

WOLDGRAIN STORAGE LTD

World market volatility makes cooperation a good bet

Increasing volatility in world grain and oilseeds markets is a challenge facing all farmers, according to speakers at a Woldgrain-sponsored breakfast conference, held at Hemswell Court, close to the company's base. Cooperation in areas such as grain storage and marketing can help to reduce the risks in such markets, the meeting was told.

Speaking to the theme 'Farming in the next 20 years: how does a small fish survive in a global pond', Allan Wilkinson, Head of Agriculture at HSBC Bank, explained that changing markets around the world were driving an increase in use of all grains and oilseeds. Food expenditure was rising much faster than farmers' incomes, which had remained relatively static over the past two decades. He noted that power in the agricultural supply chain was now held by farm input suppliers and supermarket buyers, with farmers and consumers having very little influence. Rising demand for meat was driving the feed grain market, although the increasing use of biofuels was now playing a significant part. Oilseed and soya stocks, he pointed out, were at relatively low levels, a situation which was bound to influence already volatile prices.

Despite an increase in agricultural income last year, CAP support, through the Single Farm Payment and agri-environment schemes, was still the largest element in farm profitability, with the additional benefit of being much less volatile than the other income sources.

Mr Wilkinson advised the 100 participants at the meeting that they should aim to do what the best operators do, with the optimum solution to aim to be good at everything, including welcoming fresh thinking. Low costs per unit coupled with a high output could be

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achieved by technical innovation and good resource allocation, with attention always being paid to controlling both fixed and variable costs. Change was not always a problem, he concluded, since change plus a challenge could also lead to opportunities. He promised that the bank would remain committed to agriculture - 'one of its most stable and preferred sectors' - with a continuing participation in the advancement of the industry.

Considering the business case for central storage, land agent JHWalter's Mark Coulman, argued that once purchase, energy and labour costs; storage losses; maintenance and depreciation had been taken into account, central storage costs were less than 75% of those of an on-farm store. He claimed that centrally stored crops could achieve improved marketing returns and a greater ability to benefit from a quality sample. A side benefit could be to gain extra income by

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letting the space currently in use as an on-farm store. Growers who might find particular advantage in central storage included tenant farmers, those with a contract farming involvement and anyone who found logistical problems in dealing with the crop at harvest.

In addition to the direct business cost benefits, Chris Hunt, Agricultural Specialist at accountants Forester Boyd, suggested that there could be tax advantages in going down the central storage route. What he described as a 'DIY' store would be treated for tax purposes as an 'enduring asset', which offers income tax relief over a period of 20 years on a proportion of the cost, plus capital tax relief on the balance of the cost if disposed of. An investment in a cooperative store, by contrast, offered income tax relief on the whole cost, typically over 10 years, but with a capital tax charge on disposal. Assuming a cost of £117/tonne, he calculated that the benefit to a cooperative investor

could vary from about £14/tonne to a company paying tax at 20% to £37/tonne for an individual taxed at the top rate of 50%.

To help achieve such advantages, Woldgrain has recently increased its storage capacity by over four thousand tonnes to 60Kt, an increase of 40Kt over the past four years. A grant application is with Defra that would allow a further increase to 80Kt.

Woldgrain director, Fred Myers, from Leverton Farms, felt that the meeting had been very informative for members present, adding that recent plant upgrades had been beneficial to his own business.

"Wet harvests used to be a nightmare to deal with, now, once the grain is loaded I do not have to be concerned with the quality, I can concentrate on working with Openfield to get the best value."

As a farmer-owned cooperative, Woldgrain Storage Ltd can respond quickly to members' requirements. A recent series of meetings showed that they appreciated fast service at harvest, low store charges and beneficial marketing arrangements. To continue to meet those needs, the group has just cut haulage costs and reduced screening deductions on some crops as well as setting one overall charge to cover all commodities.

Store manager John Burnett believes the new facilities and lower costs will prove attractive to existing and potential new members.

"Extra capacity will give us more opportunities for marketing, reduce costs still further and generally add value to what our members produce. Some of them may be small fish in the global pond, but the risks are much less if you swim with a shoal!"

