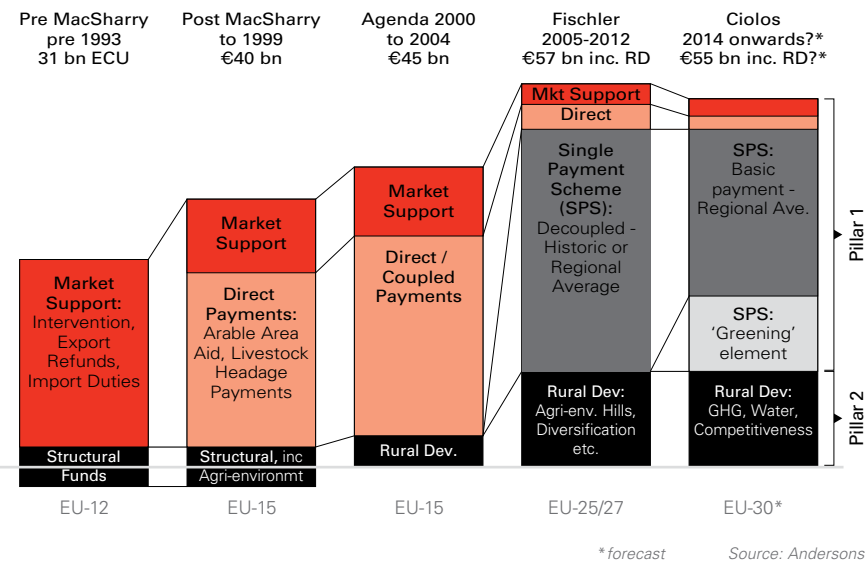
Agricultural Support

As at September 2012

Introduction

Agricultural support to farmers and the rural economy is delivered under the Common Agricultural Policy (CAP), through two main budgets (known as Pillars). Pillar 1 includes the Single Payment Scheme (direct aid to farm businesses) and Market Support for agricultural produce (now much diminished). Pillar 2 relates to support through Rural Development Programmes.

Evolution of the CAP



The Single Payment Scheme (SPS)

The SPS started in the UK in 2005. The system is based on entitlements, with one entitlement per hectare of agricultural land. Entitlement values were based on historic levels of support received by that business. Therefore

payments are highly dependent on the past cropping and stocking of individual businesses and on the system chosen by the devolved administrations (different systems operate in England, Scotland, Wales and Northern Ireland). Other variables are currency and modulation

Single Payment Scheme Key Figures

	England		Scotland		Wales		N. Ireland	
	2012	2013	2012	2013	2012	2013	2012	2013
Historic element – % of reference amount	0%	0%	100%		100%		Variable	
Regional element – €/hectare	€323 ^①	€323 ^①	N/A		N/A		€78.33	
Gross value of normal/standard entitlements	Highly variable between farms depending on historic claims.							
Gross value of ex set-aside entitlements – €/hectare	€324	€324	€342.20 (non-LFA land)		€312.03 (non-LFA land)		€327.08 (non-LFA land)	
Conversion rate € to £	The spot rate €/£ on 30th September within the Single Payment year.							
Estimated payment date (most payments)	Dec 12: Mar 13	Dec 13: Mar 14	Dec 12	Dec 13	Dec 12	Dec 13	Dec 12	Dec 13
Total modulation rate ^②	19%	19%	14%	14%	11½%	11½%	14%	14%
Financial discipline ^③	0%	5%	0%	5%	0%	5%	0%	5%
Estimated net payment ^④ for lowland (non-LFA) arable land – £/hectare	£228	£214	£248	£234	£240	£227	£245	£231

① Estimate – only the Lowland Region is shown.
 ② Includes both EU compulsory modulation (10% in 2012 and 2013) plus national 'voluntary' modulation. EU modulation is 13% in 2012 and 2013 for the element of any Single Payment (SP) > €300,000. This will only affect Welsh farmers whose total rate will be 13% on the top slice over €300,000.
 ③ Financial Discipline budgeted at 5% to account for 2013 SP being paid from new 2014-2020 EU Budget which is still to be set.
 ④ Assumes the hectare was used to grow a combinable crop in the Reference Period (2000-02), and Arable Area Payments were claimed upon it. No National Reserve application made. Rates shown are after all deductions (see above). Conversion at €1 = 87p in 2012 and 2013.

rates (deductions used to help fund Rural Development). The table below sets out some of the key figures. Although the SPS was meant to end after the 2012 year there will be at least a one year roll-over for 2013.

To claim entitlements in 2013, farmers must have land at their disposal on 15th May 2013 for each entitlement. In addition the farmer must meet all cross-compliance rules on the whole holding for the whole calendar year.

Cross Compliance relates to a set of standards that have to be met in order to qualify for SPS. Farmers must obey the Statutory Management Requirements (SMRs), and keep the whole holding

in Good Agricultural and Environmental Condition (GAEC). The GAEC rules are different in England, Scotland, Wales and Northern Ireland. Farmers should study the handbooks sent to them by their relevant administration. If, on inspection, cross-compliance breaches are found, this will result in reductions in the Single Payments in the form of penalties, and possibly also prosecution under national legislation.

Entitlements can be sold with or without land, but if leased must be leased with an equivalent area of eligible land.

Market Support

The other part of Pillar 1 funding relates to the so-called market support measures,

made up of tariff barriers, intervention buying, export subsidies and quotas. Most of these mechanisms are of little direct relevance to farm budgeting. Milk quotas still remain, but are scheduled to be removed after 31st March 2015.

Rural Development Support

Rural Development or Pillar 2 of the CAP supports environmental protection, economic development and thriving rural communities. A range of support measures are allowed under four 'axes'. The most important for farmers is Axis 2 (Land Management) which includes agri-environmental schemes, hill farming support, and forestry. Other axes support: training, young farmers, advice, food quality, collaboration, diversification etc.

Each country has a 7 year Rural Development programme, running from 2007-13. The main schemes for farmers and relevant contact details for each country are;

- England:** Entry Level Stewardship (ELS), Higher Level Stewardship (HLS), Uplands Entry Level Stewardship (UELS) and Organic Entry Level Stewardship (OELS) are all administered by Natural England see <http://www.naturalengland.org.uk> Woodland Grants are administered by

the Forestry Commission – see <http://www.forestry.gov.uk> Capital Grants are now administered centrally by DEFRA – see <http://rdpenetwork.defra.gov.uk/funding-sources>

- Wales:** all existing agri-environmental schemes; Tir Cynnal, Tir Gofal, Tir Mynydd, the Organic Farming Scheme and Better Woodlands for Wales, have been replaced with a new scheme – Glastir. For details see <http://new.wales.gov.uk>
- Scotland:** most support has been consolidated under the Rural Development Contracts (RDC) system. However there is still a separate Less Favoured Areas Support Scheme (LFASS). For details see <http://www.scotland.gov.uk>
- Northern Ireland:** the main agri-environmental programme is the Northern Ireland Countryside Management Scheme, but there is also support for organic farming, forestry and LFA's under separate schemes. Grants are also available for farm modernisation, diversification and competitiveness. For details see <http://www.dardni.gov.uk>

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This booklet has been prepared in consultation with Andersons whose assistance is greatly appreciated.



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*Lines are open 9am to 5pm Monday to Friday,
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