

Monthly *Farming* *Update*

Chavereys

CHARTERED
ACCOUNTANTS



January 2013

I Policy issues

- 1 Defra has published a discussion paper to consider the merger of the Environment Agency and Natural England.
- 2 As part of the Chancellor's Autumn Statement, Defra's budget for 2013/14 has been cut by £20 millions with a further cut of £35 millions in 2014/15.
- 3 The National Audit Office has criticised Defra for not doing enough to streamline farm inspections in England which impose a "disproportionate burden on farmers". During 2011/12 9 separate Government bodies made over 114,000 visits to English farms at a total cost of £47 millions to the 3 main inspection agencies, the Rural Payments Agency, the Animal Health and Veterinary Laboratories Agency and the Environment Agency. The National Audit Office estimates the cost to a farm of complying with regulations is 10 per cent of its annual profit.

II CAP (etc.) support details/payments

- 1 The European Commission has conceded that the new Common Agricultural Policy direct payments regime will not be implemented in 2014.
- 2 Defra has issued new rules for consultation which would enable English dairy farmers to form Producer Organisations. Up to a third of UK production could be covered by POs which would be able to negotiate milk prices on behalf of members. Defra has recommended that a PO comprises at least 10 farmers producing a minimum of 6 million litres per annum.
- 3 The Scottish Court of Session has dismissed an appeal by the Scottish Government against a decision of the Scottish Land Court which granted Producer Organisation status to Angus Growers.

III Grants/regulations/legislation/environment

- 1 The Rural Development Programme for England has launched a £5 million dairy fund which will allow groups of dairy farmers to apply for £25,000 minimum grants to cover the costs of establishing new producer groups and cooperatives and for investment in technology to take advantage of new market opportunities.
- 2 Sainsbury's has awarded 14 grants totalling in excess of £1 million including to Greenvale to improve soil and water management in potato production and to AC Goatham and FW Mansfield for investment in dynamic controlled atmosphere storage.
- 3 The Prince's Countryside Fund and the Duke of Westminster have both donated £150,000 to farming charities the Royal Agricultural Benevolent Institutions in England and Scotland, Farm Crisis Network and the Addington Fund.
- 4 The milling, fermenting and distilling process has commenced at the Vivergo bioethanol plant on Humberside.

IV Other matters of farm finance and tenure

- 1 Defra has announced that it expects the Agricultural Wages Board to be abolished later this year and that it expects the national minimum wage to apply to agricultural workers from October.
- 2 In "Outlook 2013", Andersons have forecast a 20 per cent reduction in 2012 Total Income from Farming to £4.25 billions compared to 2011 followed by a recovery of 10-12 per cent in 2013.

3. Savills is forecasting a further 40 per cent increase in the value of farmland over the next 5 years.
4. An NFU survey has revealed that only 22 per cent of farmers are confident about the year ahead compared to nearly 50 per cent a year ago. 42 per cent of farmers believe they are in for a difficult year compared to 30 per cent a year ago.
5. The Horticultural Development Company has launched a £4,500 bursary scheme for final year undergraduates to attract students to the industry.
6. Peel Ports Medway is considering the closure of part of its fresh produce facility at the Port of Sheerness.

V Product prices

A. Crops

- 1 Christmas has been “in the way” this month, stifling material movement in the market. The short supply of cereals remains, although the pessimistic estimates for the USA output have unwound a little this month as a result of the arrival of rain; the Australian output has been revised upwards as a result of better weather conditions and the world maize production has been estimated at a higher level - the continued delay in maize planting in Argentina from wet weather being countered by improvements elsewhere in the world. Predicted output for the UK’s 2013 harvest remains anyone’s guess in light of late drilling, slug and water damage and high levels of spring cropping. LIFFE feed wheat futures, having hit their peak at the end of November, reflected the added uncertainty by dropping back throughout December, with some minor fluctuations on the way down. In late December, deliveries for November 2013 and 2014 stood at £186/tonne (down £11) and £162/tonne (down £16) respectively. In the shorter term, futures sit close to spot price, as expected.

Average spot prices in late December (£/tonne ex-farm): feed wheat 206; milling wheat 234; feed barley 194; oilseed rape 356; feed peas 293; feed beans 295.

- 2 By mid December, AHDB estimates put the amount of unharvested GB potato crop area at between 4 and 5 per cent of the total planted acreage; resulting in the lowest average GB yield in decades. Continued wet weather over the Christmas period has lowered the expectation of unearthing the remaining tonnage. Those few who are lifting continue to face the challenges of high levels of soil content and high grading losses due to greening, lifting damage and rot. The GB average price, built from a starting point of £218/tonne to a pre-Christmas level of £246/tonne (more than double the £114/tonne of December 2011). The free-market price showed similar buoyancy; gaining a further £23/tonne to reach £326 by mid December, (more than three-times the £96/tonne achieved in December 2011).

In the lead up to Christmas, prices for grade one product: King Edward prices were unchanged at between £370 and £400/tonne, Desiree prices had improved to between £320 and £380/tonne. Estima prices had strengthened further to between £350 and £420/tonne and the spread for Maris Piper prices had increased further to between £320 and £420/tonne.

B. Livestock

- 1 The average steer price was a little more volatile with Christmas adding to the mix. From an opening position of 194p/kg, the average price peaked at 208p/kg mid month, before dropping back to 200p/kg lw just before Christmas; an overall gain of 6p. The average a year earlier was 14p/kg (7 per cent) lower. The average heifer price followed a similar pattern, peaking at 211p/kg, before dropping back to a closing average of 203p/kg lw; a net gain in the month of 5p; 13p/kg above prices in late December 2011. The average dairy cow price was back to its volatile self: dropping to a low point of £1,195 mid-month and reaching a peak of £1,433 before closing at £1,284 (£1,432 in December 2011).

- 2 The average finished lamb price remained unsettled in December despite the material increase in retail sales of lamb compared to 2011. The average price gained 9p/kg early on, before dropping back by 12p in the latter part of the month to close 3p down overall at 144p/kg; 54p/kg (27 per cent) below the average a year ago.
- 3 The average pig price continued to increase steadily this month, gaining a further 0.9p/kg before the Christmas shutdown; the closing position in late December being 161.0p/kg lw, a new record high, 13.2p/kg above the average in late December 2011.
- 4 The EU27 average milk price for October (published mid December) stood at 27.43 ppl, up 3% on September's average, with the UK placed eighth highest. Milk quota prices remain poor, with clean, 4% butterfat holdings in late December changing hands for 0.11ppl; less than half the 0.28ppl average seen in December 2011.

VI Other crop news

- 1 The United States Department of Agriculture has increased its forecast of global wheat stocks by 2.8 million tonnes to 176.95 million tonnes for the end of the 2012/13 season.
- 2 HGCA has revised its report into the greenhouse gas emission effect of arable cropping. It now claims that 97 per cent of UK oilseed rape production, 100 per cent of sugar beet production and 84 per cent of wheat production meet the current criteria.
- 3 New wheat varieties added to the 2013/14 HGCA Recommended List are Group 2 Chilton; Group 3 KWS Croft, Monterey and Delphi; soft Group 4 Leeds, Myriad, Revelation and Cougar; hard Group 4 KWS Kielder and Dickens. Torch, Stigg, Battalion, Humber, Ketchum and Warrior have been removed. For oilseed rape, Rivalda and Quartz have been added along with 3 restored hybrids, Marathon, PT211 and Avatar for the east/west region. For the north, Anastasia, Boheme and Pendulum have been added along with 5 restored hybrids, PT208, Raptor, Shot, PT211 and DK Expower. Palace, Expert, Lioness, ES Astrid, Hammer, PR45DO3, Castille and Mendel in the east/west region and Lioness, Mendel and Palace in the north region have all been withdrawn. In the winter barley list, Talisman, KWS Joy, Mezmaar and Saloman all have malting potential while KWS Glacier is a new feed variety. Sanetta and Glassel are spring malting varieties while Tesla, Crooner, KWS Orphelia, Kelim, Montoya and Rhyncostar are new feed varieties. Element, Pelican, Purdey, Oxbridge and Summit have been removed from the list.
- 4 The Potato Agronomy Unit at the Cambridge University Farm is to be absorbed into NIAB.
- 5 French potato production has fallen 14.4 per cent in 2012, the smallest crop since 2001.
- 6 East Malling Research has warned that the spotted-wing Drosophila, the recently arrived soft and stone fruit pest, "will cause serious, perhaps catastrophic losses if measures are not put in place."
- 7 IFORED has been formed by 12 fruit marketers from 5 continents to test, select and commercialise new red-flesh apple varieties. The consortium includes Worldwide Fruit and Empire World Trade.
- 8 A Produce Quality Centre has been established at East Malling as a joint venture between East Malling Research and the University of Greenwich. The aim is to improve the storage and quality of produce throughout the supply chain to increase consumer choice, improve energy and transport efficiency, quality and nutrition, reducing waste and extending availability.
- 9 The London Orchard Project has developed a new variety of apple, named Core Blimey, specifically aimed at the London market.

- 10 A survey of more than 1,000 people undertaken by Fruitdrop has revealed the Golden Delicious variety as the most popular apple.

VII Other livestock news

- 1 Defra has expressed the view that the Schmallenberg virus has probably infected most cattle herds and sheep flocks in England and Wales but it still considers the virus to be a “low impact disease”. The virus has been found on 976 farms in the past year. Evidence of the disease in “foetal malformations” has been found on 57 cattle holdings and 236 sheep holdings while evidence of acute disease in cattle has been found on 23 holdings.
- 2 A field trial of badger vaccination conducted by the Animal Health and Veterinary Laboratories Agency and the Food and Environment Research Agency has found that vaccination reduces the risk of bovine TB infection in unvaccinated cubs as well as in vaccinated badgers.
- 3 Defra statistics show 24,685 cattle were slaughtered up to August 2012 due to bovine TB, a 5.1 per cent increase on 2011. There were 3,353 herd incidents in the period compared to 3,312 in the previous year.
- 4 The Animal Health and Veterinary Laboratories Agency has been advised by Defra to adopt a “zero tolerance approach to breaches of welfare regulations” with regard to the export of live animals through the port of Ramsgate.
- 5 Food Chain Improvement UK, a new organisation dedicated to improving human dietary health through better livestock nutrition, has been launched. It is a collaborative venture between companies dedicated to “health oriented agriculture”.
- 6 Beef exports from Argentina have fallen to their lowest level for 10 years. In 2011 the country only fulfilled 64 per cent of its quota of exports to the EU.
- 7 The Food Standards Agency has advised the Government that the testing of healthy cattle aged over 72 months for BSE can be stopped.
- 8 Andersons has forecast the abolition of milk quotas under the CAP reforms as a result of increased demand and production. Globally production is increasing by 2 per cent per annum while Ireland is planning to increase output by 50 per cent by 2020.
- 9 Joseph Heler has increased its standard litre price for milk for cheesemaking by 1 ppl to 29 ppl.
- 10 Wholesale milk deliveries in November were 972.1 million litres, the lowest for the month in 10 years.
- 11 Meadow Foods has increased its standard litre price by 1 ppl to 30 ppl.
- 12 Dairy Crest is to launch a new optional milk pricing formula in April which will generate monthly price movements.
- 13 South Caernarfon Creameries has been awarded a contract by Adams Foods to produce cheese for the UK retail and foodservice sectors. It is estimated to be worth £50 millions over 3 years.
- 14 Having previously awarded the tender for the national sheep database to SouthWestern Business Process Services UK of Ireland, Defra has withdrawn the contract and will invite new tenders shortly.
- 15 Researchers at University College, London and the Open University claim to have confirmed that even low level exposure to organophosphates in sheep dip results in lasting damage to human health.

- 16 Figures made available to the European Commission show that only 5 member states are fully compliant with new pig animal welfare regulations which came into force at the start of this year while 6 member states are 90 per cent compliant. The UK is fully compliant but compliance levels in other countries include France at 33 per cent, Germany at 48 per cent, the Netherlands at 63 per cent and Denmark at 85 per cent.

VIII Inputs/Supply businesses

- 1 The EU standing committee on the food chain and animal health has postponed its vote on the derogation of active post-harvest substance diphenylamine.
- 2 The Campaign for Responsible Rodenticide Use has added Liphatech and Lodi UK to its list of manufacturers of rat control products which promote responsible rodent control.

IX Marketing

- 1 The Government has confirmed that powers to enable the supermarket adjudicator to fine those which deal unfairly with their suppliers will be included in the Groceries Code Adjudicator Bill. The adjudicator will also be empowered to publicly “name and shame” those retailers in breach of the Groceries Supply Code of Practice.
- 2 Eight UK supermarkets, including Tesco and Sainsbury’s but not Asda, have agreed to a new code set by the Office of Fair Trading whereby special offers and discounts are fair and not artificially arranged.
- 3 The basket of 10 key Christmas fruit and vegetable lines was up 11.9 per cent compared to 2011 with Maris Piper potatoes up 37.9 per cent; Conference pears up 27.6 per cent; parsnips up 12.2 per cent; sprouts up 8.4 per cent.
- 4 Nearly 50 per cent of food and drink served in Scottish public sector organisations is sourced from within Scotland, an increase from 34 per cent 5 years ago.

X Miscellaneous

- 1 Harper Adams agricultural college has been awarded university status.
- 2 Open Farm Sunday will take place on 9 June this year.

Postscripts

Wisdom from training manuals

‘If the enemy is in range, so are you’

- Infantry Journal

‘It is generally inadvisable to eject directly over the area you just bombed’

- US Air Force Manual

‘Whoever said the pen is mightier than the sword, obviously never encountered automatic weapons’

- General MacArthur

‘Five second fuses last about three seconds’

- Infantry Journal

‘Any ship can be a minesweeper. Once.’

- Naval Ops Manual

‘If you see a bomb technician running, try to keep up with him.’

- Infantry Journal

‘The only time you have too much fuel is when you’re on fire.’

- Unknown Author

‘When one engine fails on a twin-engine airplane, you always have enough power left to get you to the scene of the crash.’

- Multi-Engine Training Manual

‘If you hear me yell; “Eject, Eject, Eject!”, the last two will be echos.’ If you stop to ask “Why?”, you’ll be talking to yourself, because by then you’ll be the pilot.’

- Pre-flight Briefing from a Canadian F104 Pilot

The ring of confidence!

Elsewhere in this month's Monthly Farming Update, comment has been made on the NFU's farmer confidence survey.

Only 22 per cent of those surveyed expressed confidence in the year ahead. This comes on the back of projected TIFF figures of £4.25 billions in 2012 and £4.7 billions in 2013.

It has been well publicised that 2012 has been a difficult farming year. Too cold early on for bees and too dry in many parts of the UK transformed into one of the wettest years on record. Potatoes and sugar beet still in the ground and some wheat not harvested until December. Feed prices for livestock have gone through the roof while autumn crop establishment has been a nightmare. Enough to give the notoriously grumpy farming community plenty to grumble about.

But just think a little. After the year we've experienced, TIFF for 2012 is still expected to be the fifth best out of the past 17 years while 2013 is forecast to be the fourth most profitable.

Add to that the fact that the Chancellor has just given the sector a good tax incentive to invest in sparkling, new kit, something which always makes a farmer happy, and there should be some smiley faces about.

The one area of concern should be cashflow. Working capital is increasing at an alarming rate with higher rents and input prices. Inflation has to start moving upwards before long and this will impact on interest rates. The recent profitable years mean there are some large tax bills in the pipeline. All of this adds up to a significant increase in capital requirement, just at a time when it has never been more difficult to persuade the banks to lend.

So make sure you have an early meeting with your bank manager to set out your requirements, smile a lot and just exude confidence! All of you, not just 22 per cent!

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