Review of
AGRICULTURE

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CAP Reform - Is It Too Early To Act?

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Last autumn the EU published drafts of their proposals for the CAP post 2013 and thus started the long process of negotiation with the final aim being the introduction of reforms on 1st January 2014.

There are likely to be significant changes along the way, and it is debateable whether even the start date will be met, but what is clear is that the EU sees the CAP evolving to meet pressure to make farm support fairer and greener, whilst living within budgetary constraints. Thus the proposals include:

A 'Greener' CAP

The new support system will be split into two elements; the so called '***Basic Payment***' (circa £140/ha) which will be available to all 'active' farmers who comply with basic compliance measures, and an ***Environmental Top-Up*** comprising of a 30% premium to those who adopt 'enhanced environmental measures including:

- Crop diversification: a minimum of three separate crops must be grown, and where one crop must not exceed 70% of area, or be less than 5%.
- Maintaining the permanent grassland area at 95% of an on-farm threshold (start date yet to be set).
- Taking 7% of 'eligible land out of production to develop Ecological Focus Areas.

Special landscapes will be able to be supported by extra coupled support in which member states can use up to 5% of the basic payment for funding.

A 'Fairer' CAP

The texts place great focus on supporting only 'active' farmers and 'agricultural activities' and therefore there is the expectation of greater scrutiny of farming activities particularly the so called 'pony paddocks', but also landowners who do not rely on agriculture as their main source of income.

Also of particular relevance to the UK with its larger farm size is the proposal to progressively cap ***Basic Payments*** between 150,000 and 300,000 euros. Albeit that current proposals include a facility whereby payments to salaried staff can be deducted from payment before capping.

Where Now?

Despite the potential for the reforms to change, it is prudent for all businesses to keep monitoring the negotiations. The following issues top the list of those that are currently being discussed with clients:

1. The fact that old entitlements will be cancelled in 2014 and new ones issued only to those with land available in May 2014, but who also claimed SPS in 2011, may create issues where land is changing hands and particularly for new entrants.
2. If you are buying entitlements now you should be aware that they will probably only be claimed on twice more before being cancelled.
3. Anyone renegotiating existing FBTs or taking out new agreements must consider the entitlement position as whoever is 'in control' on 15th May 2014 will have to apply for and receive the entitlement.
4. The tightening of the definition of an 'active farmer' will have implications for landowners who have significant income streams elsewhere. For example a businessman, with a small farm, contract farmed by his neighbour may well fall foul of the 'active' test.
5. The crop diversity element of the Enviro-Top-Up could cause issues for some farming systems (continuous wheat, dairy farmers using maize) and for contract farmers who tend to farm smaller individual holdings in single crop blocks.
7. The creation of an 'on-farm' permanent pasture 'threshold' means that individuals should be aware of the implications of letting 'temporary' grassland revert to permanent in the next couple of years.
8. Farmers should consider the implications for their ELS/HLS schemes as they do not appear to count towards the EFA, The UK government has acknowledged that ELS schemes can be withdrawn early without penalty if there is conflict.

If you would like more information on the reforms or wish to discuss a particular issue in more detail, please contact your nearest Laurence Gould office.

SUMMARY

Cereals: The weather had an impact on 2011 UK crop yields but not by as much as was once feared. Prices are still good, but well below their peak, and good world stocks suggest that pressure on prices will continue although new crop prices are steady.

Oilseeds: 2011 OSR yields were generally good, but prices have slipped back from harvest highs. The new crop looks promising and forward prices are firm.

Potatoes: Good yields across western Europe mean that supplies are up and hence prices are down. Concerns are mounting in eastern England over lack of winter rainfall.

Sugar Beet: None of the weather problems of last season and yields and quality are up. Prices are higher for 2012 and margins should rise.

Beef: Tight supplies should help maintain prices and margins into 2012. Potential threat of increased South American imports is some way away.

Sheep: Prices have continued to reach new highs through 2011, but 2012 should see markets and margins stabilise.

Dairy: Higher milk prices have not been reflected in margins and not stopped the flow of producers out of the sector.

Pigs: Steady prices plus lower feed costs mean that although margins are tight, they should be improving.

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ARABLE

Comment: The weather - wet in the north and dry in the south - made the 2011 harvest challenging, with many experiencing below average grain yields. Sale prices have also slipped back over the autumn and many are regretting not selling sooner. This, together with increased input costs, mean that results for 2011 are going to be mixed. Root crop yields have been better, but low sale prices will limit the benefit. Looking to 2012, autumn sown crops look to have potential and an open autumn has allowed land work to progress.

Cereals: The UK 2011 wheat harvest was better than was once feared and with a similar picture emerging across Europe, concerns over supplies evaporated. Indeed with limited biofuel demand the domestic market has once again had to look to exports to move the surplus. These have been steady through the autumn, but with world markets well supplied UK feed wheat values drifted down to remain competitive. Reports of drought in South America strengthened markets over Christmas and domestic feed wheat values increased back towards £150/t and then have been supported since with concerns raised over the condition of the Ukrainian crop.

Globally fundamentals have not changed with the IGC indicating that 2011 was the second largest world wheat crop ever, and with ample carry-in stocks, crop availability is good in 2011/2012. While usage is rising, world stocks at the end of the year are forecast to climb to their highest level in a decade. Given this it is surprising that prices have not fallen further, but other grains (notably maize) are short and this is providing general support. It is difficult to see how further significant rises can be sustained unless there is further negative news on 2012 crop prospects. That said future prices are relatively stable with November 2012 at £145/t ex farm.

In terms of milling wheat the HGCA's survey indicates that UK quality in 2011 was generally good, and whilst this has resulted in a greater proportion of home grown wheat being used by millers, milling premiums have narrowed from £20/t+ to nearer £12/t over feed. Despite this milling variety plantings for 2012 have remained at similar levels to 2011.

The UK barley harvest was down on previous years and tighter supplies have supported prices with feed barley trading close to, or above feed wheat prices. Many drought stricken spring crops failed to achieve malting quality and this has supported malting samples so that prices peaked at £200/t (a premium of £50/t) although values have now eased back. New crop malting barley values stand at £170-£175 and as a result of this and the open autumn, traders are predicting that this could result in a 15% drop in UK spring plantings for 2012.

Domestically autumn drillings progressed well, with good weather patterns throughout the drilling period. UK crops are generally looking well, and crops across the EU look similarly favourable, although late snow across Eastern Europe will result in more spring plantings this year.

Oilseeds: As with wheat, OSR prices have drifted down and are £50/ lower since harvest, but recently stronger Chicago soya markets and weaker sterling has improved both old and new crop prices. Markets are being influenced by the tight global soybean position, with the IGC predicting global production to be down by 3% from last year at 258 million tonnes, whilst solid demand from the Far East is expected to prompt further growth in world trade to a record 96mt. These predictions together with a firm European rapeseed future market mean UK ex-farm OSR prices stand at £350/t, and confidence has spread further forward with harvest 2012 at £325/t.

Domestic winter OSR crops have generally established well this autumn in favourable conditions. Some are almost too forward and these will need careful management to realise their full potential.

Pulses: The feed bean market continues to be the main driver in the pulse market. Lack of demand in the New Year could mean that values come under pressure, and with 80% of human consumption beans already exported, the current premium over feed beans of £50/t is also likely to fall as the pace of exports slows down risk.

Potatoes: The Potato Council estimate of the 2011 GB crop showed a 3.5% increase on 2010 with 6.053 million tonnes produced. This was achieved despite a 0.4% reduction in the total planted area at 126,328 ha and gave an average yield of 47.9 t/ha compared with 46.1 t/ha in 2010. The total plantings were the lowest since 2005, but the crop got off to a good start and withstood extreme weather to produce yields which were the highest since 2002.

There were significant variations seen across the regions with excessive rainfall in the North and Scotland impacting on the harvest whereas in some Central and Eastern parts the prolonged dry period meant many growers irrigating ahead of the harvester to keep bruising down.

It was a similar picture across the five major North-Western European countries with the estimated ware harvest at 26.6 million tonnes, an increase of 11.4% from the previous year and the highest for more than ten seasons. This significant increase was down to a rise in yield of 9.4% and increased area by 1.8%, with Belgium seeing the largest increase in yield by 19.2% from 2010.

Unfortunately consumption continues to decline and with good supplies prices have come under pressure with the weekly average price in early January being £117.72/t compared with £165.56/t at the same time in 2011.

Moving into 2012, water supplies continue to be a big concern in eastern England as winter rainfall is below average and restrictions remain in place.

Sugar Beet: The 2011/12 campaign has made good progress through the autumn with above-average yields and generally excellent lifting conditions, in complete contrast to last year. The quality of the beet has also been high meaning factories have operated at high throughput and factories should close earlier this year.

Campaign data to mid-December showed average sugars of 18.5% well up on 17.35% last year and the five year average of 17.68%. Dirt levels are low at 4.5% compared with 7.4% at the same time in 2010 and the five year average of around 6.4%.

Looking ahead to the 2012/13 sugar beet crop, the contract price has been announced at £27.53/t plus late delivery and transport allowance. Surplus beet will be paid at £25/t and means that beet gross margins will regain some of their competitiveness.

Fruit & Veg: For most top fruit growers the 2011 harvest was one of good yields and quality. Early prices for some varieties were disappointing, particularly for bramley where consumer demand and marketing issues persist.

The majority of strawberry growers also achieved relatively good yields. Prices were generally reasonable, but there was a dip in prices due to seasonal supply/demand issues.

Open market vegetable prices have generally been poor with good yields achieved by growers and demand down approximately 10% on previous years, due to the abnormally mild autumn and also more conservative consumer spending. Cauliflower prices were very modest initially, but have recently improved. Onion prices are currently very low with a large oversupply due to good yields.

There is concern generally within the fruit and veg sector that supermarkets will discount prices to consumers but try to maintain their margin by paying lower prices to producers.

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LIVESTOCK

Comment: With good sale prices, grazing livestock producers should have enjoyed a reasonable year and the prospects are for this to continue into 2012. Indeed margins may even improve if costs can be reduced. Margins for intensive producers are tighter, but with feed costs easing there are some reasons for cautious optimism. However the continued pressure on household budgets and renewed supermarket competition may make trading conditions more challenging particularly if a weaker euro reduces competitiveness.

Beef: The beef price went from strength to strength in 2011 up 21% at £3.45/DW kg at the end of December for an R4L steer despite a 3% reduction in domestic consumption in the third quarter. The increase is due to tight supplies, with imports falling 2% in the first 3 quarters of 2011 and exports increasing by 39%, as confidence continued to grow in British Beef following the BSE ban and new markets outwith the EU opened up.

Higher feed and straw costs in winter 2010 also contributed to fewer bulls being retained with a 16% drop in bull beef slaughtering for the last quarter of 2011 compounding tightening supplies.

The buoyant finished cattle price filtered through to the store price with an increase of 19–25% for the period June - September. Although finishers have had increased margins with the considerable increase in store price, margins on these purchased stores will continue to be squeezed.

Despite a 20% increase in cull cow volumes, prices were 30% up on the year in November as a result of increased demand for cheaper beef cuts and a strong export market with a 55% rise in exports to the Netherlands. Attractive cull prices may lead to the national herd constricting slightly in 2012 as people look to rationalise their herd on the back of good prices and high feed costs.

Forecasts for a continuation of the tight supply means the outlook for 2012 looks promising. However with higher finished prices and falling feed and straw costs, this is expected to prompt a resurgence in the number of bull beef being kept but this will not affect 2012 markets.

Although the UK beef industry can hopefully look forward to another year of improved prices, a real threat to the UK beef industry beyond this year will be the potential Mercosur deal between the EU and South America which could see an estimated 540,000 tonnes being imported from South America to Europe. All eyes will be on the next round of talks taking place in March 2012.

Sheep: 2011 was the third consecutive year that prices have risen and they reached record levels. Prime lambs finished the year up 17% at £4.57/DW kg and cast ewes were up to £72.50/hd, up £10 on the year. This rise is due to tight global supplies which have seen 15% lower imports to the UK (Including New Zealand imports down 19%) and favourable exchange rates.

Buoyant market prices have filtered through to breeding stock which have seen record prices throughout the year, with £150/hd for breeding gimmers being widely achieved. The high prices are despite the UK 2011 June Agricultural Census showing a slight increase of 0.9% to 14.8 million breeding ewes in the UK. This figure however masks the 0.5% fall in breeding gimmer numbers.

With ewe hoggets worth £100 to slaughter, there will be considerable temptation again for producers to cash in replacement hogs. This, along with the on-going issues of sourcing labour; the increased capital cost of purchasing breeding stock and the implementation of EID, mean that it is likely the national flock will stabilise in 2012 rather than grow, despite improved margins.

Forecasts suggest prices for 2012 should be on par with 2011, but are not expected to exceed them. Continued tight supplies and a growing export market will be countered by a domestic market which continues to contract (consumption fell by 20% in the third quarter as supply shortages and high retail prices discouraged cosumers) and this is expected to cap prices.

New Zealand imports are forecast to recover slightly on the year with estimates predicting an extra one million lambs to be killed in the coming season, however it is not thought that this will boost volumes of imports to the UK significantly. The export market will continue to underpin prices in 2012 with the Eurozone and Euro/£ exchange rate remaining key to continued high prices.

Dairy: For the majority of 2011, higher milk prices continued to be offset by higher production costs, particularly for purchased feed and fertiliser. The Defra average UK farmgate price stood at 29ppl in October 2011, a 3.2ppl (12.4%) increase on the year, and many liquid contracts now exceed the 30ppl threshold. Despite this the latest EU-27 milk price league table still shows the UK seventh from bottom.

On the supply side November 2011 UK milk deliveries were 4m litres more than the previous year, equivalent to a 0.4% increase. This appears to be the result of increased yields (average yields per cow increased by 331 litres between 2009/10 and 2010/11) because the downward trend in both producer and dairy cow numbers has continued. The number of Producers in England and Wales was 10,755 in December 2011, down 286 (2.6%) on 2010 and this is reflected in the wider EU-27 market where producer numbers between 2008/09 and 2009/10 fell 10% to 1.2 million.

UK dairy cow numbers fell by 33,000 last year and a total of 140,000 have been lost in the last five years leading to a current UK total of 1.81 million dairy cows.

Recent average prices for freshly calved cows are 21.4% higher compared to 2010. Freshly calved heifers are 15% higher and bull calves up 119.2% for the same period. Prices for cull cows, calves and stores have been strong for much of the year.

In the retail market, competitive pricing structures have continued to contribute to a tightening of margins. In mid December, a pint of liquid milk doorstep was 65p, while four pints sold at retail was £1.28.

With domestic economic pressure likely to continue into 2012, there is unlikely to be any easing in trading conditions, and although wider economic influences from global markets may filter down, further increases in farmgate milk prices will be difficult to achieve.

Pigs: The GB Deadweight Adjusted Pig Price (Euro spec) ended 2011 at 147.63p/kg, 11p more than at the end of 2010. Spot and contract prices have slipped back since Christmas, indicating a lower DAPP into the New Year but there are reasons for cautious optimism, and this is reflected in strong weaner prices of £44.50/hd or more.

Cull sow values are still firm indicating good demand on the continent, and despite the recent firming of wheat prices, it is possible that livestock producers may not be exposed to the high costs of 2010/11 this coming year.

As ever, the pig industry is highly sensitive to the picture in Europe where the EU sow herd has contracted by some 4% year on year although better productivity means that total pigmeat supply has reduced by less than this.

The partial stall ban due in January 2013 should see further contraction in the EU herd. Suppliers to the Olympics working on tight budgets should favour cheaper meats such as pork. The prospect of direct trade to China where pig meat is relatively more expensive should open up this market and weaken the grip of domestic retailers.

Despite total cost of production being some 8p more than the current DAPP, in cash terms efficient producers could be generating a surplus and may be able to reinvest in 2013 once the positive factors have been realised.

RDPE Grant Scheme - An Update

In December 2011 DEFRA announced details of how the final two years of the English Rural Development Scheme is going to operate:

- ***Rural Economy Grant*** - £60 million – to be launched in February 2012 to provide grants of up to £1 million for businesses to boost their competitiveness (added value projects), support growth in tourism, agri-food, forestry, renewable energy and other high-potential sector projects.
- ***Farming & Forestry Improvement Scheme*** - £20 million – launched in November 2011 with a similar aim to REG but targeting smaller projects.
- ***Skills & Knowledge Transfer*** - £20 million – to be launched August 2012 – an extension of the current training programmes.
- ***Rural Community Renewable Energy Fund*** - £15 million – to cover the development (feasibility and planning work) for viable renewable energy schemes that attract private sector investment.

All schemes are competitive, so it is important that a project meets the scheme's criteria to be successful. For an initial discussion please contact: Keith Leddington-Hill on 07968 412052.

SRDP: There is still time…and money.

The long awaited funding rounds for the Scottish Rural Development Programme have been announced. There are still grants of up to 50% available, but there have been amendments to the scoring procedure and eligibility of certain projects.

The dates for submission of applications are:

***Capital Round* - 22nd February 2012**
***Environmental Round* - 30th March 2012**

Time is required to complete the application process so if you have a project in mind please contact the Edinburgh office to discuss it as soon as possible.

Renewable Energy: The last year has seen considerable change in the renewables sector with Anaerobic Digestion increasing in attractiveness with the rise in the feed in tariff and different scale solar projects coming and going as the Government changed feed in tariff levels.

Despite the considerable upheaval Laurence Gould has continued to be involved with a wide range of successful renewables projects, including planning permission for a number of wind turbines and solar PV arrays ranging from the 5 MW field scale to 50 kW. We have also been involved in site finding and site purchase for various clients.

We expect that interest in this area will continue to grow and additionally the Renewable Heat Incentive has now opened for commercial property, and with starting values of 7.9p per kWh being paid for up to 200kWh of installed capacity, biomass boilers are projected to be a shrewd investment.

We now have a wealth of experience in all areas and scales of renewable energy advice, planning and project management, so please contact your nearest regional office for help on your project.

New Members of Staff. The last six months have seen Laurence Gould add four new members to its consultancy team across the country.

Tom Pointer has joined the Edinburgh Office as a Consultant. He is a graduate of Massey University New Zealand with a degree in Agricultural Science and Agribusiness and has worked as an agribusiness bank manager dealing with medium to large scale livestock businesses. Tom will strengthen the farm management team, undertaking farm appraisals, whole farm reviews and assessing the impact of CAP Reform.

Kate Jenkins has also joined the Edinburgh Office as a Planning Consultant. She is RICS qualified and has over 10 years experience working as a rural land agent and latterly within the planning & development fields. Kate is also a licentiate member of the RTPI and has specialised in the promotion of strategic land through development plan reviews as well as planning appraisals, applications and appeals for wind turbines, housing and agricultural developments.

Aisling O'Loghlen is the third addition to the Edinburgh team. She is a graduate of the University of Manchester where she completed a Masters in Planning and she also holds an MSc. in Environmental Management from Queens University Belfast. Aisling will form part of the Edinburgh Planning/Renewables team, and be involved in producing wind feasibility reports for medium sized farm turbines, and providing support for planning applications for wind projects by analysing the environmental impacts of wind turbines for noise, shadow flicker and visual impact assessments.

Simon Haley has joined the Yeovil office as a Consultant. He has a degree in Agricultural Business Development from Harper Adams and has previously worked for a firm of agricultural consultants in the North West. He will strengthen the consultancy team providing ongoing strategic farm management advice to rural businesses across the South West of England. He is a member of the Institute of Agricultural Management (IAgrM), and is also currently studying part-time towards an MSc postgraduate degree in International Agribusiness and Farm Management.

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Laurence Gould is the best known name in rural business consultancy providing independent strategic, financial and technical advice to farmers, estate owners, agri-businesses, non-farming rural businesses and government bodies.

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- Employment Issues
- Contract Farming
- Farm Tenancies
- Entitlement Trading
- European Consultancy
- Litigation Support
- Environmental Consultancy
- Sourcing Finance
- Renewable Energy

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