

# EXECUTIVE COUNCIL

## RESTRICTED

**Title of Report:** Livestock Transportation Subsidies  
**Paper No:** 22/10  
**Date:** 28<sup>th</sup> January 2010  
**Report of:** David Waugh - General Manager FIDC

### 1 Purpose

- 1.1. The purpose of this paper is to advise Members of three options with respect to the provision of livestock transportation subsidies for animals being transported from farms to FIMCo

### 2. Recommendations:

- 2.1. That ExCo approve the replacement of the current fixed rate ferry tariff subsidy with the sliding scale subsidy as set out in Option A below.
- 2.2. That ExCo consider the two additional Options (B and C) as set out below.

### 2.1 Options:

Option A A sliding scale subsidy based on the distance from Port Howard based on the road mileage provided figure produced by the PSD Design section. (See Annex 1) This Option would cover road haulage costs on West Falkland and replace the flat subsidy of £1.07 per sheep as approved by the previous Exco;

Option B A fixed subsidy per sheep or lamb to cover the estimated ferry transport element from West Falkland (£1.50) or the net shipping cost from the Islands (£2).

Option C A fixed subsidy per sheep (£0.30) to cover the net cost of transporting sheep on East Falkland.

### 3. Summary of Financial Implications

Item	2009/10	2010/11	Future years
A)	£400	Nil	
B)	£20,100	Nil	
C)	£10,290	Nil	

#### **4. Background**

- 4.1. This is described in detail in previous Exco papers as follow:
- Previous Executive Council decision: 18 September 2007 Paper 206/07
  - Previous Executive Council paper: 26 March 2008 Paper 56/08
  - Previous Executive Council paper: 27 May 2008 Paper 90/08
  - Previous Executive Council paper: 25 June 2009 Paper 148/09
  - Previous Executive Council paper 20 August 2009 Paper 151/09
  - Previous Executive Council paper: 17 September 2009 Paper 196/09
  - Previous Executive Council paper: 24 September 2009 Paper 224/09
  - Previous Executive Council paper: 19<sup>th</sup> December 2009 Paper 259/09
- 4.2 In July 2009, FIMCo announced that it would no longer pay for the transport of animals to Sand Bay abattoir. In September 2009, Exco approved a ferry-tariff subsidy for farmers on the West to assist with the cost of livestock transport, which was reiterated by the new Exco in December 2009.
- 4.3 FIG has no control over road freight rates, the actual unit cost to the customer is up to the haulier and would depend on the size of truck, his operating costs and profit margin and whether there would be a revenue from a West bound load. The ferry rate is only a part of those costs.
- 4.4 The original formula was based on a round trip in a 40ft trailer carrying 320 sheep and travelling to the West empty (i.e. The sheep haulage figure would pay for the entire evolution and not half of it.)
- Existing cost – 12m x £40 = £480 return fare. 320 animals @ £1.50 each
  - Target cost – 12m x £11.50 = £138 return fare. 320 animals @ £0.43 each  
Difference = £1.07 per sheep
- 4.5 Due to the contract between FIG and Workboat Services Ltd, Exco was unable to change the actual ferry rate therefore Exco instructed FIDC to make a direct subsidy to farms on the West based on the above formula. The £11.50 ferry rate therefore is purely a notional yardstick that was used by Exco to establish a subsidy value and not a workable actual figure.
- 4.6 The subsidy was originally for animals transported to the abattoir from West to East on vehicles over 6 metres and 3500kg that would pay the standard commercial vehicle rate on the ferry. Small vehicles and trailers were excluded from this subsidy as they are charged at a far lower rate anyway. (£50 per vehicle or trailer and not £40 per metre).
- 4.7 FIMCo advise that most cattle are transported in smaller trailers that take advantage of the £50 ferry tariff so would not be eligible for this subsidy.
- 4.8 FIDC is of the view that the application of a sliding scale livestock transportation subsidy (Option A) is a more equitable application of subsidy funds than the current fixed rate that provides the same amount of subsidy to farmers located at the ferry terminal as to those located 150 km or more from that ferry terminal.

4.9 The flat rate ferry subsidy of £1.07 per animal is already agreed. In evaluating the merits or otherwise of Options B and/or C, ExCo may wish to consider the following:

- FIMCo decided to abruptly transfer the costs of livestock transportation from buyer to sellers in July of 2009 due to the FIG decision on the FIMCo subvention for 2009/10. Under more usual and favourable business circumstances, a plant such as the abattoir would most likely have decided to phase the transfer of costs – perhaps over 2 or 3 years – allowing the suppliers time and opportunity to adjust their cash flows and business projections;
- The FIMCo Review presents FIG with a very difficult decision. If that decision is not to support the proposed FIMCo Business Plan, then the application of any livestock transportation subsidy is an added FIMCo public sector cost and has no economic development merit;
- If, however, FIG decides to invest in the FIMCo proposed business plan, then the appropriate but temporary provision of livestock transportation subsidies, despite being an additional cost to the public purse, could also be considered as an investment in the business viability of FIMCo and the agricultural economy.

#### 5 **Option A - Sliding Scale subsidy for West Falkland**

5.1 This subsidy addresses the original core problem, the road haulage costs on West Falkland for getting sheep to ferry terminal Port Howard. This subsidy is based on a rate per sheep per kilometre travelled in order to get to Port Howard and was originally scaled to fit the same budget as the original flat rate £1.07 per sheep subsidy.

5.2 The sliding scale subsidy has been updated and slightly adjusted upwards to match the actual target cost of road transport on West Falkland produced by FIMCo. (Annex 2) The distances are straight through distances to Port Howard and were produced specially by the Design Section, PSD.

5.3 With this system, a farm in the Port Howard area would get little or nothing, but those on the southwest of West Falkland would get the largest share. The Annex illustrates that based on last year's figures subsidy per sheep that could be achieved on a budget of £9,000. However, based on this year's projected sheep figures, this would equate to less than £2,500.

#### 6 **Option B - Fixed subsidy for ferry and shipping costs (West Falkland and Islands only)**

6.1 This would be a fixed £1.50 subsidy per sheep transported on the ferry from West Falkland and a fixed £2.00 subsidy per sheep from the Islands as far as New Haven. The only remaining cost would be transport from New Haven to Sand Bay.

6.2 Based on sheep projections so far the subsidy (Option B) for 2010 would be as follows;

West Falkland	£ 4,896	(2009 £11,758)
Islands	£ 5,280	(2009 £8,322)
Total	£10,176	(2009 £10,176)

## **7 Option C - Fixed subsidy for road transport on East Falkland (All farms)**

7.1 FIMCo has estimated that the average cost of transport on East Falkland would be £1.50 as this is largely due to one haulier charging a fixed rate per animal. FIMCo also projects that farmers would benefit from a £1.20 uplift in prices from FIMCo so a subsidy of 30p per sheep would be appropriate to meet the projected target costs of £1.50 per animal for transport on East Falkland.

7.2 On current projections, the cost of this subsidy (Option C) for 2010 would be £8,744

West Falkland	£979	(2009 £2,352)
Islands	£792	(2009 £1,248)
East Falkland	£6,973	(2009 £6,689)
Total	£8,744	(2009 £10,289)

## **8 Implications of the options**

8.1 Option A responds to the original West Falkland transport concerns but taken in conjunction with Option B, virtually puts all the Islands and West Falkland at New Haven and effectively equalises the costs with East Falkland.

8.2 Option C in conjunction with increased payments by FIMCo to producers addresses freight charges on East Falkland incurred by all farmers.

## **9 Summary of costs for all options**

9.1 It is difficult to predict the costs to finance the scheme for 2010 because so far the number of projected animals from West Falkland and the Islands is 50% lower than 2009.

9.2 Based on 2009 figures, the subsidy for the various options would be;

2009	Numbers	Option A	Option B	Option C	Total
West Falkland	7,764	£ 8,900.16	£ 11,758.52	£ 2,351.70	£ 23,010.38
Islands	4,161	N/A	£ 8,322.00	£ 1,248.30	£ 9,570.30
East Falkland	22,297	N/A	N/A	£ 6,689.10	£ 6,689.10
		£ 8,900.16	£ 20,080.52	£ 10,289.10	£ 39,269.78

9.3 Based on the projected 2010 figures, the actual subsidy may be lower as follows;

2010	Numbers	Option A	Option B	Option C	Total
West Falkland	3,264	£ 2,394.62	£ 4,896.00	£ 979.20	£ 8,269.82
Islands	2,640	N/A	£ 5,280.00	£ 792.00	£ 6,072.00
East Falkland	23,244	N/A	N/A	£ 6,973.20	£ 6,973.20
		£ 2,394.62	£10,176.00	£ 8,744.40	<b>£ 21,315.02</b>

9.4 However, FIDC has to consider that the case that a subsidy may greatly increase numbers. Therefore FIDC has to consider the worst-case scenario and consider the maximum financial impact on the existing funding.

## 10 **Scheme Implementation**

10.1 Exco originally advised that farms could claim at the end of the season when the farming statistics would be available but given that farmers may have a cashflow problem and that hauliers have to be paid, FIDC sees no reason not to make the payments early and check on the figures later.

10.2 In order to make the system flexible and reduce paperwork, the intention is to allow farms to submit up to three claims over the season. A claim form is being drafted requesting basic information to justify the claim. This data could also assist with future transport planning.

## 11 **Terms and conditions**

11.1 The scheme will be to assist with the cost of livestock for FIMCo only. (No other movements will qualify.)

11.2 Originally the scheme was for those using heavier trucks over 3500kg that would pay the standard truck rate on the ferry (£40/metre). It is proposed that this scheme is for all suppliers including those who transport their own animals.

11.3 The claim form must be completed, signed and returned to FIDC. The claim will be crosschecked with FIMCo returns.

## 12 **Financial Implications**

12.1 The original West Falkland subsidy of £20,000 was split into two tranches with £11,500 allocated to assist with the cost of wool transport and the balance of £8,500 for sheep and lambs.

12.2 Therefore assuming option A is accepted as a replacement for the existing approval, the additional cost to FIG to implement the options based on the 2009 figures is as follows;

Option A	£8,900 - £8,500=	£400
Option B		£20,100
Option C		£10,290

## 13 **Human Resources Implications**

13.1 Nil

## **Annex 1 - Sliding Scale Subsidy**

Distance from PHD FARM	KMS	Per sheep
Port Howard	0	£ -
Bold Cove	5	£ 0.08
Manybranch	5	£ 0.08
Harps	25	£ 0.40
Saddle	38	£ 0.60
Teal River	54	£ 0.86
Goring Station	58	£ 0.92
Little Chartres	60	£ 0.96
Sheffield	64	£ 1.02
Boundary	72	£ 1.15
Peaks	73	£ 1.16
Lake Sullivan	80	£ 1.27
Rincon Ridge	80	£ 1.27
Westley	80	£ 1.28
Coast Ridge	82	£ 1.31
Lakelands	82	£ 1.31
Port North	84	£ 1.34
Crooked Inlet	86	£ 1.37
Pickthorne	86	£ 1.37
Philomel	89	£ 1.42
Shallow Bay	91	£ 1.45
West Lagoons	91	£ 1.45
Dunbar	95	£ 1.51
Main Point	96	£ 1.53
Leicester Creek	97	£ 1.54
Dunnose Head	101	£ 1.61
Fern Ridge	101	£ 1.61
Doyle	106	£ 1.69
Shallow Harbour	108	£ 1.72
Spring Point	112	£ 1.78
Stoney Ridge	119	£ 1.89
Port Edgar	130	£ 2.07
South Harbour	142	£ 2.26
Port Stephens	150	£ 2.39
Albermarle	157	£ 2.50

## Annex 2 - FIMCo transport costs

### WEST

### ISLANDS

### EAST

#### 2009 transport costs - paid by FIMCo

Actual Transport costs 2009	West (past PH area)		PH Area & Harps	
	Highest	Lowest	Highest	Lowest
West Road	£2.50	£2.50		
West Road			£1.00	£1.00
Ferry	£1.50	£1.50	£1.50	£1.50
Road East	£2.00	£0.98	£2.00	£0.98
<b>Sub Totals</b>	<b>£6.00</b>	<b>£4.98</b>	<b>£4.50</b>	<b>£3.48</b>
<b>Ave</b>	<b>£5.49</b>		<b>£3.99</b>	

Actual Transport costs 2009	Islands	
	Highest	Lowest
Shipping	£2.00	£2.00
Road East	£2.00	£1.10
<b>Sub Totals</b>	<b>£4.00</b>	<b>£3.10</b>
<b>Ave</b>	<b>£3.55</b>	

Actual Transport costs 2009	East	
	Highest	Lowest
Road East	£2.00	£1.50
<b>Sub Totals</b>	<b>£2.00</b>	<b>£1.50</b>
<b>Ave</b>	<b>£1.75</b>	

#### 2010 transport costs - paid by farmers

Estimated Transport costs 2010	West (past PH area)		PH Area	
	High	Low	High	Low
West Road	£2.50	£1.00	£1.00	£0.00
Loading & Delay conting'cy	£0.12	£0.12	£0.12	£0.12
Ferry	£1.50	£1.50	£1.50	£1.50
Road East (incl cleaning crates)	£1.32	£1.05	£1.32	£1.05
<b>Totals</b>	<b>£5.44</b>	<b>£3.67</b>	<b>£3.94</b>	<b>£2.67</b>
<b>Ave</b>	<b>£4.56</b>		<b>£3.31</b>	

Estimated Transport costs 2010	Islands	
	High	Low
Shipping	£2.00	£2.00
Road East (incl cleaning crates)	£2.00	£1.05
<b>Totals</b>	<b>£4.00</b>	<b>£3.05</b>
<b>Ave</b>	<b>£3.53</b>	

Estimated Transport costs 2009	East	
	Highest	Lowest
Road East (incl cleaning trucks)	£2.00	£1.00
<b>Totals</b>	<b>£2.00</b>	<b>£1.00</b>
<b>Ave</b>	<b>£1.50</b>	

Less Fixed price per hd subsidy in last ExCo paper	£1.07		£1.07	
Less average increase in prices for sheep / lamb (See note 1)	£1.20		£1.20	
<b>Total Est Ave cost to Sand Bay - after current subsidy rate proposed &amp; increase in value</b>	<b>£3.17</b>	<b>£1.40</b>	<b>£1.67</b>	<b>£0.40</b>
Est ave Rate on East Falkland	<b>£1.50</b>		<b>£1.50</b>	
<b>Additional cost for West farms; over East farmers</b>	<b>£1.67</b>	<b>-£0.10</b>	<b>£0.17</b>	<b>-£1.10</b>

Less Fixed price per hd subsidy in last ExCo paper	£0.00			
Less average increase in prices for sheep / lamb (See note 1)	£1.20			
<b>Total Est Ave cost to Sand Bay - after current subsidy rate proposed &amp; increase in value</b>	<b>£2.80</b>	<b>£1.85</b>		
Est ave Rate on East Falkland	<b>£1.50</b>			
<b>Additional cost for Islands farms; over East farmers</b>	<b>£1.30</b>	<b>£0.35</b>		

Less Fixed price per hd subsidy in last ExCo paper	£0.00			
Less average increase in prices for sheep / lamb (See note 1)	£1.20			
<b>Total Est Ave cost to Sand Bay - after current subsidy rate proposed &amp; increase in value</b>	<b>£0.80</b>	<b>-£0.20</b>		