

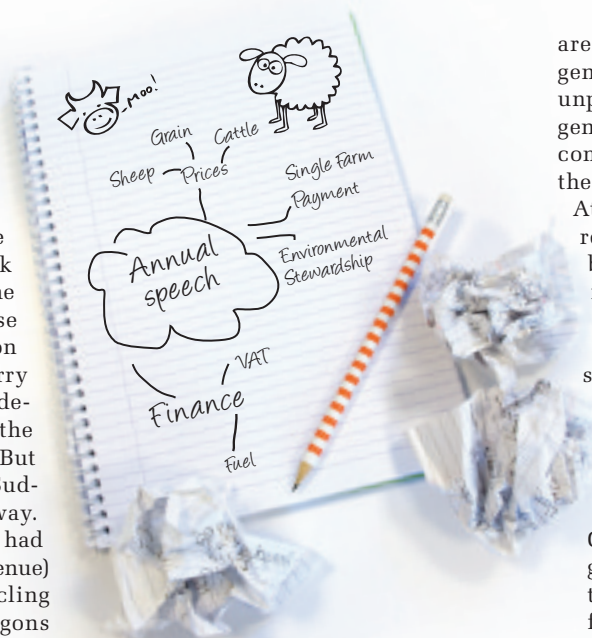
Thank goodness UK Farming is not a PLC! The BP catastrophe in the Gulf of Mexico is a reminder, if one were needed, of just how fickle the markets can be.

A hugely profitable guilt edged business producing what everyone wants lost over 50% of its share value after one – in the scheme of things – not so catastrophic mishap. You can only imagine what it must have been like for the chairman and CEO. Before the spill profits were soaring, the outlook fantastic, market penetration across the globe getting better and better. Those managing the business could float on water! The only thing they had to worry about was how to pay themselves indecently large sums without attracting the same media attention as the bankers. But what a difference a day can make. Suddenly so called “friends” turned away. The governments of the countries who had welcomed the investment (and tax revenue) were baying for blood. The media circling the board – like indians around wagons – just waiting for scalps. And of course scalps is what they got.

So is any of this relevant to your own business. On the face of it no – your farming business is not a PLC so no shareholders to either satisfy or appease. But imagine for a moment that you are preparing your annual speech, not for the shareholders, but for the family members of your farming business. You might start by having a look at the key factors as follows:

- Income
- Grain prices – risen by 20% in the last month but not sure where they will be in 6 months.
 - Cattle prices – down 5% compared with July 2009, not sure where they will be in 12 months, depends on the Euro.
 - Sheep prices – up 8% compared to July 2009, outlook depends on the Euro and size of UK flock – OK I think!
 - Single Farm Payment – 2011 and 2012 should be OK but amount will depend on the Euro. Scheme due for reform in 2012/2013, income will probably be down.
 - Environmental Stewardship – ELS OK

Lessons from BP



but old CSS and ESA schemes come to an end in 2014. UK cuts could make entry into HLS more difficult.

- Grant funding – Had hoped to get SEEDA or Leader grant to fund holiday let conversion but budget cuts make this very unlikely.
- Rental income – Houses stable but commercial lets uncertain. Depends on UK economy. You then move onto costs and identify the significant ones:
- Finance – While base rate remains at 0.5% borrowing costs are affordable. Not sure how long rate will stay so low.
- VAT – Going up but not a problem for us, I think!
- Fuel – Risen sharply in last 6 months but now stable. Outlook, probably up!
- Fertiliser – Up 25% compared with last year, future prices depend on oil price. You quickly realise that the message you

are about to give to the family is that the general outlook for the business is quite unpredictable and in fact, as a result of the general economic uncertainty and forthcoming reforms to the subsidy schemes, the next few years could be difficult.

At this point the BP fiasco might become relevant. The risk of an oil leak caused by an underwater explosion had been identified. However the management, for whatever reason, had chosen not to ensure that their insurance policy, i.e. a safety cut off device, was working properly.

We have “safety cut off devices” available to us.

- The outlook for grain prices is uncertain but forward sales using Option Agreements are worth investigating. Now could be a very good time to lock into some quite attractive prices for this year, next year and even the year after.
- Some have looked into exchange rates for the Single Farm Payment. The 2009 Scheme benefitted from an exchange rate of ninety pence to the Euro. This has fallen to 83p per Euro, i.e. a 10% fall. The best deals have already been

done but don't forget that the 2005 Single Payment was at less than 70 pence per Euro.

● Fertiliser and other inputs can be bought forward. This does not always work but producing any product to known costs is usually advantageous.

● Finance costs are low but could go up. If they start to move then fixing long term borrowing might be the right thing to do.



So unless you have a parachute package like the chief executive of BP – pension of £600k p.a. plus £1 million severance – look carefully at protecting your business, it could end up saving more than just your job!



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