Review of
# AGRICULTURE

Laurence GOULD

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Summer 2014

# CAP REFORM: STILL QUESTIONS TO ANSWER

**By Thomas Philp**
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**There is still much detail to be announced regarding CAP Reform and with harvest fast approaching, planning for 2015 is not a straightforward process. Further key details are due to be released imminently but these are unlikely to answer all the questions and farmers are well advised to keep plans fluid until there are more confirmed rules to clear up the uncertainty that exists. Currently the main concern centres around the implementation of Greening measures and Ecological Focus.**

- **Crop Diversification:** The requirement to have at least three different crops on arable land over 30 hectares will add complexity that could cause some arable farmers to change cropping patterns. This is likely to effect simple rotations and those with contract farming agreements where block cropping is implemented. The published crop list states winter and spring crops will count as separate crops but further clarity is still needed regarding whether this is determined by sowing date or variety.
- **Definition of Permanent Grassland:** The treatment of temporary grassland could be important for many under crop diversification. Land entered as grass on 6 SPS applications in succession will be classified as permanent grassland and therefore not considered arable land for the scheme.
- **Outdoor Pig Producers:** Those taking on land under FBT's may need to find additional land in order to help meet the three crop ruling and Ecological Focus Area requirements, recent DEFRA guidance however appears to suggest that this may not be the case.
- **Definition of Qualifying Crops:** DEFRA still has to announce what land uses qualify as Ecological Focus Areas. It would appear that areas of catch crops or nitrogen fixing crops will (pulses) be allowed to be included in the 5% EFA calculation but it is not known if additional management conditions will apply.
- **ELS Schemes:** Little information is available to indicate what the rules will mean for farmers with an existing Environmental Stewardship agreement when meeting the new measures and qualifying for EFA areas.

From a wider perspective of the BPS, the new scheme will see a move to an online-only application system. it is uncertain whether crop codes will change as speculation has suggested the crop diversification rule could give rise to multiple codes being issued. The RPA is also considering a scheme to assess people in need of assistance being given access to an agent or another service.

### Key Dates to Look Out For:

**2014**

**May to October -** New Greening rules will be explained in greater detail by DEFRA.

**July Onwards -** The new online BPS system will become available and be introduced in stages with more customers invited to use it each month.

**October 19th -** Deadline for transferring SPS entitlements before BPS entitlement allocation.

**November -** Rural Development Programme (RDP) to be approved by EC.

**December -** Cross compliance guidance for 2015 becomes available.

**2015**

**January -** New Rural Development Programme launched and LEADER scheme open for applications.

**Mid January -** BPS entitlements can be transferred.

**Mid February to May 15 -** BPS application window.

**Summer 2015 -** Applications for New Environmental Land Management Scheme with January 2016 start date.

**December** - BPS Payment window opens.

If you would like to discuss CAP Reform or the new Basic Payment Scheme please contact your local office.

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# CROPS

**Comment: Crop production forecasts look stronger for the 2014 UK harvest and yields should exceed 2013. The grain market has begun to factor in expectations for a larger crop with a general decrease in the new crop prices during May and into June. After two unfavourable growing years for fruit and veg crops the current prognosis is for higher yields and quality. The financial pressure on supermarkets especially those with parlous trading results will put pressure on their supply chains and consequently grower returns.**

**Cereals:** Market supply and demand fundamentals across the world are having major impacts on the volatility in the wheat markets. Recent wheat prices have seen a downturn as sellers have continued to push old crop stocks into the market. For both feed barley and malting barley, old crop markets remain stagnant with little interest shown by the domestic markets. Currently domestic milling wheat prices are trading at £25 - £30 premium over feed wheat.

Favourable conditions in the autumn saw an increase in overall wheat plantings compared to the 30 year low in 2013. Good early spring weather gave way to a continued wet spell which has resulted in higher disease pressure. Overall, the outlook for crop performance is good but as ever conditions through grain fill will be crucial, as 2012 proved. At the end of May, wheat crop development was thought to be 7-10 days ahead of what would be considered a normal year.

As western hemisphere crops enter their final period before harvest the grain markets are geared to the weather for direction. The International Grain Council recently lowered its global wheat production forecast by 2% to 694 million tonnes due to the more “normal” average yields compared to last year .

Milling variety plantings for 2014 have increased, and prudent use of fungicides at ear emergence and flowering will be required to ensure quality is not compromised this year.

On new crop, the dampening of the Crimea dispute coupled with some rains in the dry areas of America saw further downward pressure on new crop prices.

New crop feed barley discounts to wheat have widened with export opportunities for new crop few and far between. The strength of the pound recently has also not assisted with exports. Both winter and Spring crops around the UK are in relatively good condition, and this together with little export interest and continued strength of the pound may widen the discount to wheat further from the £20 - £30/tonne at present.

**Oilseeds:** There is potential for a high UK crop and possibility that this could be replicated throughout Europe with some forecasters now predicting a record EU crop in the region of 22 million tonnes.

In the US soybean plantings are recovering despite the slow start but the position of old crop stocks remains tight and a risk to supply. There is though the potential for record harvests in South America.

MATIF rapeseed futures at the start of June stood at approximately £255 - £265/t for November 2014.

The weather will be a key element to realizing the potential yield of domestic crops, and continuing improvements in crops around the world could put further downward pressure on new crop prices.

**Pulses:** With near ideal growing conditions, pulses have developed well across the UK, with new crop prices easing due to the expectations for high yields. Old crop prices have eroded further as buyers have remained absent from the market, and there has been little human consumption demand from the Middle East.

**Potatoes:** The average price at the end of May stood at £160.94/t, a long way below the £300.28/t at the same time last year. The estimate of stocks at the end of March was 1 million tonnes, this was 19% up on the previous year but very similar to the 2012 amount. The weak market has led to a high carryover of stocks into 2014 with the old crop keeping well in store.

Early indications suggested an increase in total area for the 2014 season in Northern Europe to 550,000 hectares, a rise of approximately 4% on last year. France and Belgium are expected to show the largest growth from 2013.

**Sugar Beet:** The 2013/14 crop produced one of the highest yields on record despite the much publicised establishment problems last spring with results indicating an average yield near to the 70 tonnes per hectare mark. Campaign data showed an average sugar contents at 18.1% compared with 16.4% last year and the five year average close to 17%.

There could be significant changes to the contracts being offered to growers for the 2015 campaign. Discussions between the NFU & British Sugar involved options for different pricing mechanisms based on a variety of formulas after the previous pricing agreement failed to reflect the changes in other crops during its four year operational period. Without it prices may fall next year.

Depending on what is decided as a result of these discussions, a new approach to sugarbeet pricing may be created whereby growers are able to mix and match different pricing formulas rather than signing to receive a single fixed price. This could therefore create the scenario of growers being able to lock into different prices for different proportions of their crops.

**Fruit & Veg:** Excessive Bramley stocks have had a damaging effect on the fresh market prices and are down to £35 per tonne for processed fruit. This has been caused by the large 2013 crop and exacerbated by an earlier Bramley harvest in 2014. There is also reduced demand for Cox which has resulted in low prices with many growers believing this is a long term trend given the quantity of Gala and Braeburn that will be grown in the future. Generally the potential for orchard crop yields for harvest 2014 is high.

The strawberry season started well with good yields and prices for early season glasshouse growers. The end of the glasshouse season has merged with early season tunneled production leading to an over supplied market at the beginning of June. Moreover the Everbearer varieties have started production ahead of main crop Elsanta. Prices from mid May were the lowest for many years. Growers will require good yields of Class I fruit to achieve profitable returns in 2014.

Asparagus crop yields and quality have been better this year with growers taking an increasing share of the UK market. Prices have been similar to last year.

End of season onion supplies are good and with imported Southern Hemisphere crops reaching the UK the market is static. Achieving good seedbeds for 2014 crop proved difficult due to the mild winter. The growing season for root crops has been favourable with new crop yields looking promising.

The supermarkets are increasingly looking to source direct from Producer Groups and/or growers thereby putting pressure on existing supply chain arrangements. With the rapid increase in market share that discounters such as Aldi and Lidl are establishing the main supermarkets will look to streamline their supply chains to reduce costs to protect both their margins and market share.

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# LIVESTOCK

**Comment: Margins have continued to come under pressure in particular for beef following the trend of falling prices. The beef sector has seen a continuation of the decline which began at the end of 2013 despite retail prices rising. During this period there has been a significant increase in the level of imports which have become cheaper following the strengthening of the pound. A continuation of this theme could discourage many producers from investing in livestock and threaten the prospects of the sector further.**

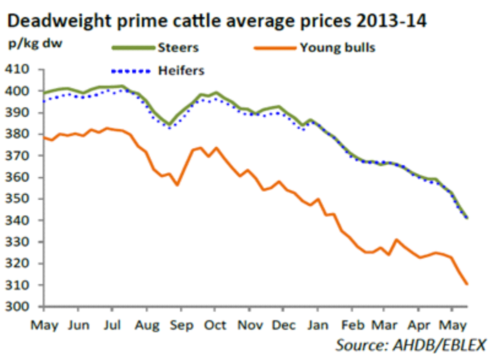
**Dairy:** After 18 months of continuous price increases, the rising trend has stopped. A large processor announced a 1.27p/l price cut in May reflecting directly on prices in Europe. There is speculation of another small cut taking place in July.

Milk production hit a record in April with provisional figures of 1.28 million litres, 12.7% up on 2013. It has been a very active past 18 months with all the big milk companies trying to expand their milk fields. Arla suppliers have joined as co-op members. Farmers will buy their way into the co-op over the next few years.

Looking forward, maize has now all been planted albeit a bit later than normal. First cut silage output has been back up to normal levels after being 20% down last year. The silage should hopefully be of good value and set up the year ahead nicely. The outlook post quotas still looks good as China buys milk products to satisfy its domestic demand.

The US has not yet lifted production and remains the biggest threat to future prices. Producers should remain confident going through this year so long as they keep an eye on costs.

**Beef:** The beef price has fallen dramatically since the peak in October 2013. The deadweight price for an R4L steer of 361.9p/kg (EBLEX, May 2014) was down 35.2p/kg (8%) from the start of the year. An R4L steer weighing 370kg deadweight would now sell for £1,365 gross compared with the begining of 2014 £1,469, a drop of £104/head.




Favourable weather conditions has led to reduced consumer purchases year on year in first quality roasting cuts (8% down) and in particular stewing cuts (19.6% down). The only cut which saw an increase was burgers and grills, up 8.8% (EBLEX 2014). As a whole the total volume of consumption is down by 5.2% in the year. Throughout March, UK imports were up 25% totalling 16,200 tonnes, with a weaker Euro making Irish imports 11% cheaper than a year ago (EBLEX 2014).

UK prime cattle slaughterings are down 2% in the year to April 2014. However on the other hand beef production is up 2.3% from the year to date (6,800 tonnes) (EBLEX 2014). Reduced prices may have led to less cattle being put forward but better finishing conditions in the first half of 2014 has led to higher carcase weights thereby increasing production.

Slaughtering continues to be restricted by the decline in the beef suckler herd. In 2013 UK cow numbers fell by 3% and a further fall of 1.5% is forecast in 2014. As many suckler cow enterprises already show a negative net margin before subsidy, the prospect of further falls in price means the fall in numbers is likely to continue.

Moreover the cull cow price continues to decrease, with the liveweight price down by 13% (Dairy Co.). Prices have not recovered since the influx of cheaper Polish beef last year. Prices for poorer quality beef are likely to remain under pressure whilst the pound remains strong.

In the short term we expect the beef price to remain relatively stable due to the continued levels of imported beef. However, with Irish production currently 15% ahead of last year there may be an increase in price as supply is reduced later in the year.

**Sheep:** In May 2014 the new season lamb price was 240.7/kg Lwt, 1% lower than last year (EBLEX 2014). It is likely this price will follow regular seasonal patterns and decrease when more lamb enters the market.

New Zealand continues to dominate the import market accounting for 72% (QMS 2014) of lamb imports. Overall imports are down 11.5%, partly down to less New Zealand lamb being imported. New Zealand is trading more with China and therefore exporting less to the UK. More lamb has though been imported from Australia with shipments up 83% year on year.

Exports to May have dropped by 4.5% year on year (QMS 2014). This is due to a stronger Pound at the beginning of the year which led to exports to the EU falling by 14.5%. Furthermore France bought less sheep meat in the first quarter (down 17%) but they still account for 45% of total exports. There has been an increase to non-EU countries though, Hong Kong with a 38% increase in volume. The lack of carryover of lambs into 2014 has meant the export drop has not affected price as much as anticipated.

The cull ewe trade has improved significantly with the end of May average at £76.60/hd, up 35%. Less cull ewes were being put forward as a result of better weather and strong demand may be the reason for the price increase. Purchases of cheaper lamb cuts have increased which supports the increase in demand for cull ewes with Lamb mince purchases up by 6% (EBLEX 2014).

Looking forward, 2014 total production is expected to be up on last year due to better lambing conditions and significant 4% expansion in the UK flock. Prices look set to decrease as normal in the short term, concern arises on how they react to increasing home production. The level to which the price drops in August/September as supply increases will be key to the sector performance in 2014.

**Pigs:** Although the DAPP has experienced seasonal easing since the beginning of the year, disease issues in major producing countries mean tight global supplies that should underpin prices. Nevertheless, an outbreak of African Swine Fever in the UK would halt exports and therefore flood domestic supplies. Any strengthening of Sterling on the back of better financial recovery would also depress prices in the UK due to competition from imports. However, the number of countries that are disease-free and therefore still able to import to the UK is lower.

Feed prices should ease with the recent decline in wheat prices and feed barley seems extremely cheap even allowing for the supplements to make it nutritionally comparable to wheat as a base for rations.

On the assumption that profits are achievable, thought should still be given to tax avoidance measures such as investing in plant and machinery that qualify for capital allowances. This is as long as such equipment adds to the efficiency and drives down costs of production. Alternatively, in view of possible interest rate rises by next year, cash could be used to reduce debt burdens.

**Keith Leddington-Hill, Managing Director**

## Grant Funding: LEADER Scheme 2015 to 2020 – Funding Coming Soon to Your Area!

The new LEADER scheme for smaller projects should be ready to be launched from January 2015.

The LEADER areas will be defined by autumn 2014 (91 LAG's are applying). Funding for projects will be competitive with a maximum grant rate at 40%.

The scheme is administered locally under the supervision of Defra.

The aims are to support projects that:

i) Increase farm productivity e.g. added value packing facilities

ii) Farm diversification e.g. new start up enterprises/expansion

iii) Rural tourism e.g. tea rooms, bike hire etc

iv) Rural services e.g. setting up rural services for the local community

v) Cultural and heritage e.g. restoring venues for cultural heritage display

vi) Forestry productivity e.g. new forestry technology

There may be variations to these themes/aims for each individual LEADER region.

Where planning permission is required this should preferably be secured prior to making an application. Those projects that are collaborative, create jobs and demonstrate additionality will be more successful at being supported.

Projects can meet more than one of the scheme's objectives. For more information please contact your local office or Keith Leddington-Hill 07968 412052

### Eastern Agri-Tech Growth Initiative

This scheme will provide grant at a rate of 25% from £25,000-£150,000 to fund investments that lead to job growth. It is a Local Economic partnership (LEP) scheme for SME businesses in specific geographical areas in East Anglia. There is a R&D grant for up to 50% with an upper limit of £60,000 to support new products and processes in the Agri Tech sector.

Projects supported under these schemes can be wide ranging and could cover agricultural and horticultural production, pollution control, pest management, non food crops, livestock, animal nutrition, ICT systems, supply chain improvements. Leisure/tourism based projects are not covered by this scheme.

For more details please contact Keith Leddington-Hill 07968 412052.

### The Carbon Trust

The Carbon Trust's mission is to accelerate the move to a sustainable, low carbon economy. They are able to provide, in conjunction with Siemens, leases loans and finance to support energy saving investments.

Benchmarking your carbon use is a starting point to gauge your business efficiency. LGP has been benchmarking businesses for the past three years, which has demonstrated a wide variance in carbon use and identified areas for improvement.

For more information please contact Kevin Stewart on 01383 730538.

**Renewables:** Laurence Gould is registered to carry out consultancy under the WRAP grant scheme. The On Farm Anaerobic Digestion Fund has been developed to help farmers in England get financial support to build small scale AD plants on their farms.

The Business Plan Development Grant offers up to £10,000 per farm to create a business plan to investigate the potential of developing an AD plant on farm.

Eligible AD projects for the scheme will typically be based on manures and slurries up to 250k/W plant size. Additionally WRAP is providing loans on plants up to 250kW at up to £400,000 or 50% of the project cost.

For more details please contact Charles Baines on 01223 813622.

**Upcoming Events:** Laurence Gould will be exhibiting at the **Livestock Event**, held at the NEC Birmingham on July 2nd & 3rd. Please come and join us on the stand, we can be found in Hall 19, Stand number BM182.

We will also be at East Malling Research Centre for **Fruit Focus** on Wednesday July 23rd to hold a seminar as part of the ongoing ERDF WATERR (Water Advisory Team for Efficient Resource Recovery) Project.

This is scheduled to take place from 8-10.00 am and will include an update from Henry Leveson-Gower, Head of DEFRA's Water Legislation Reform Project. This is a major opportunity for growers to hear DEFRA's proposed changes to the licensing legislation first hand.

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

WATERR Project is supported by:

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