

Summary

The second edition of Crop Production in England explains the economics of crop production in England in 2006, a year that initially offered only mediocre financial returns to producers, but with hindsight is seen to have marked the end of the long run of depressed farm incomes experienced since the late 1990s.

Building on the wealth of gross margin data presented last year, the following pages provide new detail of agricultural performance of arable farms in England. We also consider organic arable production for the first time with results on the performance of organic arable businesses and with gross margins for selected organic enterprises. Looking ahead to the 2008 harvest, we report on farmers' response to the zero set-aside rate.

As the 2006 harvest year progressed, grain prices rose, but not before cropping and crop marketing choices had been concluded. Eventually, the year provided a hint of the more significant price rises that were to follow. In 2006/2007, arable farms enjoyed a small improvement in profitability, as Farm Business Income (FBI) rose to £261 per hectare on Cereals farms and £317 per hectare on General Cropping farms. But average figures inevitably mask the variation between businesses. Whilst the top 25 per cent of Cereals farms generated a positive FBI, the bottom 50 per cent were unprofitable according to this income measure. The situation was similar for General Cropping farms with the top 25 per cent markedly outperforming the rest.

Balance sheets for Cereals and General Cropping farms show that the net worth of Cereals and General Cropping businesses increased by about ten per cent during 2006 to £5211 and £4729 respectively. The main reason for this improvement was the increase in value of agricultural land.

Improved crop prices were the main driver of the higher incomes on both Cereals and General Cropping farms, while the contribution of livestock to the total output was little changed on the previous year. Fixed costs within management control were contained but farmers paid more for energy and fertiliser.

At the time of crop establishment in late 2005, the new crop price for winter wheat at harvest 2006 was around £65 to £70 per tonne and farmers responded to this relatively low price by further reducing the area grown to 1.7 million hectares. This was eight per cent lower than the 1.86 million hectares grown in 2004. The 2006 winter wheat gross margin rose to an average of £488 per hectare from £324 per hectare in 2005. The increase in the average crop price to £87 per tonne was the main driver of the improved financial performance, but farmers received widely varying prices for their wheat. Reflecting higher cereal prices, winter and spring cereal crops enjoyed improved gross margins in 2006. Oilseed rape benefited from increased demand for biodiesel and therefore higher crop prices that did not extend to the linseed crop. The gross margins of peas and beans were little changed on the previous year as improved prices failed to compensate for lower yields. The sugar beet gross margin fell sharply due to lower prices resulting in the reform of the sugar regime but higher potato prices improved the profitability of the ware potato crop.

The 2006/2007 year was the first full year of Entry Level Stewardship (ELS). Farmers took the opportunity to enter ELS and total receipts from agri-environment schemes increased by about £10 per hectare to £33 and £27 per hectare respectively on Cereals and General Cropping farms.

Cereals farms, with their more seasonal cropping pattern and often greater availability of buildings or other resources for diversification, attained output of £91 per hectare from diversification representing nearly ten per cent of output from the business.

In 2006/2007, the transition towards a greater area element of the Single Payment favoured General Cropping farms but resulted in lower payment on Cereals farms which had enjoyed a greater historic element of Single Payment.