Farming Group

Farming Group News

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND & WALES

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Editor's introduction

Green shoots of recovery

After a dismal decade perhaps the industry is at last seeing some signs of recovery. At the time of writing the farm gate price for feed wheat is up almost £20 per tonne compared to October 2006. The picture for rape, barley, pig meat and finished cattle all show similar moves in the right direction with only the milk sector lagging behind last year's prices. In the longer term the market may be underpinned by movements in the worldwide supply/demand cycle together with anticipated impact from the bio-fuels sector. Although the results of harvest 2005 may be uninspiring, clients appear to be rather more optimistic for harvest 2006 – an optimism which is feeding through to strong land prices.

Sticking with the agricultural analogy however, we must be careful to ensure that these green shoots do not suffer from early frosts. As mentioned above, milk prices are still significantly lower than they were a year ago, which will have a depressing effect on profits on the western side of the country. In the East, the reform of the sugar beet sector will be painful, with prices falling by about a third over the next three years. Signs from the quota market are that optimists and pessimists for the future of the industry are currently 'in balance' with the price of quota fairly stable at around £2.50 per tonne. Accordingly, the next couple of years will see a fairly significant restructuring of the sugar industry which has long been the mainstay of farming in the eastern counties.

As the Farming and Rural Business Group continues to expand we have been able to provide an additional benefit for members in that the Andersens statistics, hitherto provided quarterly, will now be issued to our membership on a monthly basis from October onwards. We have also been able to secure a discount on the CCH handbook, *Agriculture – An Industry Accounting and Auditing Guide*, as set out elsewhere in the newsletter.

Finally, on the back of a very successful conference in 2006, we will be returning to the National Motorcycle Museum in 2007 and steps are already well in hand for that conference, which will take place on 5 July 2007. Your committee looks forward to meeting as many members as possible there next July.

David Missen

IN THIS ISSUE

Is marriage bad for your wealth? – Part 1

by Isobel Robson
of Andrew M Jackson Solicitors

When I spoke last year at the Farming and Rural Business Group's highly successful annual conference at Harrogate, I focussed on the accountant's role in strategies for managing divorce settlements. With the legal position on divorce changing on a weekly basis, this article is intended to bring you bang up to date. In the next issue I will be dealing with the key issues for your day-to-day practise arising from the recent flood of divorce cases. Given recent high profile divorce cases, some wealthy individuals – particularly farmers and those in agri-businesses who have generally accumulated significant assets (and have frequently inherited those assets) – may be wondering whether marriage – or divorce – is simply unaffordable.

Miller and *McFarlane*

On 24th May 2006 the House of Lords gave a landmark ruling in two appeals concerning the financial aspects of divorce. The cases both involved entirely different facts but had been joined solely for the purposes of the appeal.

In the case of Mr Miller's appeal, their Lordships upheld an award of £5 million for his wife after a three year marriage. They calculated this would allow her to retain the marital home worth £2.7m and to give her an annual net lifetime income of £98,000 index-linked. Mr Miller's fortune was estimated between approximately £12 – 18 million and he enjoyed a salary of £180,000 per annum plus bonuses of between £1 – 3m. However, the parties were only together for three years after their marriage in 2000.

Farm profits survey

Data for our annual Farm Profits Survey is still being collated, and the results will be available in December.

If you have not already done so, make sure you return your questionnaire by Friday, 3 November 2006 in order to be in the draw for a case of champagne!

You will find the questionnaire online at
http://www.icaew.co.uk/index.cfm?route=142428

In Mrs Macfarlane's case, her appeal was upheld and in addition to her half share of the family capital she was awarded a lifetime maintenance order of £250,000 per annum, representing one third of her husband's annual £750,000 net salary. She was also awarded maintenance for their three children.

Although their Lordships assessed Mrs Macfarlane's income needs at approximately £128,000 they allowed almost double this figure, despite agreeing that she was able to return to work as a high earning city lawyer.

Mr and Mrs Macfarlane had been married for sixteen years and had cohabitated for two years prior to this. They had three children aged 16, 15 and 9. Their capital totalled approximately £3m and the husband earned £750,000 per annum net.

The House of Lords gave mixed messages in these landmark rulings. Indeed, in some cases it may create an effect completely the opposite of what appears to have been intended.

On the one hand, wives in particular will be delighted by the ruling in *McFarlane*, especially the decision that in circumstances where the wife takes a career break to care for the parties' children and enable her husband to develop his career she should be entitled to compensation for the economic disadvantage which she suffers on resuming her career. The Judges indicated that where the husband is a high earner the wife's compensation should not be based solely upon her reasonable requirements but should incorporate a share of the husband's earnings over and above those needed to meet the parties' combined requirements. Their Lordships indicated Mrs Macfarlane was 'entitled to an award which reflects the agreement of the parties that she sacrifice her high earning career in the interests of the family whilst the husband developed his'. This introduces a new element of 'compensation' into financial provision on divorce.

Whilst few in the farming industry are able to enjoy significant incomes from their enterprises at the moment, it is a concern that a wife – marrying into a farming family, devoting her life to the support of the farm and giving up a career away from the farm – could make a very similar argument to Mrs MacFarlane. This may lead to higher or longer maintenance orders from the court.

Many others will be horrified by the decision in *Miller* where, after a short childless marriage, the House of Lords confirmed an award of £5m. Mr Miller's Counsel pointed out that if Mrs Miller had been the victim of a road accident and injured so severely that she was unable to work or have children that the award would have been at most £2m. The Judges justified their findings on the basis that Mr Miller had given his wife 'the expectation of living on a higher economic plane' and therefore that it was appropriate for her to live in a standard approaching that which they had enjoyed during their short marriage. One wonders then whether this will become a factor in farming cases where, unless two dynasties have married, one party may well be able to enjoy the benefits of the 'farming lifestyle' – perhaps a large home, land, stabled horses and so forth – and be able to argue they need to continue that lifestyle post-separation.

The Judges in *Miller* also took into account the fact that during the marriage Mr Miller's capital had increased by between £12m – £18m and therefore this represented not only a sum which Mr Miller could well afford but also significantly less than one half of the value of the increase in assets during the marriage.

The judgment may assist in farming cases as the Judges agreed that significant assets owned by one party at the outset of the marriage and other property acquired by gift and inheritance should be approached in a different way to assets acquired by the parties' joint efforts in the marriage. However, it was suggested that its importance might diminish over the length of the marriage. So maybe short marriages are a safe option for capital-wealthy farmers!

Charman

In the recent case of city financier John Charman the knives were really out to achieve 'fairness'. All of the couple's £100 million had been accumulated from scratch during their 30 year marriage. Again, the judges looked to the capital arising during the marriage and decided they should go as far as they could to awarding the wife 50% and gave her £48 million – thought to be one of the largest divorce settlements ever recorded.

The three judgments will undoubtedly cause significant debate among professionals involved in this developing area and will assist in clarifying some previously uncertain areas of the law relating to the financial effects of marital breakdown. It is also likely that, in cases involving significant assets and/or income, larger settlements will result – but arguments upon liquidity of assets will rage again in farming cases. There will be a greater incentive for the wealthy party to hide assets which may result in significant increases in legal costs where opposing lawyers attempt to uncover the truth. It is probable that there will be a significant move towards prenuptial agreements where one or both parties have substantial assets or income. The purpose of these will be to try to limit the financial implications of a subsequent breakdown by providing within the deed the financial settlement which the parties agree should be made. Whilst not legally binding in the same way as a contract these are regarded by the Court as a 'persuasive' influence towards the implementation of the settlement agreed by the parties before their marriage. I will return to these topics next time.

Although the House of Lords was at pains to emphasise that its decisions were intended to achieve 'fairness' in sharing the 'fruits of the matrimonial partnership' there is at least one area of very genuine concern. This is the fact that high earning or independently wealthy individuals who are intending marriage may find the potential financial effects of a breakdown to be too severe. Thus, they may decide that instead of marrying they will pursue a relationship outside of marriage thereby giving their partner and children much less legal and financial security.

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Furnished holiday lets (FHLs) turning 'may' into 'will' achieving Inheritance Tax (IHT) relief

It is known in the tax world that FHLs may qualify for business property relief (BPR) for IHT provided the owner plays an active part in the management of the tenancies.

Many clients can use this as an active tax planning tool to ensure that existing property does qualify and to swap non-qualifying assets, e.g. let property, for the FHL.

Helping the Parents

One of the most practical uses of the potential IHT relief can be for clients' parents! Many of the ageing population (known affectionately in the marketing world as the 'silvers') have purchased a retirement holiday home that they use and let out.

The property must meet certain requirements to qualify as a FHL and be eligible for the tax relief thereon.

The property does not have to be in a tourist area but the pattern of lettings must satisfy these three conditions (Pt 3, Ch 6, ITTOIA 2005):

1. The property must be available for commercial letting as holiday accommodation for at least 140 days a year.
2. It must be actually let as holiday accommodation for at least 70 days a year.
3. It must not normally be let for a continuous period of more than 31 days to the same tenant in seven months of the year, and those seven months include any months in which it is actually let as holiday accommodation.

The guidance is found in *Share Valuation Manual SVM 27600*. The manual states:

> 'In some instances the distinction between a business of furnished holiday lettings and, say, a business running a hotel or a motel may be so minimal that the Courts would not regard such a business as one of "wholly or mainly holding investments" for the purposes of *s.105(3)*.
>
> You may therefore normally allow relief where:
>
> - the lettings are short term (for example, weekly or fortnightly); and
> - the owner – either himself or through an agent such as a relative or housekeeper – was substantially involved with the holidaymaker(s) in terms of their activities on and from the premises even if the lettings were for part of the year only.
>
> If you encounter any difficulties in this area you should refer to the Appeals Team.'

Further guidance is given in the IHT Manual 25278, e.g.

> 'You should continue to refer to Litigation Group (IHTM01083) cases where relief is claimed and:
>
> - the lettings are longer term (including Assured Shorthold Tenancies); or
> - where the owner had little or no involvement with the holidaymaker(s) – for example a villa or apartment abroad; or
> - where the lettings were to friends and relatives only; or
> - where it is clear that no services were provided to the holidaymakers.'

The tax planning confusion rests with the extent of the involvement with the tourist. The tax relief is helped if there are lots of services provided, e.g. 'the meet and greet', organising car hire, cleaning and laundry, supply of basic food for the fridge, etc. The owner can subcontract out these services. The important point is the extent of the involvement with the holidaymakers even if this is handled by an agent. The key is to ensure there is a contemporaneous record of the services provided. Further examples are visits to the cottage with local maps/guides, historic attractions, organising the maintenance of the property prior, during and after the period of let, including gardening.

Practical tax matters are that, whereas non-'holiday let' periods can qualify for the Income Tax, National Insurance (NI) and Capital Gains Tax (CGT) advantages, in order not to fall foul of s.105(3) IHTA 1984 the greater evidence of the provision of practical services to genuine holidaymakers will help.
For example:

1. The location of the cottage is in a tourist area.
2. The property is marketed professionally.
3. Small business rates are paid.
4. The cottage is awarded a rating by the English Tourist Board.
5. Public liability insurances are paid on the property.
6. The operation of the business is commercial and profits are made and tax paid accordingly.

Sharpening the knifes

When claiming BPR on FHLs, one is more than likely going to meet great opposition by HMRC and you need to be prepared to fight. Fortunately, there is plenty of internal guidance in the IHT manuals which can be used in support of the claim. One of the more interesting texts can be found at IHTM 25277, e.g.:

> IHTM25277 – Caravan sites and furnished lettings: Hotels, Bed and Breakfast and Residential Homes
>
> IHTA84/S105 (3) will not usually apply to these businesses in view of the level of services provided. This has been recognised by the courts who have distinguished these businesses from mere exploitation of land. In *Griffiths (Inspector of Taxes) v Jackson* 56 TC 583 at page 593, Vinelott J observed:
>
> *The distinction between a hotelier or a lodging house keeper, on the one hand, and the owner of a property who lets furnished rooms and provides services, is no doubt in practice a narrow one, more particularly in these days of self-service hotels and motels, but the principle is clear and in the present case there can be no doubt on which side of the line the taxpayer's activities fall.*

Agriculture: An Industry Accounting and Auditing Guide

– by David Missen and Grant Pilcher

3rd edition

Available to FRBG subscribers at £63.75, including 15% discount

Improve your profits with CCH's best selling industry guide

Economic and environmental pressures are transforming the agricultural landscape. As a result of these increasing pressures on the industry, farmers, more than ever, need a wide range of skills in order to cope with the financial issues and technical issues of running a business.

Look to the future

The new 3rd edition of ***Agriculture: An Industry Accounting and Auditing Guide*** brings together the three specialised tenets of the financial management of farming businesses – accounting, taxation and business management. All three are interrelated and need to be considered in all business decisions. The farm accounts need to be interpreted, identifying strength and weaknesses enabling business management decisions to be made with regard to the taxation consequences.

Fully updated

This new 3rd edition of ***Agriculture: An Industry Accounting and Auditing Guide*** has been completely revised to take account of the wide range of developments since the last edition. This new edition includes:

- a section completely updated to take into account the introduction of the Single Payment scheme, its tax and accountancy treatment;
- the current agri-environmental schemes;
- updates on the state of the farming sector in 2006;
- a new section on the valuation of farming companies;
- capital gains tax review including the changes in taper relief since introduction;
- pension schemes post 'A' day;
- the current regime on woodland grants;
- a revised set of standard model accounts.

The book will appeal to accountants in general practice who deal with farming clients on a regular basis. But its practical style and easy to use index will also make it an ideal guide for those who deal with farming clients on an occasional basis. The book is also aimed at all individuals who are involved in farm business management, ranging from rural land agents, bank managers, farm secretaries, consultants and students through to the farmer or manager of the business.

Order on-line at: www.cch.co.uk or telephone 0870 777 2906, stating that you are a member of the ICAEW Farming & Rural Business Group.

> Only in cases where it is clear that IHTA84/S105 (3) applies should you pursue it. Any doubtful cases must be referred to the Litigation Group (IHTM01083) before an entrenched position is taken.

So what are the Income Tax and CGT advantages?

Commercial furnished holiday letting is treated as a trade for many tax reliefs, although it is not actually a trade.

Losses from the FHL can be set against other income of the same year, unlike normal property income losses, which must be carried forward to set against property income in future years.

The capital gain made on the disposal of a FHL property:

- attracts Business Asset Taper Relief (BATR) as opposed to non-business taper relief;
- can be rolled over into the purchase of another FHL property or into a different business asset, which defers the gain until the replacement asset is sold; and
- can be held over as a gift of business assets, so CGT is deferred until the recipient disposes of the property.

In addition, the FHL may qualify for BPR as long as the owner plays an active part in the management of the tenancies.

So what are the disadvantages? The issue of Class II NI Contributions (NIC) on property income is a strange one as guidance cannot be found in the HMRC manuals and indeed the Property Income Manual clearly states that as furnished holiday letting is not a trade, class IV NIC is not due (PIN 4120).

However Class II NICs are frequently demanded where various types of lettings are undertaken, although in the case *Rashid v Garcia SpC 348*, HMRC argued the opposite when Mr Rashid tried to claim benefits based on the Class II NICs he had paid. It was held that Mr Rashid was not in business although he let and managed four properties.

VAT at 17.5 per cent will apply to the rents from a FHL if the property is advertised as such and the owner is, or should be, VAT registered. So if the total of rental income received from the FHL properties plus any other VAT-able supplies already made by the landlord exceeds £61,000 in 12 months (VAT registration limit from 1 April 2006), the landlord must register for VAT. If the landlord is already VAT registered for another business they must charge VAT on the rents from the FHLs.

Obviously the charge of VAT to what are assumed non-VAT registered holidaymakers could have a distinct disadvantage to profitability, but some of the input VAT on the associated costs could be claimed – but this is not an opt to tax so beware on the question of over claiming input VAT.

Conclusion

The burden of IHT for the current band of pensioners, who have often accumulated their wealth through thrift and hard work, has been well documented by the popular press. They have even campaigned for action – well, simple tax planning action is very close to hand. For those planning to move furnished property to a FHL the two year rule for IHT must be remembered.

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Decision time for the British sugar beet industry

1. Introduction

British Sugar and the NFU have agreed a new three year Inter-Professional Agreement (IPA). This starts for the 2007 crop and runs through to the 2009 crop (the year the minimum beet price reaches its lowest point). They have also agreed an Industry Restructuring Scheme, including compensation terms for most Allscott and York growers, where the factories will close after the 2006 crop campaign (see Bulletin 07(06)). Restructuring will be greatly assisted by the agreement in the IPA that in future, Contract Tonnage Entitlement (CTE), as the new contract will be called, will be fully flexible. This means trading is possible by sale or lease, and leaves farmers free to decide where to grow the crop – new growers could start in 2007.

There is not much time for existing or new growers to plan for 2007 cropping. The important dates for restructuring are:

- Allscott and York growers can start **immediately** to decide which option to take up. Consent to Transfer forms (with Terms and Conditions on the reverse) are being sent out now.
- Trading for those not affected by closures begins on **11 September 2006**: Consent to transfer forms will go out shortly but will not be processed until 11/09/06.
- The deadline for receipt of all Consent to Transfer forms is **6 October 2006**.

British Sugar has clearly driven a hard bargain. It appears not to have conceded much on price, although for 2009 onwards prices are a little above the minimum beet price, and there is a link to the price of wheat. It has come up with some compensation funding to ease the restructuring and it intends to invest in additional quota (£43m) and further investment at the remaining four factories (£27m). It is through the restructuring that British Sugar will hope to achieve its ambitions, i.e. radically fewer (high yielding) growers, close to the four remaining factories at Newark, Cantley, Wissington and Bury St. Edmunds. If it all goes wrong, i.e. if most of the York and Allscott quota is surrendered, and there is no enthusiasm from East Anglian growers to take on more tonnage or become new entrants, then the fallback position could still be to surrender quota to the EU and take up the factory compensation – hence the early CTE trading and the deadlines.

The details of the IPA and the Industry Restructuring Scheme are set out below:

2. Inter-professional Agreement

2.1. Beet Price

The announced prices, assuming 1 = 69p, are as follows for the 3 year agreement (the 2006 crop is also included for comparison);

Year	*2006*	*2007*	*2008*	*2009*
£ Per Adjusted Tonne	*22.86*	20.28	19.22	19.00*

* assumes wheat price at £80 per tonne; beet price could go to £20 per tonne at a wheat price of £95 and currency 69p-70.5p

Notes:

1. ***Wheat price*** – The link is with wheat futures, calculated from the December contract in August (66.6%) and the March contract in December (33.3%).
2. ***Currency*** – Prices for 2007 and 2008 will vary with currency (calculated as now on a daily basis, with an interim price and later adjustment). For 2009 the IPA has built in some hedging, but if currency is below 69 pence, price could go down (lowest £18.50 per tonne?). If the currency is above 20.5 pence then the price could rise.

   We prefer to budget at 68 pence (especially with €1 = 67.5p today), this would give:

Year	*2006*	*2007*	*2008*
£ Per Adjusted Tonne	22.53	19.99	18.94

3. ***Late delivery bonus*** – There would be additional LDB, at about 13p per tonne on average and starting on Boxing Day. No Early Delivery Bonus.
4. ***Transport allowance*** – The fund remains the same at £23m in total, with an average of £3.30 per clean tonne, but mileage ***capped*** at 50 miles (one-off compensation available for those more than 50 miles from their factory – see restructuring details). This means some could see increases, but currently the allowances will under-fund transport by 50p to £1 per tonne.
5. ***Crown beet*** – Prices reflect full payment for sugar in crowns.
6. ***Excess beet*** – (previously ‘C’ beet) We understand beet delivered above contract tonnes will be used for bio-butanol production at Wissington with price linked to the ethanol price. A ‘safe’ budgeting price for 2007 is £11 per tonne delivered, but this could be £12-13 per tonne at present prices.

2.2. Payment Terms

Weekly payments will now be made to improve cash flow to farmers. Payment for contract tonnes will be made on the fourth Tuesday following the week of delivery.

2.3. Flexible contracts

This is an important part of the restructuring plans. CTE (contract tonnage entitlements) for 2007 will be issued shortly to all 2006 growers. They can either decide to grow, or can sell or lease under the Restructuring Scheme. The contract tonnage on offer from British Sugar will be the full original entitlement without the temporary quota cut. (This has implications for that planted in 2007, as most growers have carried forward the UK’s 10% quota cut from 2006). British Sugar will in effect cover the quota cuts from the tonnage returned to them under the restructuring.

The CTE, in 2007 and future years, will be fully flexible:

- It can be sold;
- It can be leased annually;
- There is freedom to decide where to grow the crop (includes no rotational constraints);

- Simpler performance rules: There will be no cut in quota unless the two year average delivery falls below 95% of the contract tonnage. No cuts will be based on the 2006 or previous crops, so there is a fresh start in 2007 which means that the earliest a cut can be imposed is for the 2009 contract.

2.4. Blocking

British Sugar has agreed to block (store) any temporary quota cuts at its expense. This will give growers more confidence in planning their crop area as it means any last minute cuts from the EU will not create 'C' beet for that year, but will be carried forward to the next contract.

3. Industry restructuring scheme

The restructuring scheme appears very complex, but for individual growers there will be only a few choices, and British Sugar will shortly be writing to growers setting out just their individual options. Basically, these are to continue growing the same tonnage, increase production, or participate in the Industry Restructuring Scheme. For those advising farmers there is a need to understand the whole range of options. These have been set out below in some detail for the six categories of grower within this scheme:

- **Allscot and York growers within 50 miles of Newark:** will get a Newark contract for 2007 and no compensation, but can of course trade their CTE from 11th September 2006.
- **Allscot and York Growers 51-60 miles from Newark:** will be awarded a Newark contract for 2007, but will have a number of compensation offers. If they sell their CTE immediately to British Sugar they get £8 per tonne (paid about October 2006). If they give up growing at home and sell or lease to a Bury, Cantley or Wissington grower they will get £7.50 per tonne if the grower is within 30 miles of the factory, or £7 per tonne if the grower is more than 30 miles from the factory, or they can rent land near one of these factories and grow the crop on their own account (in all these situations they will be paid about October 2006). Alternatively they can continue to grow at home in 2007 and will get at £3 per tonne compensation payment which in effect helps cover the additional transport costs of delivering to Newark. This £3 compensation will be paid on the delivered 2007 crop tonnage (in April 2008). Whether these growers continue or cease growing after 2007 there is no further compensation, but they still have CTE to trade.
- **Allscot growers > 60m from Newark:** These growers have the same options as above in terms of selling to British Sugar at £8 or selling/leasing/growing near to an East Anglian factory with either £7.50 or £7 compensation, depending on how close the grower is to the factory.

  However, if they continue to grow at home in 2007 they must deliver to the **Bury** factory and there will be a £4 per tonne compensation payment in April 2008 on delivered tonnes. If the grower then decides to cease growing after the 2007 crop, a further £2 per tonne compensation is payable, i.e. a total of £6 per tonne on the contract being cancelled or transferred. This part of the deal negotiated with the NFU was to address the issue of those who had recently invested in equipment in the Allscot and York areas and wanted more time to write off some of the investment. These growers could continue to grow at home beyond 2007, but with no further compensation and limited transport allowance, but they still have their CTE to trade.
- **York Growers > 60m from Newark:** Exactly the same as the above bullet point except that if they grow in 2007 they must deliver to **Wissington** Factory.
- **Bury/Cantley/Newark/Wissington at > 50m:** If they continue to grow in 2007 there will be compensation at £3 per tonne paid in April 2008 on delivered tonnes of the 2007 crop. This is a one-off compensation for the imposition of a cap on haulage allowance at 50 miles.
- **Bury/Cantley/Newark/Wissington at < 50m:** These growers simply have the option to trade CTE from 11/09/06 within their own contracted factory area (although there may be some cross-border flexibility). Moved tonnage attracts the lower of the grown or transferred contract distance (so as not to dilute the transport allowance pot).

Notes:

1. Trading starts immediately for Allscot and York growers over 50 miles from the factory whether they want to sell to British Sugar or sell/lease to another grower delivering to Bury, Cantley or Wissington. If they cease growing at home but do not sell to British Sugar they only have to make 50p-£1 from selling/leasing to another grower to equal the £8 per tonne available from British Sugar. There seems a good chance that trading will be in the range £2-£4 per tonne for sale of CTE. Growers must also act now if they wish to cease growing at home and find land in East Anglia.
2. The only way that two compensations will be paid (i.e. a total of £4 + £2 = £6 per tonne) is for Allscot and York growers to continue to grow on their own land in 2007 and then to cease growing. They will still have their CTE to trade at market value for the 2008 crop.
3. Distances from factories will be measured using 'auto-route express' and taken from the 'average' loading point.
4. Minimum CTE trade 100 tonnes unless the contract is for less than 100 tonnes in which case the whole CTE must be traded.
5. Other than surrenders to British Sugar at £8 per tonne, the trading of CTE will be managed through the 'market', British Sugar plan to operate a 'notice board'.

4. Other

Taxation of sale of CTE is not expected to change from past practice during recent 'Outgoers Schemes'. This means receipts from sales is taxed as income not capital. The new IPA is not thought to fundamentally change the nature of quota/contract tonnage.

British Sugar and the NFU are committed to work together to:

- reduce the gap between transport allowance and the cost of haulage;
- reduce the price of seed to growers;
- simplify the IPA contract document.

With only four factories, the harvest campaign will lengthen to 165 days, stretching to approximately the end of February each year.

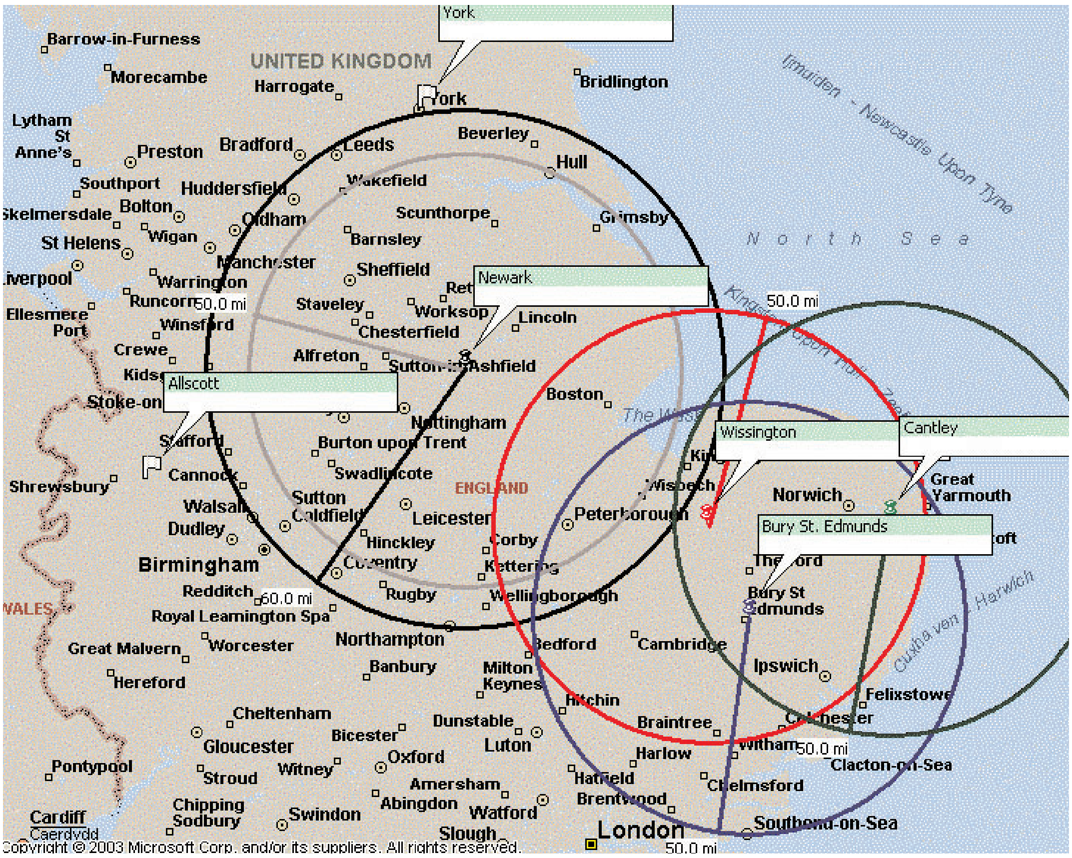
British Sugar expects to receive some 500,000 tonnes of contract beet from relinquishing growers which it will hold and use to manage current and future EU temporary quota cuts. It also wants to move 1m tonnes into Bury/Cantley/Wissington factory areas. Newark will be full, having transferred in some of the Allscott and York tonnage and so no additional movement of tonnage into this remaining factory area will be allowed.

Growing should therefore fairly rapidly restructure with the Newark area cut off, going north, at the Humber and, going west, at Lichfield. This means nearly all current Allscott growers are likely to give up and the majority of current York growers (mostly in the Vale of York). (See map below for details).

5. Conclusion

The big question is, will enough existing or new growers near East Anglian factories see a future in beet growing at the new price and cost structure? Our analysis indicates that, at 70 tonnes per hectare, sugar beet is likely to stay in rotations against combinable crop alternatives at likely future crop prices. By linking beet prices post-2009 to wheat, British Sugar has built in some protection for itself.

The uncertainty is how quickly growers not on silt soils can achieve 70 tonnes per hectare. Most East Anglian growers outside the Wash area are on sandy or loam soils, many of whom may struggle most years to achieve 70 tonnes. The attraction of beet is as a break in combinable crop rotations, and there will be many existing growers who will look carefully at increasing beet in their rotations to replace poorly performing crops, possibly second wheat, pulses or oilseed rape. With greater scale and other economies such as block cropping, squaring off fields and working together to manage harvest and delivery the economics may well work at below the target yield of 70 tonnes. By freeing up the market in contract tonnage British Sugar may well achieve its objectives.



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