This report includes data collected in the Farm Business Survey for the 2009/2010 financial year relating to the 2009 crop harvest.

The Farm Business Survey is conducted on behalf of, and financed by the Department for Environment, Food and Rural Affairs, and the data collected in it are Crown Copyright.

The Nature of Farming in the East Midlands

The East Midlands region contains a wide diversity of farming types, emanating from its broad range of soil types and varied topography. As identified in Figure 2.1, arable and horticultural production is found chiefly in the north east and south east of the region, with a transition to more mixed farming in the central areas, culminating in dairying and upland and lowland grazing livestock in the western parts of the region. Pig and poultry farming is an important agricultural activity in the eastern areas.

Figure 2.1 Agricultural Land Use by Farm Type in the East Midlands
The Contributions made by the Farming Sector in the East Midlands: 2009

Labour
- in 2009, the number of people employed in agriculture in the East Midlands was 39,509 (1.83% of the regional workforce). Compared with 2008, this represents a decrease of 40 people (0.1%) in the region’s agricultural workforce. The decline in agriculture’s share of the regional workforce is largely due to the significant increase in the total regional workforce, rather than any notable reduction in the region’s agricultural workforce. A comparison with 2004 shows that in 2009, 1,874 fewer people (4.5%) were employed in agriculture.

Production and Income
Key summary measures in 2009 were as follows (Table 2.1):
- agriculture contributed £2,059m of gross output to the East Midlands’ economy. Compared to 2008, this represents a decrease of £210m (9.3%)
- gross value added (GVA) at basic prices in the East Midlands was valued at £723m
- total income from farming (TIFF) in the East Midlands was £416m; a decrease of £117m (22.0%) compared to 2008, whilst TIFF for England decreased by 10.2%
- agriculture’s share of total regional GVA (1.1%) was the second highest regional result with only the South West reporting a greater GVA percentage.

The Contributions made by Farming in the East Midlands to Farming in England: 2009

Labour
- agriculture’s share of total regional employment was 1.9%, compared with 1.4% for England. (Table 2.1)

Land
- in 2009, agricultural holdings in the East Midlands occupied 1.21 million hectares, which was 12.9% of the total area on holdings in England (Defra June Census 2009)

Cropping
- in 2009, arable farming accounted for 18.4% of the England total area and 61.5% of the total agricultural area in the East Midlands (Defra June Census 2009). These figures are very similar to those of 2008 and represent a stabilization of cropping areas since the introduction of the zero set aside requirement in 2008
- horticultural production in the East Midlands accounted for 25.1% of the England total area (Defra June Census 2009)

Production and Income
Key summary measures in 2009 were as follows (Table 2.1):
- the East Midlands produced 14.1% (£2,059m) of the total gross agricultural output for England.
- 12.1% (£723m) of the GVA for England can be attributed to the East Midlands.
- agriculture’s share of total GVA for the East Midlands was 1.1%, whereas for England it was 0.6%.
Table 2.1: Summary measures of the production and income account for agriculture by region in 2009

<table>
<thead>
<tr>
<th>Region</th>
<th>Gross output</th>
<th>Intermediate consumption</th>
<th>Gross value added at basic prices</th>
<th>Total income from farming</th>
<th>Agriculture's share of total regional gross value added at basic prices (a)</th>
<th>Agriculture's share of total regional employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>North East</td>
<td>£473</td>
<td>£243</td>
<td>£230</td>
<td>£178</td>
<td>0.6%</td>
<td>1.1%</td>
</tr>
<tr>
<td>North West</td>
<td>£1 459</td>
<td>£860</td>
<td>£600</td>
<td>£194</td>
<td>0.5%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Yorkshire and Humberside</td>
<td>£1 789</td>
<td>£1 008</td>
<td>£781</td>
<td>£527</td>
<td>0.9%</td>
<td>1.5%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>£2 059</td>
<td>£1 336</td>
<td>£723</td>
<td>£416</td>
<td>1.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£1 664</td>
<td>£947</td>
<td>£717</td>
<td>£315</td>
<td>0.8%</td>
<td>1.9%</td>
</tr>
<tr>
<td>East of England</td>
<td>£2 791</td>
<td>£1 726</td>
<td>£1 064</td>
<td>£682</td>
<td>1.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>South East &amp; London</td>
<td>£1 721</td>
<td>£969</td>
<td>£752</td>
<td>£246</td>
<td>0.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>South West</td>
<td>£2 612</td>
<td>£1 491</td>
<td>£1 120</td>
<td>£510</td>
<td>1.2%</td>
<td>3.0%</td>
</tr>
<tr>
<td>England total</td>
<td>£14 568</td>
<td>£8 581</td>
<td>£5 987</td>
<td>£3 067</td>
<td>0.6%</td>
<td>1.4%</td>
</tr>
</tbody>
</table>

2009/2010 FBS year

Weather

The main feature of the climatic conditions concerning the 2009 cropping year were the rainfall anomalies that occurred in September 2008 and July / early August 2009. Rainfall was 69% higher than the region’s September monthly average, leading to poor drilling conditions and poor establishment of arable crops. Conditions improved in October 2008 but still represented an above average rainfall. The consequence of this high level of precipitation was large areas of land not being planted with winter arable crops that resulted in an increased area of crops being drilled with spring varieties instead. To further compound these difficulties, a colder than average winter caused considerable harm, through frost burn and pigeon damage.

The 2009 harvest got off to a very slow start with July recording a rainfall some 145% above the average. The wet conditions continued into August but some respite was gained as the second half of August brought with it much drier conditions. The difficult climatic conditions experienced at drilling time and through the winter of 2008/09 impacted on cereal yields which were down on the previous year; however grain quality was generally good.

For grazing livestock and dairy farmers, 2009 witnessed a good grass growing season with ample stocks of forage being made, which was generally of good quality.
The following section examines the economic conditions during 2009/10; a period that witnessed lower commodity prices (with the exception of finished cattle, sheep and pigs) and lower feed, gas oil and fertiliser prices compared to 2008/09.

In 2009/10, the average prices for feed wheat, bread wheat and feed barley all decreased from their average prices of 2008/09 (2009/10; feed wheat £95 per tonne, bread wheat £113 per tonne, feed barley £78 per tonne; cf.2008/09; £98 per tonne, £143 per tonne and £89 per tonne, respectively (Figures 2.3 to 2.5 inclusive)). A notable feature of the price movements of these three cereal crops in 2009 was the narrow range between the seasonal price lows and highs. New crop feed wheat prices opened at the seasonal low of £83 per tonne and peaked in November 2009 and again in May 2010 at £100 per tonne (price range £17 per tonne, cf. £30 per tonne, 2008). A similar trend emerged for bread wheat prices which opened at £108 per tonne with a price high of £117 per tonne being achieved in November 2009 (price range £9 per tonne, cf. £21 per tonne, 2008). Prices for 2009 feed barley followed a similar pattern whereby new crop prices opened at £72 per tonne and peaked in November 2009 and May 2010 at around £80 per tonne (price range (£8 per tonne, cf. £24 per tonne, 2008).

As was witnessed in 2008/09, a significant tonnage of 2009 grain was retained on-farm and carried forward into the 2010/11 marketing year. However, unlike in 2008/09, when this strategy did not result in higher prices being achieved upon final sale, the uplift in 2010 harvest cereal prices will have resulted in much higher prices being attained for the carried over crops than if they had been sold in the traditional marketing year.
Figure 2.3: Feed Wheat Prices 2006/07 to 2009/10

Source: Agro Business Consultants

Figure 2.4: Bread Wheat Prices 2006/07 to 2009/10

Source: Agro Business Consultants
Figures 2.6 and 2.7 reveal that the average prices of the 2009 combinable break crops, oilseed rape and field beans, were slightly down compared to those of 2008. In 2009/10, the average prices for oilseed rape and field beans were £240 and £128 per tonne respectively (cf. £251 and £132 per tonne, 2008/09). Contrary to the trading patterns observed for wheat and barley, output prices for oilseed rape increased steadily as the marketing year progressed, with a £65 per tonne difference between the price low and high. Similarly, the price of field beans increased to a late season peak price that was around £37 per tonne higher than its opening low price.
Potato prices in 2009/10 were generally at lower levels than those of 2008/09 (Figure 2.8). The 2009 season began with maincrop prices around £30 per tonne lower than at the corresponding time in 2008. Prices remained at levels that were significantly below those of the previous year until June 2010 when a surge in price saw prices increase by £32 per tonne which resulted in prices finishing higher than in the previous year. The average in 2009/10 was £117 per tonne (cf. £127 per tonne, 2008/09)

The price trends revealed in Figure 2.9, show that in 2009/10 dairy farmers received approximately 2.1 pence per litre (ppl) less than in 2008/09. The average milk price in 2009/10 was 23.6 ppl, compared to 25.7ppl in 2008/09. However, this price is above the average prices for 2006/07 and 2007/08 which stood at 18.0 ppl and 22.9ppl, respectively.
Figure 2.9: Milk (farmgate) Prices 2006/07 to 2009/10

Figure 2.10 shows that for 2009/10 the price of finished steers was, for the most part, slightly higher than in 2008/09 and considerably higher than in 2006/07 and 2007/08. The average deadweight price for these animals in 2009/10 was 279 pence per kg (ppkg), compared to the averages for 2006/07, 2007/08 and 2008/09 of 203 ppkg; 212 ppkg and 271 ppkg, respectively.

The price of finished lambs (Figure 2.11) continued to build upon the increases witnessed in the three previous years. In 2009/10, the average price of fat lambs was 376 ppkg, an increase of 54% on the average price achieved in 2006/07 (244ppkg). A tightening of supply and a favourable Sterling versus Euro exchange rate which boosted exports were significant contributors to the extension of this period of relatively high prices for finished cattle and sheep.

Figure 2.10: Finished Steer Prices 2006/07 to 2009/10

Source: Agro Business Consultants
Figures 2.3 to 2.11 show that in general, during 2008/09, livestock commodity prices (with the exception of milk) increased in comparison to previous years, whereas arable commodity prices decreased from the price levels achieved in 2008/09. Furthermore, it is interesting to examine the price movements of three key input costs, namely feed (soya), gas oil and fertiliser (nitrogen) and to consider these findings in relation to the analyses of income results by farm type sector, to be found later in this report.

The price trend of soya (Figure 2.12) during 2009/10 was similar to that of 2008/09 in that it was more volatile than in previous years and therefore the timing of purchase became a critical factor in individual businesses’ overall cost for this input. The average cost of soya in 2009/10 was £288 per tonne, compared to £273 per tonne in 2008/09 (£143 and £213 per tonne in 2006/07 and 2007/08, respectively)
In 2009/10, the price of gas oil (Figure 2.13) continued to ebb and flow with the world price of oil. The decline in the price of gas oil that occurred in 2008/09 was reversed in 2009/10, which saw a peak price of 52.1 pence per litre (ppl). However, the peak price in 2008/09 was 66.1ppl with an average price of 51.9 ppl, compared to the 2009/10 average price of 44.4ppl (-14.5%).

The predominance of arable and lowland grazing livestock enterprises in the East Midlands, places fertiliser as a key input for farming businesses in this region. Figure 2.14 illustrates that in 2009/10 the price of nitrogen fertiliser continued the decrease that began in December 2008, to achieve a June 2009 price of £178 per tonne, compared to £345 per tonne in June 2008. It is instructive to note that the crop year in question in this report (2009), will have coincided, to a large extent, with purchases of fertiliser that fell into the £350-£385 per tonne bracket. As for feed purchases, the volatility associated with fertiliser prices means that the date when fertiliser was bought will have had a significant impact on margins and incomes.

Figure 2.13: Gas Oil Prices 2006/07 to 2009/10

Source: Agro Business Consultants

Figure 2.14: Fertiliser (34.5%N) Prices 2006/07 to 2009/10

Source: Agro Business Consultants
Key Events and Policy Developments

In April 2009 Budget, the capital allowances for plant and machinery were increased, for one year only, from 20% to 40%.

In June 2009 the dairy co-operative, Dairy Farmers of Britain, collapsed with £70m of farmer invested capital and approximately £20m of milk sales being lost to the industry.

In July 2009, Defra announced that they would not be introducing a compulsory set-aside scheme, opting instead to see if the voluntary approach, under the Campaign for the Environment (CFE), can provide sufficient environmental benefits.

Defra announces (July 2009) badger vaccination programme in six key areas of England.

EU Dairy Aid Package announced in October 2009. This equates to approximately 0.20 pence per litre to be paid in mid-2010

From October 1st 2009, agricultural wages increased by 1.2% for the lowest grade workers and by 2.2% for most other grades.

CFE was officially launched in November 2009.

In January 2010, Defra published its food strategy ‘Food 2030’. Key elements include increasing food production sustainably; promoting a healthy sustainable diet; reducing GHG emissions from the food chain; ensuring a profitable, resilient and competitive food system.

FBS Results by Farm Type 2009/10

Analysis of Farm Business Income

All Farms

Table 4 summarises the performance of East Midlands’ farms in 2009 alongside the results from 2003 to 2008. This seven year period is significant in that it provides analyses of the final two years (2003, 2004) of direct area and headage support payments, and the first five years (2005, 2006, 2007, 2008, 2009) since decoupling and the introduction of the Single Payment Scheme (SPS).

The all farms average Farm Business Income (FBI) performance within the East Midlands for 2009 was £56,016 compared to £68,276 in 2008 and £50,116 in 2007. General cropping and mixed farms were the main contributors to the region’s overall reduction in average FBI, with cereals, dairying and less favoured area (LFA) grazing farms also contributing to the downturn in income. The exception to this trend was lowland grazing livestock farms which returned a significantly improved FBI, albeit at still quite modest amounts at the farm level.

Table 11 provides the average net worth for farm businesses in the East Midlands. In 2009, this increased by 8.5% to £1,094,383 per farm. Repeating the trend witnessed in 2008, the total value of fixed assets increased with the values of land, breeding livestock and machinery all being contributors to this increase. For the first time since the introduction of the Single Farm Payment (SFP), the value of Single Payment Scheme (SPS) entitlements increased on the back of an increased SFP that emanated from a favourable Euro / Sterling exchange rate.

For details of the balance sheet for the farming types described below (Table 11) please refer to the section entitled Balance Sheet Analysis.
Cereals Farms

The output, inputs and incomes for cereals farms in the East Midlands are shown in Table 9. In 2009, the average FBI for cereal farms was £60,240 which represents a decrease of 12.5%. Figures 2.5 to 2.9 all reveal prices for key 2009 cereal crops that were on average, lower than for the 2008 crops. The poor drilling and crop establishment conditions during the autumn of 2008 led to an increased area of spring sown crops being produced in 2009 (Table 3). Also, winter wheat and winter barley yields in 2009 were significantly lower than those achieved in 2008, resulting in notable decreases in the enterprise outputs derived from these crops. The reduction in output was compounded by large increases in key input costs; most notably fertiliser (+70.1%). Smaller increases in seeds and crop protection costs, coupled with the increase in fertiliser costs resulted in an increase in variable costs of £17,333 for the average farm (+32.8%). The lower prices on offer during the 2009 marketing year, led to some farmers carrying over significant stocks into the 2010 year in the hope of a change of fortune that would ultimately lead to a higher output being achieved. In the event, various climatic and trading factors did result in an uplift in cereal prices post the 2010 harvest that will have boosted final 2009 output results. Table 9 reveals that 66.2% of FBI was derived from the SPS.

General Cropping Farms

Table 4 shows that for general cropping farms in the East Midlands, average FBI decreased from £120,069 in 2008 to £72,073 in 2009 (-40.0%). Table 3 reveals that a significantly reduced area of winter wheat (-24.7%) was grown on general cropping farms; mainly due to the difficult crop establishment conditions in 2008 and the delay in harvesting root crops which would ordinarily have been followed by winter wheat. As a consequence of this, the area of spring barley grown in 2009 increased by 73.6%. All the factors that combined to result in the reduced FBI for cereal farms in 2009 were also in force for general cropping farms, although the scale of the fall in income for general cropping farms was greater due to the poorer returns in 2009 for potatoes, which averaged approximately £10 per tonne lower than the price levels attained in 2008. Winter wheat, winter barley, oilseed rape and potatoes all experienced reductions in output of 32.9%, 27.6%, 13.8% and 32.3%, respectively and contributed to a decrease in total crop output of approximately £63,000 per farm (-17.6%). Fertiliser costs increased by £12,000 per farm (+41.9%), whilst fuel costs decreased by £7,000 per farm (-29.1%). The SPS contributed 71.6% towards FBI.

Horticultural Businesses

Table 4 shows that the average FBI for horticultural businesses in 2009 in the East Midlands was £137,537, representing an increase of 192%. However, changes within the sample and the diverse nature of businesses within the horticultural sector means that year on year comparisons of incomes, outputs and inputs should be made with caution. One notable point (see Table 9) about horticultural businesses is their lack of reliance on income from agri-environmental schemes, diversification and SPS, with 89% of FBI coming from agriculture.

Dairy Farms

Table 4 shows that in 2009, the average FBI for dairy farms in the East Midlands’ was £64,463 compared to £75,432 in 2008, representing a decrease of 14.5%. Figure 2.9 shows that the average price of farmgate milk decreased by 2.1 pence per litre and this was the key driver to the downturn in dairying income. Dairy farms with beef enterprises benefitted from the increase in beef prices (Figure 2.10); however, increased herd replacement costs further contributed towards the lower FBI. Average variable costs increased by 10.3%, with fertiliser costs featuring most prominently (+28.3%; £2,887 per farm). Fixed costs on dairying farms increased by approximately £20,000 per farm (+15.5%) with labour (+17.5%) and contract charges (+14.3%) increasing the most. Table 9 reveals that 42.3% of FBI was derived from the SPS.
LFA Grazing Livestock Farms

The average FBI for LFA grazing livestock farms in 2009 was £21,690 compared to £25,033 in 2008. Although Figures 2.10 and 2.11 show improved prices for finished beef and lambs, higher herd and flock replacement costs and higher prices for purchased store animals conspired to offset the gains accrued from the increase in livestock outputs. Table 15 reveals that total variable costs decreased by 16.5% (£3,266 per farm). Given the aforementioned increases in feed and fertiliser costs, a decrease in variable costs may seem surprising; however Table 3 indicates that a reduction in the size of the suckler cow herd occurred which may have played its part in this variable costs outcome.

Previous editions of this report have stressed the importance of tourism, agri-environmental schemes and the SFP to upland farms in the East Midlands (which are located almost exclusively in the Peak District National Park). This is again borne out in the results contained in this report which show that the agricultural component of FBI was -£5,409 with £9,327 (43.0%), 1,345 (6.2%) and £16,426 (75.7%) of FBI being derived from agri-environmental schemes, diversification and the SFP, respectively.

Lowland Grazing Livestock Farms

Table 4 reveals that in 2009, the average FBI for lowland grazing livestock farms in the region was £24,238 (cf. £17,805 in 2008). Table 15 shows that total livestock output increased by 6.6%, whilst output from sheep increased by approximately £10,000 per farm (+62.2%). Similar to the situation for LFA grazing livestock farms, an analysis of FBI (Table 9) reveals that income from agriculture (£2,782) was comparatively low, being surpassed by income from agri-environmental schemes (£3,562) and the SPS (£15,363) but slightly exceeding income from diversification (£2,532).

Mixed Farms

Table 4 shows that in 2009, the average FBI for mixed farms in the East Midlands was £39,581, compared to £61,995 in 2008. This decrease in FBI (-36.2%) follows the trend of the majority of the farms groups described above and is to be expected given the diverse mix of enterprises found in this group.

Specialist Pig Farms (England)

The results for specialist pig farms are from an increased sample of 61 pig farms across England, encompassing all types of producer including breeders, finishers and all through units. The average pig farm in the sample was stocked with 2,283 pigs (2464 in 2008). The observed change in diversification output is due mainly to a change in the FBS sample. With a reduced EU pig population, and favourable exchange rates, the market for pig producers improved in 2009/2010. The average Specialist Pig farm FBI improved by 21 per cent to £71,565 per farm. Output from pigs, including finished animals, increased by six per cent to £465,747 per farm due to firmer prices for pig meat. A reduced breeding herd in Europe was the main driver of improved prices for pig meat at the start of 2009, but weakening sterling also increased prices. In response to improved prices, the year saw a seven per cent increase in the English pig breeding herd to 371,030 animals. Despite the increasing domestic breeding population, the harsh weather conditions experienced in January 2010 gave rise to an increase in weaner prices of £52 per head in February. Taking account of the reduction in farm size, costs were little changed on the previous year. In response to high carryover stocks and plentiful supply of grain from harvest 2009, feed costs declined as the year progressed.

Specialist Poultry Farms (England)

The sample of 67 egg and broiler producers was similar to the previous year but included farms with fewer birds. Their average FBI amounted to £66,326 per farm, and some thirty nine per cent higher than in 2008/2009. Nationally, the change in the poultry population
was relatively small. The layer population reduced by two per cent in the year to January 2010 to near 29 million birds, the broiler and broiler breeder population increased by one per cent to 114 million and the turkey population remained static at a little over nine million. Partly reflecting the lower bird numbers per FBS farm, poultry output averaged £573,884 per farm (£653,298 in 2008/2009). Whilst individual farms in the sample were either egg or table bird producers, about 36 per cent of the measured output related to egg production and 64 per cent to meat production. Lower expenditure on costs of all types is largely explained by the lower number of birds within the survey. Feed costs comprised 54 per cent of the value of output in 2009/2010 and similar to previous year.

Balance Sheet Analysis

Table 11 provides details of net worth for the all farms group and for the main farming type groupings. The average net worth for all farms in the East Midlands was just over £1,094,000 which represents an increase of 8.5% on the previous year. A continuation of the recent trend of increasing land values, strong values for breeding livestock and increased values of machinery were the main drivers for the increase in net worth. The increase in machinery values could be, at least in part, due to the capital allowances for plant and machinery being increased in April 2009 (for 12 months) from 20% to 40%. Additionally, increased closing values of SPS Entitlements reflected the favourable Euro / Sterling exchange rate that was used to set the rates of the SFP for 2009. Farm borrowings increased by 7.9% with most of the increase lying with longer term bank loans, whilst short term borrowings remained at similar levels.

The average closing net worth’s for cereal and general cropping farms increased in line with the increase found amongst all farms, with these two groups recording closing net worth’s of £1,367,381 (+8.9%) and £1,652,834 (+8.6%), respectively. Increased land and SPS Entitlement values were the main contributors to increased asset values (cereals +9.0%; general cropping +8.8%), whilst borrowings increased for cereal farms by 10.1% and by 11.9% for general cropping farms. The average closing net worth for dairying farms was £930,100; an increase of 5.8%. Whilst borrowings increased in line with the other groups, asset values were adversely affected by a decrease in the value of Miscellaneous Business Assets (-65%); which for the most part was caused by producers who were supplying Dairy Farmers of Britain having to write off their holding in the company as a result of its demise. With the livestock grazing, horticulture and mixed groups all following similar net worth trends to the all farms group, the two notable exceptions to this were the Specialist Pigs and Specialist Poultry groups. These two groups recorded increases in their closing net worth of 14.6% (£508,249 per farm) and 12.1% (£543,099 per farm), respectively.

The Importance of the SFP to FBI in the East Midlands

Within this and previous editions of this report, frequent references have been made to the important contribution that the SFP makes towards total income. 2009 is the fifth year that the SPS has been in operation and inevitably, minds within the agricultural industry are turning towards thoughts of what levels of support will be available post the forthcoming CAP reform. The introduction of the SFP in 2005 was groundbreaking in that it involved decoupling and the basis on which payments were made led to winners and losers across and within the farming sectors. However, broadly speaking, the total pot of money that was available for support payments was similar to that of the pre-SFP era. At the time of writing, there is general agreement within the industry that the next era of support payments will involve a much reduced support budget that could result in direct support payments being up to 50% less than they currently are. If this comes to pass and the income generated from agricultural activities remain at their current levels, then it will clearly have severe implications for many of the sectors described in this report.
Figure 2.15: Farm Business Income and SFP 2005 by farm type

Figure 2.16: Farm Business Income and SFP 2006 by farm type

Figure 2.17: Farm Business Income and SFP 2007 by farm type
Figures 2.15 to 2.19 illustrate, by farm type (and all farms), the levels of FBI achieved from 2005 to 2009 inclusive, alongside the amount of SFP that contributed to FBI. For the all farms group, the proportion of FBI that originated from the SFP ranged from 45% to 85% of FBI. It is clear that the levels of SFP relative to total FBI vary very considerably across the farm type groups and an examination of Figures 2.15 to 2.19 shows that since the inception of the SPS, the three farm types that did not receive direct support payments in the pre-SPS era, namely horticulture, pigs and poultry, have generated FBI that are largely independent of SFP receipts. In the last five years, the average horticultural farm has received a SFP that is between 2% and 7% of its FBI. For poultry farms, the corresponding figures are 3% and 5%, whilst for pig farms the level of SFP received ranges from 9% to 15% of FBI with one exception (2007) when FBI was very low and so the percentage of income derived from SFP was significantly increased.

An examination of the livestock grazing sectors reveals a very different scenario to that of the three specialist farm type groups described above. From 2005 to 2009, dairy farms were in receipt of a SFP that ranged between 31% and 65% of their FBI. For LFA grazing farms between 85% and 162% of their FBI came from the SFP. For three years of this five year period, relative to FBI, SFP equated to 109% (2005), 162% (2006) and 160% (2007). For lowland grazing farms the situation was more stark with the SFP equating to 135%, 181% and 252% of FBI in years 2005 to 2007.

For the cereals, general cropping and mixed farm type groups, the proportion of FBI that can be attributed to the SPS, whilst being significant, is not as high as that for the grazing livestock sectors. Leaving aside 2005, which was a very poor year in terms of FBI for cropping farms, the SFP on cereal farms ranged from 48% to 86% of FBI. For general
cropping farms the corresponding range was 43% to 80% and for mixed farms the SFP was between 51% and 79% of FBI. In 2005, the SFP was 131% and 120% of FBI for cereals and mixed farms, respectively.

The above analysis of SFP relative to FBI across the key farm type groups reveals that with the exception of horticulture, pig and poultry farms, the SFP has been a vital component of total income and that without it many sectors would frequently fail to achieve a positive FBI. The initial seven year phase of the SFP (2005 to 2012) was based on a declining SFP that would, in theory, be compensated for by market adjustments to commodity prices. However, it is highly debatable to what extent market conditions have been influenced by changes in the rate of the SFP. Clearly, given the analysis detailed above and the prospect of a much changed CAP support package, farmers must hope that the market will offset at least some of the reduction of support payments and also continue to seek out alternative sources of income via diversified activities.