Grain markets are not just for 'normal' arable crops

EXPERT VIEW

Options can help farmers lock into grain price rises - whether or not you actually grow a physical crop, says **Jeremy Cole**.

It's a sorry state of affairs when it is more profitable to take land out of production than grow a crop of wheat. But that is the situation many growers are in – whether they realise it or not.

Commodity prices are such that signing up to countryside stewardship can be more profitable than growing winter wheat by a staggering 153%, according to recent calculations by Cheffins based on an AHDB case study.

If I could only guarantee that difference from marketing farmers' grain via my independent grain brokerage service, I'd buy all the wheat my 250 customers grew and be the fifth biggest arable crop buyer in England.

Different mindset

This highlights the point that I made a few months ago in an article for *Anglia Farmer*: I firmly believe that we must adopt a different mindset to ensure that arable farming in the UK is profitable.

Arable land doesn't have to be used simply to grow 'commodity' crops – especially when our production costs will never be low as those achieved by many growers overseas.

In fact, many UK growers – especially in this region – are farming with two hands behind their back. Blackgrass and flea beetle are endemic and there is little prospect of any realistic control.

As well as the withdrawal of agrochemicals, growers have to contend with ridiculous regula-

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tions such as the three-crop rule – both of which contribute to the increasing likelihood of negative arable margins.

Yet there's no need to suffer. After all, why grow a wheat crop that can make as little as £100/ha (before the basic payment) in a good year when many stewardship options are now paying the equivalent of £500/ha?

It might sound like a radical idea. But it makes financial sense. And for those growers who dismiss it as "not proper farming," there is still a way to lock into better prices – just in case the market rises.

Virtual farming

This safety net is called hedging or "virtual farming". Hedging is a sensible way to ensure an even higher margin if commodity prices rise during the growing season – but only a slightly lower margin if they don't.

In addition, you'll also be able to allow yourself a great sigh of relief that you grew nothing at all – vindicating your radical decision in the face of the present set of harsh agricultural economic facts.

How does it work? On the marginal land you put into stewardship, simply use a Financial Price Risk Management (FPRM) tool or a "call" option on the acreage not to be drilled and its "predicted" or theoretical tonnage.

Option premiums cost about 8-10% (£10/t) of the value of the wheat crop and 6-7% (£15/t) for rape for 12 months forward cover. A six-month option would be cheaper – much like car or house insurance.

Call options benefit the farmer if the market price rises in the future. If the market rises more than the premium, the grower receives the benefit, as they would have done with a price rise on a physical crop.

Strike out

So if the market rose £20/t, the farmer could 'strike out' and claim £20 minus the £10 premium, to give a net £10/t profit. This would represent a 100% return on the £10 investment.

If the market remains the same or falls, the grower simply loses the premium, equivalent to approximately £10/t (£35-40/acre for wheat) and £15/t (£25-30/acre for oilseed rape).

Yes, it is a loss – but it is still considerably less than the cost and effort of growing, harvesting and storing a crop before selling it at a lower price than when it was drilled, when a negative margin was forecast in the first place.

I believe this new way of doing things has great potential. Done right, it will lead to higher arable margins – and more conservation and restoration of wildlife habitats, woodland creation and management.

More importantly, it will show the next generation just how good farmers are at producing food while looking after the countryside. Like the Olympic athletes at Rio 2016, farmers can 'Go for Gold' while inspiring a nation.

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