

Working hard for nothing

Most who visited Cereals at Royston last month would have gone with the intention of finding the answer to that all important question to which the event has become synonymous – i.e. the cost of ammonium nitrate for the following year's harvest.

As usual the fertiliser industry is trying its hardest to push prices up and certainly early signs are that it will be £40 per tonne more than last year. This is in spite of grain prices being lower – no doubt the justification will include tried and tested excuses such as the price of oil and rising production costs. If only the farming industry could dictate prices in this way! One day perhaps.

In the meantime decisions are being made on cropping plans and varieties for the 2011 harvest. On the assumption that most will stick to what has gone before then the table opposite illustrates the effect of the new AN price – £210/tonne – on next year's figures.

Some will say that these predictions are meaningless – who knows what the grain price will be after harvest 2011? Particularly as we are constantly told how volatile the markets are. Nevertheless it does not take a genius to see that wheat, and particularly spring barley look pretty sick. Increasing the wheat yield to 3.75 t/acre results in break-even and four tonnes generates a profit of £7 per tonne. Only oilseed rape looks set to deliver a profit – although if everyone grows more this year then prices will probably drop. This seems likely.

So based on these figures this Sussex farm growing 300 acres of wheat and oil seed rape and 150 acres of spring barley will work very hard to produce a net loss of £20,000. This is an intolerable but common situation. Thank goodness we have, at least for the time being, the Single Farm Payment and ELS/HLS schemes.

Is the rise in fertiliser price the main cause for this disappointing result? Well actually no. This same Sussex farm will lose £18,000 in 2010 after paying £170/tonne for the AN last year – so the business was losing money already. This begs

	WW	OSR	Sp Barley
Yield (t/acre)	3.50	1.50	2.25
Price £/tonne	105	270	110
Output £/acre	368	405	248
Seed, fertiliser, sprays and drying	202	180	140
Gross Margin	166	225	107
Less Fixed Costs			
Power and Labour	130	130	130
Other Costs	60	60	60
Profit Pre Rent & Finance (£/acre)	-25	35	-83
Cost of Production (£/tonne)	112	247	147
Profit / Loss £/tonne	-7	23	-37

the question – why do we get worked up about the new fertiliser price while ignoring other factors which could be more significant to the profitability of the farm? Returning to the table it is obvious that for two of the crops the cost of production is greater than the sale price. It is true that the price could rise to turn loss to profit – although it is hard to see spring barley rising £37/tonne, and that is just to break even. However, there is no guarantee an increase will happen and the modest rise predicted for the 2011 harvest could be reversed. In any event hoping the market will rise enough is leaving the fortunes of the business to chance. You might as well use the fertiliser money to back a horse if that is the basis of the business strategy!

This brings us back to the same point that has been made many times before - overheads are much less fixed than variable costs. For example the power and labour costs shown amount to £130 per acre.

While it would not suit all, switching to a contract farming arrangement would probably reduce this to £110 per acre, saving £14,000 per year. But that is only the start. This change might result in buildings being released for other purposes – for let perhaps. The change might also result in

cottages becoming vacant which can then be let rather than being tied up by employees. There may be some capital released from the sale of machinery which can be used to repay debt or used to finance the refurbishment of the now redundant buildings.

A less drastic but as effective solution is to work with another like minded farmer by pooling labour and machinery resources.

These arrangements are common in other parts of the country. So rather than just accepting that you are losing money and relying on the Single Farm Payment to underwrite the losses, change something and take back control of your business. You won't regret it.



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