Review of
AGRICULTURE

Laurence GOULD
www.laurencegould.com

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FUTURE FOR WATER ABSTRACTION

By Keith Leddington-Hill, Managing Director
Tel: 01223 813622 Email: keith@laurencegould.com

Considering the deluge of water over the New Year period many will struggle to understand why the UK has a serious water supply problem. Despite the recent wet weather some river catchment systems are under serious pressure. Whilst agriculture takes less than 1% of the water used in the UK annually the main period for use is during the summer when other users are at peak demand. DEFRA is consulting with the industry over the abstraction system, which could impact significantly on growers in the future.

Our industry needs to consider how in the future water resources are managed to ensure protection of water eco systems and to make sufficient water available for abstraction. The licencing scheme is managed by the Environment Agency in England and the Natural Resources in Wales.

DEFRA is aware that over abstraction is affecting eco systems in some water catchments, not just the South East where the issue is most acute. DEFRA published a Consultation Paper on 17th December 2013 on the volumes of water that farming and other businesses will be able to abstract in the future. There are considerable challenges to future water availability because many catchments have no spare water due to a need to protect the environment. Managing water availability is likely to be more challenging in the future with an increasingly varied climate and increased demand for water from a growing population.

The current system for managing abstraction of water from rivers and aquifers was introduced in the 1960's and needs to be overhauled. Most abstractors were given a licence to take a fixed volume of water, regardless of availability. DEFRA considers the current system is inefficient in that it does not help abstractors to trade water effectively, nor does it provide an incentive for abstractors to manage water efficiently. They believe that much of the water that is licensed is not actually used, but the regulator(s) are unable to make it available to others who may need it. This system is inefficient and water licences and usage need to be better aligned in the future.

DEFRA wish to reform the abstraction management system to ensure that we are making the most of our water resource. They want abstractors to use water in the most efficient way possible through making improvements to application systems. A start has been made with reforming licences and since 2008 they have changed 77 licences in England, which is currently returning around 75 billion litres of water per year to the environment. DEFRA is also considering including exempt abstractors such as trickle irrigators into the licencing regime.

The consultation, which closes on 28th March 2014 concerns the long-term reform of the abstraction management system in England and Wales. It is important that our industry responds and voices its opinions otherwise we could lose out. DEFRA already has powers in the Water Act 2003, whereby certain licences can be changed without compensation payments to prevent serious damage to the environment.

DEFRA is committed to introducing a reformed water abstraction management system that's able to promote resilient economic growth while protecting the environment. The reforms are expected by 2020 following legislation in the next parliament.

Laurence Gould is currently involved with the Water Advisory Team for Efficient Resource Recovery (WATERR) project. This project is designed to provide farmers and growers with the tools and information to improve water efficiency and save costs in the future. It will involve benchmarking against peers within the South East and in providing best practice information. The aim is to safeguard the water using interests of growers for the future. Further details regarding the project launch event can be found on the back page.

Laurence GOULD

ARABLE

Comment: Gross margins are coming under increasing pressure with lower prices, rising input and power and machinery costs. Although margins are falling this is not yet reflected in rents as the land market is changing with new crops eg. maize for AD increasing the competition for land particularly in many areas of the South and East. Growers need to be careful to assess returns and margins to ensure land taken on provides a positive contribution to the bottom line profit.

Cereals: UK feed wheat values were 20% down at the end of 2013 compared to the start of the year, however prices were fairly static through December, varying between £150 -£160/t ex farm. Moving into the new calendar year there has been some subtle volatility returning after a period of calmness with both old and new crop prices moving lower. It will be a case of whether availability and logistics continue to support the market in the short term or when fresh supplies enter the market place.

The HGCA's grain quality survey indicated that milling wheat quality in 2013 was generally good and a marked improvement on 2012 with hagberg values at their highest since 1990. This has resulted in a greater proportion of home grown wheat being used by millers.

The International Grain Council estimated world wheat production in 2012/2013 at 656mt. Global consumption is higher however at 679mt. The predictions for 2013/14 see production at 711mt and consumption at 704mt. Consequently wheat stocks are expected to remain historically tight both globally and within major exporting countries. As a result whilst maize prices have continued to fall away in the later part of 2013, wheat prices stabilized and developed an increasing premium to maize. It also highlights a key area to watch in 2013/14 potential for volatility should there be any production threat to the 2014 harvest in major wheat growing countries.

Domestically autumn drillings progressed well, with good weather patterns throughout the drilling period. UK crops are generally well and across Europe the picture is similarly favourable. As ever it will be the weather in the spring and summer that will really matter. With this in mind growers may consider taking out forward contracts.

With a large increase in spring barley plantings last year due to the weather, feed barley prices have remained at a £20-£30 discount to feed wheat prices, however cereal usage data shows that so far the switch from feed wheat to alternative grains has not occurred as quickly as might have been expected. As such there is little indication that the price difference will alter significantly in the near future. Sterling's rise against the euro has weakened old crop malting barley values.

However malting barley premiums are currently expected to be stronger for the 2014 crop due to a lower domestic spring malting barley crop and reduced European plantings.

Oilseeds: Winter oilseed rape was drilled in timely fashion this year, compared to last autumn and generally conditions aided good establishment. Some careful manipulation will however be required to help realise the full potential, as continued warm weather has resulted in some forward crops.

Domestic rapeseed values have remained static with crop values at approximately £280-£290/t. A record Canadian crop at above 17mt, potential increases in soybean production in the US and a potentially record South American soybean crop will keep market prices under pressure. This increase in soybean supplies and lack of buyer interest has put pressure on OSR prices at harvest which are in the range £265-£275/t.

Pulses: The feed bean market continues to be the main driver in the pulse market as prices have made the crop more competitive. With lack of demand in the New Year it is likely that values may fall, however human consumption beans are currently attracting a £5-£8 premium.

Potatoes: The Potato Council weekly average price in mid January stood at £151/t compared with £228/t at the same time last year. This follows the estimate for the 2013 crop total production in the UK being some 20% higher than the previous year, which had seen it fall to the lowest level since 1976. Overall, the total crop stood at 5.46mt whereas in the previous year 4.49mt. The 2013 UK potato crop, despite the increased production, is still the second lowest since 2007 with prices undercut by poor consumption.

The increase in production resulted from a rise in yields estimated at 44.7t/ha compared with 36.9t/ha for 2012 with the area estimate for total plantings being only fractionally higher at 122,000 hectares. The average yield was well short of those seen in recent years with 2009 & 2011 in particular being around 47.5t/ha.

Production across Northern Europe showed the 2013 crop estimated at 23.86mt, an increase of 4.2% on 2012 but down on the 5-year average of 24.5mt. Total area is estimated to have gone up by 4% compared with last year to 531,845ha with the Belgium area showing the greatest increase of 12% compared with 2012.

Sugar Beet: Following challenging spring weather impacting on early crop progress, growing conditions over the summer were better resulting in a yield that was much in line with the 5-year average. In early January the average sugar percentage stood at 17.4% compared with 16.8% at the same time last year close to the 5-year average as the crop grew well during a mild autumn following the slow start.

Following protracted negotiations, the contract price for 2014/15 has been set at £31.67/t. There is also an uplift in the late delivery allowance starting from December 26th and increasing by 0.16% per day up to February 28th giving a maximum of £35/t of adjusted beet delivered. This agreement has proved enough to keep most growers in the crop.

Fruit & Veg: The 2013 top fruit harvest was one of the latest ever with many growers still picking fruit well into November. Whilst there is a larger crop, grower returns will be down with prices 10-15% less than last year. Apple yields have been reasonable although fruit size and colour has been an issue for some. Dessert apple prices quickly came under pressure as supermarkets indicated reduced consumer demand and as a result there have been a number of promotions. This led to disappointing returns for many growers from early fruit sales. Those with good quality fruit and storage will hope the situation improves early into 2014.

The soft fruit season was very difficult, particularly for strawberries. Early season fruit under glass/early sites did well last year, the issue was over production of everbearers in August which led to too much fruit going onto the wholesale markets. The situation is unlikely to change in 2014 so growers will have to consider how they can grow everbearers at these prices profitably in the future.

Many plum growers harvested a heavy crop in 2013 and with modern storage to extend the marketing season, the majority were able to sell virtually all the harvested crop. Mixed results were seen by cherry growers with some achieving relatively good yields and others a disappointing crop, largely dependant on local weather conditions at crucial times in the spring.

The onion crop was late planted, slow to establish due to a cold spring and harvested late. Bulb size and yields were down on last year.

Laurence GOULD

LIVESTOCK

Comment: What a difference a year makes for dairy farmers with many experiencing prices never seen before and positive signs going forward. Beef price remains unseasonably stable and margins for producers without subsidy remain tight with only the best producers returning positive net margins. Attention to detail remains key, though the impact of CAP reform on the beef sector, particularly in Scotland will be crucial in determining the scale of the future suckled beef sector in the UK.

Dairy: Milk prices are up by 5p/lt on last year in most cases with some farmers on favourable contracts receiving 37p/lt over the winter. This price has come on the back of low world production and continuing high demand. The outlook at present is that prices will hold during the early part of 2014.

UK supplies are increasing as producing marginal litres makes good economic sense. For most of 2013 milk production was below the 5-year average. November milk production figures showed the highest for 10 years, up 9.5% on last year. If the production trend continues the UK could get close to reaching its National Quota Level. Milk quotas are going in 2015 but the UK can still be subject to a levy if it goes over quota.

Demand from UK based dairies has been high as they compete for supplies. Arla have their new factory at Aylesbury up and running as well as a new butter plant. They also run the skimmed milk powder plant at Westbury. Arla successfully signed up 85% of their producers to join the co-op. This means producers will be eligible for a 13th payment.

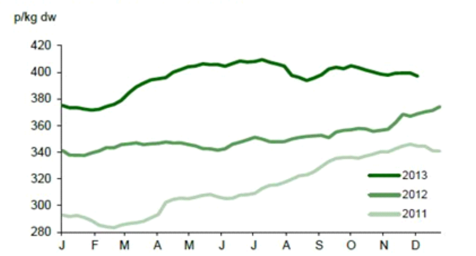
Those on production contracts have just started to see reduced milk prices as fertiliser and feed prices have reduced in value. The present high prices mean cashflows on farms are improving after the hangover of the very difficult year in 2012. Forage supplies are adequate with good maize crops helping to boost lower grass silage stocks.

The ending of milk quotas in 2015 could dramatically change the supply demand situation in the industry. Some countries for example Ireland and Scotland have plans/policies to increase milk production by 50% by 2025. Dairy farmers who currently produce profits and cash surpluses need to consider that the market could quickly change and to be competitive they need to look how to reduce their unit cost of production.

Beef: The UK beef breeding herd continues to decrease. As at October 2013 breeding herd numbers had fallen by 2.8% year on year (DEFRA, 2013). High variable and fixed costs associated with keeping beef suckler cows and the impending change in farm subsidies (in particular in Scotland) has led to suckler cow numbers decreasing.

Beef prices have increased before steadying from mid-October with the dead weight price for a R4L steer in December at 397.1p/kg (EBLEX, 2013); up 7.3% year on year as shown by the graph below. The seasonal increase in price failed to materialise as processors had built up stocks for Christmas earlier than usual.

GB R4L deadweight steer price



Source: AHDB / EBLEX

Cull cow prices continue to decrease and as at November 2013 the live weight cull cow price was down 4.3% on last year. Competitively priced dairy bull beef from Poland continues to impact the cull cow trade. Imports of beef from Poland were up 17% year on year (EBLEX, 2013).

The movement in cull cow price has followed regular seasonal patterns as demand for higher quality cuts increased during the Christmas period.

In turn exports have decreased by 10,443 tonnes, 9% year on year (EBLEX, 2013). Lower carcase weights and fewer suckler cows have partly affected total exports. UK prime cattle slaughterings were down 3% in the year to November (EBLEX, 2013). As a result of this and lower carcase weights in Q1 2013, beef production had fallen 7% year on year (QMS, 2013).

Moving into 2014, if tight domestic supplies continue there may be a further increase in imports, which are up 3% Q3 of 2013 compared with the previous year. The beef price is expected to be relatively stable in early 2014 as the market adjusts to decreased supply and higher imports.

Sheep: In December 2013 the lamb price was 173.8p/kg Lwt; 12% up on last year. A lack of demand led to a stabilisation in the lamb price and not the seasonally expected price increase in the winter period. 11% lower prices for New Zealand lamb also had an effect, though actual volumes imported are 6% less year on year as China has taken a higher tonnage in 2013.

The cold spring led to difficult lambing conditions and as a result the total number of lambs was only up 0.9% taking into account the very poor lambing conditions in the previous year.

Breeding ewe numbers have increased by 2.2% year on year to 15.6 million (DEFRA, 2013) with the increase partly as a result of expansion in Welsh ewe numbers.

Lamb slaughterings in Q3 were 3% higher than the previous year. Better conditions in 2013 led to lambs being sold much quicker and at greater weights. Lamb production in Q3 was up 4.5% on last year (QMS, 2013).

The overall volume of exports has risen by 18% year on year; the biggest UK supplier (France) received 5.5% more lamb year on year (QMS, 2013).The cull ewe price is currently down 4.9% year on year (Welsh Gov). However recently there has been an increase in demand for cull ewes which may be down to an increase in the consumption of lamb mincemeat; volumes of lamb mince consumed are up 10.3% year on year (EBLEX, 2013).

A significant price rise is expected in the lamb price in early 2014 due to a tight supply. Price could be slightly restricted however due to continued cheap New Zealand imports.

Pigs: With the DAPP ending the year close to £1.70/kg DW and feed wheat at less than £160/t, most pig producers should be operating at a profit. Given the price disparity between feed wheat and barley (the latter less than £140/t) producers should consider selling stocks of wheat and purchasing barley for some time forward. Oats at less than £110/t should also be considered if milling equipment can handle the higher oil content.

It has been a long time since producers have had to think about their tax liability but this may need mitigating by re-investment in qualifying plant, machinery and long life fixtures. In addition to the universal business items, capital allowances can also be claimed on slurry tanks and lagoons, slats and everything below including the whole slurry system and moveable pig tents or pig arks.

Enhanced capital allowances are also available for environmental plant & machinery such as rainwater harvesting and slurry dewatering equipment.

Charles Baines, Newmarket

Planning: Further to the permitted development rights that came into effect on May 30th 2013, the government has been consulting on permitted development rights to actually convert redundant farm buildings that are not listed into dwellings.

Although called Permitted Development, prior approval will be required from the Local Authority using a notification procedure accompanied by plans of the proposed conversion. The Local Authority will then have a period of time (possibly 2 months) to say if they require a full planning application, or if the notification will suffice for permission.

The proposed constraints include:

- Less than 3 residential units
- Less than 150sqm floor area
- In agricultural use prior to 31st August 2013 qualifying date for agricultural use of the building

Even if full planning permission is required, the new National Planning Policy Framework published by central government last year now gives Local Authorities more flexibility to approve residential development in the countryside including the following instances:

- Where the development would re-use redundant or disused buildings and lead to an enhancement to the immediate setting; or
- Where such development would represent the optimal viable use of a heritage asset or would be appropriate enabling development to secure the future of heritage assets; or
- The essential need for a rural worker to live permanently at or near their place of work in the countryside.

The final instance is similar to the previous Agricultural Worker concession, but while it implies that a Functional Need still has to be demonstrated, the Financial Test may not be so crucial.

Renewables: With the prospect of cuts to the Feed In Tariffs at the end of March 2014 there was a flurry of projects seeking to be connected by that date or lock into the current tariff rates by the end of 2013.

Anaerobic Digestion

Government action/policy for AD is currently contradictory. They want to support small scale AD plants, for example the subsidised WRAP consultancy and funding for small scale plants and the expansion of the RHI to include sub 500kW plants. Yet the system for degressing FITS support for sub 500kW plants, which effectively came into force from 1st January 2014 at 20% will curb development. ADBA, quite rightly has questioned the degression system because it will severly reduce the number of plants built in the future.

ADBA informed DECC that only 1% of renewable support has been received by the AD sector and their actions are likely to stifle an industry in its infancy. Government believes that as an industry matures, the capital cost should reduce as was evidenced in the solar industry. However the AD industry is set up differently, the number of plants built is smaller, the development process significantly longer and the major part of the investment cost of steel/concrete/civils engineering is affected by general economic conditions. These cost savings will not occur in the AD sector and a support system needs to reflect this if it is to work in the future for the industry.

Solar

The solar sector is coming under increasing pressure with the reduction in support payments and panel prices appearing to show limited potential for future reduction. The relaxation on planning for roof mounted systems and those within the curtilage of the buildings means that farmers still have the opportunity to generate reasonable returns if they act promptly. The best returns are being evidenced where the farmer is able to use electricity generated in the summer period.

Wind

The consolidation and closure of several RAF radar stations has allowed wind turbine developers to proceed without causing interference to military air traffic control. Proposals that previously were not allowed by the MOD may now be possible.

Biomass

Woodchip boilers continue to offer good returns on investment where the fuel can be sourced cheaply and handled in bulk. With the increased interest in this sector, demand for woodchip has increased the price of supplies that are now becoming tight. Farms with adequate home grown supplies and the opportunity to install a district heating system within the farmstead are likely to benefit most from this type of energy.

Future Events: Laurence Gould is hosting the ERDF WATERR (Water Advisory Team for Efficient Resource Recovery) Project launch at East Malling Research in Kent for the South East Region on 28th January 2014. Speakers include Henry Leveson-Gower, Head of DEFRA's Water Legislation Reform Project. The project is looking for abstractors in the South East, including trickle irrigators (who are currently not licenced) to participate in the project. The project will aim to demonstrate current efficient use of water and improvements that can be made.

For more information on the launch event and project please contact Claire Kingston on 01458 241901 or email; claire@laurencegould.com

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Our Offices:

Scotland & North England
Peter Hall
Tel: 01383 730538
edinburgh@laurencegould.com

West of England & Wales
Geoff Brookes
Tel: 01584 781148
worcester@laurencegould.com

East of England
John Hartwright
Tel: 01223 813622
newmarket@laurencegould.com

South of England
Robin Hobson
Tel: 01444 232822
burgesshill@laurencegould.com

South West of England
Mark Shepheard
Tel: 01458 241901
yeovil@laurencegould.com

Renewables
Keith Leddington-Hill
Tel: 01223 813622
keith@laurencegould.com