Review of
AGRICULTURE

Laurence GOULD

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FiT Review and Field Scale Renewables

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On the 7th February the Department for Energy and Climate Change announced that a review of the Feed in Tariff scheme will take place. This is likely to have a large impact on how the Feed in Tariff (FiT) drives the uptake of different technologies. The government statement says the review will;

- Assess all aspects of the scheme including tariff levels, administration and eligibility of technologies.
- Be completed by the end of the year, with tariffs remaining unchanged until April 2012 (unless the review reveals a need for greater urgency).
- Fast track consideration of large scale solar projects (over 50kW) with a view to making any resulting changes to tariffs as soon as practical, subject to consultation and Parliamentary scrutiny as required by the Energy Act 2008.

The expectation is that the government will target larger developments *removing investor confidence. This was reinforced by Energy Secretary Chris Huhne who said "Large scale solar installations weren't anticipated under the FiTs scheme we inherited"*.

We all want to see the right technology in the right place but this potentially dramatic move will be very disappointing for both investors and landowners whose potential developments would have gone a long way to reach the UK's renewable energy targets of 15% of energy from renewable sources by 2020.

On a positive note, an assessment of the uptake of FiT support for Anaerobic Digestion (AD) will also take place as this has not seen the expected uptake to date. The government expected 6 AD plants to be commissioned using FiT support by now, but only 2 have been built.

It is hoped that there will be an increase in the FiT rate making the development of on farm AD plants more viable. Measures to support renewable heat options have also been recently announced, and these measures combined will hopefully see the further development of the AD/Biogas industry in the UK, together with improving the economics of other renewable heat systems such as biomass boilers .

Senior Environmental Consultant at Laurence Gould Paul Holmes-Ling is hopeful the review could improve the potential for UK Biogas plants, saying "We have been involved in undertaking feasibility studies for a number of biogas plants over the last few years and the current low FiT makes the economics particularly sensitive and risky, an increase in the FiT, even if relatively small will make a number of these plants become commercially viable at a farm scale". However Paul also warns that "consideration should be given to utilising waste streams wherever possible as the food vs. fuel debate continues with Biogas as with solar farms".

Anaerobic digestion is a well proven renewable energy and waste management technology which involves a series of processes in which micro-organisms break down organic material in the absence of oxygen to produce methane and carbon dioxide or biogas which can be used as an energy source. A large range of feedstocks can be used in anaerobic digestion, but in general high energy feedstocks e.g. maize, food waste and processing waste are used. These often supplement farm waste products such as slurry, as these wastes are generally not high enough to produce a viable biogas output on their own.

When considering a biogas project it is not only important to firstly consider feedstock availability, but also important to ensure all the products are used or sold. The main outputs are electricity, heat and digestate. The electricity and heat come from a combined heat and power plant burning the biogas, and the digestate being undigested material which is left after the digestion process. This digestate has a variety of uses including acting as a very efficient fertiliser replacement, as well as dryer digestate having a range of potential uses including pelletizing as a biomass fuel.

Laurence Gould has experience in all aspects of AD development from initial feasibility and scoping studies, budgets, technical designs, planning and the tendering process. For independent advice on developing biogas or other renewable projects please contact: Paul Holmes-Ling 07713334821 paul@laurencegould.com

SUMMARY

Cereals: Old and new crop prices remain strong, if volatile, because of concerns over the global supply and demand balance. Growers may want to consider sales strategy to lock into the current prices.

Oilseeds: As with grains prices remain volatile, but have risen significantly. Crops have come through the winter well, despite the cold weather. Forward prices should be supported by shortage of soybean and high oil prices.

Potatoes: Prices have been good for those with stored free-market supplies. Many are cashing in as an early new season crop is looking likely.

Suger Beet: The 2010/11 campaign was a disastrous one for many beet growers. However drilling of the 2011/12 crop has started well.

Beef: Cattle prices have remained firm but higher feed, forage and straw prices have reduced margins and future returns look tight.

Sheep: Prices have remained firm, largely due to a shortage of lambs and the prospects for the next 12 months look promising.

Dairy: UK producers are still exiting the sector, but milk prices are rising. Unfortunately rising input costs are more than negating price increases.

Pigs: The price rises that have occured are dwarfed by increased feed costs. Negative margins suggest tough times ahead for most producers.

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ARABLE

Comment: With global supply forecasts being reduced and demand increasing due to continuing weather issues across the main grain growing regions, old crop grain prices have been increasing to record highs which is good news for those who still have crop to sell. New crop markets have also followed these trends, albeit at a discount, and forward sales for harvest 2011 and 2012 are being considered by many keen to secure a margin. The outlook is for continued volatility with markets highly sensitive to crop prospects.

Cereals: Grain markets continue to be unpredictable with forecasters regularly revising their predictions. The UK feed wheat market which was steady at around £200/t early in the new year then suddenly lost £30/t in a few days in March as investment funds withdrew from the market as events in Japan and North Africa unfolded. Markets have since recovered many of their losses and currently remain close to contract highs.

With the quality of UK milling wheat generally good, and imports expensive, a greater proportion of home grown wheat is being used by millers. This has maintained premiums at £20 - £25/t over feed.

The reason for the volatility is a reflection of a finely balanced supply/demand position. The International Grain Council recently estimated that world wheat production in 2010/11 was 647 million tonnes and while this is some 31mt below 2009/10, it is still the third largest on record. However global consumption is 11mt higher than last year at 661mt following increased usage in certain countries as cheaper weather-damaged wheat replaced maize. A consequent decline in wheat stocks is mirrored in the maize market as the estimated consumption of 842mt is 33mt more than production.

Closer to home UK wheat exports accelerated through the autumn bringing the total to January 2011 to 2.1mt. This compares with the initial DEFRA forecast of export availability of 1.33mt for the full season and so to accommodate this increase domestic usage has been reduced and the carry out of stocks has been cut to well under 1 million tonnes.

Looking forward, support from the wider commodity sector looks set to continue, as do concerns over the availability of immediate supplies. However focus is now shifting to the coming grain harvests around the world in 2011, and it is the prospects for these that look set to influence prices in the coming months. Globally the wheat area for 2011/12 is projected to rise by about 3% but this potential increase in production has generally already been factored into markets.

The trends in old crop market have largely been mirrored with the new crop. UK futures markets peaked at a historically high November 2011 price of £175/t, however with recent political uncertainty prices have slipped to £165/t. Domestically autumn drillings progressed well, with good weather patterns throughout the drilling period, resulting in an estimated increase of 9% in plantings on 2009. Crops have survived the coldest December for over 100 years, and are generally looking well, and the picture across the EU looks similarly favourable.

Feed barley prices have slipped back recently, as fresh supplies have come onto the market with little export activity. As a result the price discount to feed wheat has widened. Malting barley prices are well supported, as Maltsters continue to top up their requirements this season. Strong demand from Asia has helped to drive the price for spring barley, with new crop premiums at the top end of the range over the last 10 years. Some buyers are now looking to contract with farmers for 3 to 5 years with an average price to be paid over the period.

On a wider front many growers are asking whether or not they should lock into the forward prices currently available and if so, how much. The prices available for 2011/12 should give most a reasonable margin and are therefore worthy of consideration. Equally prices are below current levels and this suggests there is the potential for more volatility to come, if one is happy with the risk.

Oilseeds: Having risen steadily throughout the autumn and winter, oilseed rape prices lost some ground in February as domestic demand eased. Ex-farm prices peaked at over £400/t, but have fallen back to around £385/t. However global markets continue to be underpinned by the tight soybean supply, and in January the USDAs supply and demand report lowered world soybean stocks by 1.3mt.

Thoughts are now turning to the new crop and having generally established well, most winter oilseed rape crops have survived the cold weather relatively well, albeit that some crops with reduced plant populations will need careful management to realise their full potential. This picture appears to be repeated across the EU and with prices remaining steady, there is a likelihood that there could be an increase in spring plantings albeit that this will be subject to the availability of land.

Domestic new crop markets have remained relatively stable with ex farm prices currently standing at £350/t for harvest, slightly off recent highs, and it appears that market confidence has spread further forward with harvest 2012 at £320 - £330/t.

Pulses: The feed bean market continues to be the main driver in the pulse market and with demand from the extruding plants very strong, values have risen by over £15/t since the New Year. However the bean market generally follows the wheat market closely, and any volatility in this market will be reflected in the pulse markets.

Human consumption bean exports have slowed, as buyers are able to secure supplies of relatively cheaper Australian Fiesta Beans, and as such the premiums available over feed are diminishing.

Potatoes: Domestic prices have been supported over the winter by reduced domestic supplies with estimates showing end February stocks at 2.4mt, which is 9.3% down from the previous year. In addition a firm market in Northern Europe, helped by a strong export demand from Eastern Europe, has limited competitively priced imports into the UK.

As a result the Potato Councils weekly GB average price has remained well ahead of last year and at the end March it was £181.32/t compared with £98.14 at the same time in 2010.

With the higher prices available and warm weather prevailing, many growers are advancing quickly through their stores as they are unprepared to risk significant tonnages to late season. The increase in supply has put some pressure on free-buy prices, but the chances of a late season rally are diminishing as the weather has also allowed early planting to progress well and this would suggest that the new crop season will start early.

Sugar Beet: The 2010/11 campaign was one that will be remembered for many years by all in the industry. Severe early frosts were followed by a warm January during which crops became unprocessable and rotted in fields. Estimates suggest that up to 1mt of the 7mt national crop has been lost and for some individual growers the proportion lost has been greater.

As a result significant frustration and ill-feeling has built up and in response British Sugar have announced measures to help growers. One is the cancellation of 'usage' rules for the 2010/11 crop which helps those who have not delivered their contracted tonnage this year, but potentially roles on a year the problems of those who under-produced in 2009/10.

Drilling of the 2011 crop has started well with dry weather and good seedbeds. Despite the problems and a reduction in the contract price growers have not abandoned the crop and any thought of reducing the area has been tempered by BS offer to refund 50% of the seed cost of those meeting their contract.

LIVESTOCK

Comment: The livestock sector has generally benefited from higher sales prices, although in some cases these have been reducing recently. This has provided many with a welcome boost but now increases in feed costs following the surge in grain and protein prices are eroding margins with the effect particularly marked for intensive units. The UK dairy sector is now seeing some uplift in milk prices, but many have been arguing that it should have happened sooner given that commodity markets have been rising for some time.

Beef: Despite having spent most of 2010 below the corresponding values for 2009, prime cattle prices have been on an upward trend since August as the effect of a 9% increase in UK production and increased imports diminished. Prices for 2010 peaked in December at 287p/kg DW .

The new year has seen prices largely maintained at this level largely because of increased demand .

Cull cow prices in 2010 followed a similar pattern with prices remaining below a year earlier. However in early 2011 prices have risen and at 213p/kg DW, are 13% up on the year.

Although the increase in market price has been welcomed, this has occurred as feed and straw costs have increased greatly due to the soaring grain market and tight straw and forage availability due to the early harsh winter. This has increased pressure on cattle finishers with margins being continually squeezed.

It is therefore of little surprise that store cattle sales in the final quarter of 2010 were effected and prices for continental cross steers fell by £44/hd on the year.

Higher feed and forage costs are also thought to have resulted in the 10% increase in slaughter numbers during January 2011 as producers looked to avoid feeding animals for longer than necessary and save on scarce supplies of straw and forage.

The higher feed costs have also significantly reduced the demand for male dairy calves leading to a sharp decline in calf registrations in the final quarter of 2010. This may lead to a tightening of supply towards the end of 2011 which should help to put upward pressure on prices going forward.

Whilst one would hope that the next 12 months will see an easing of the straw and forage position, feed costs are likely to remain high and with fixed costs likely to rise it is essential for finishers to determine at what stage cattle should be sold. Balancing the costs of live weight Kg gain against the market price will need to be considered in order to determine the optimum selling weight to maximise any potential returns in the year ahead.

Sheep: 2010 was another good year for sheep producers with prices remaining consistently above 2009 levels as a result of tight supplies (UK lamb production was an estimated 10% below 2009).

Despite this 2011 started with averaged prices 30p/kg DWt (7%) lower than the previous year at around 390p/kg, but have recovered since and prices have reached 450p/kg in March.

Looking forward prices are expected to remain firm as lamb production is forecast to fall again in both Ireland and France (Eblex) and this will maintain a strong demand for UK exports even if sterling strengthens against the euro. This, coupled with the effects of massive weather related losses in New Zealand (forecast to be down by 8.7% on the year), means that sheep meat will remain a sought after product even if domestic consumption continues to falter because of consumer resistance to the price of the product. This has led to a 10% decline in UK consumption over the year.

Despite the continued optimism in the sector, the national flock showed only a slight increase of 1% according to the June 2010 census. With 9% more ewe lambs retained and a national flock that is younger, cull rates are expected to continue to fall in the short term. As a result, it is likely that mutton will continue to be tight going forward which will help to maintain the good cull ewe prices of 2010 which averaged the year at £62.10/hd.

The harsh winter conditions through December may have impacted on scanning rates, however it appears in general that this was not the case with only small reductions seen, implying that lambing rates will be similar to 2010, giving an opportunity for good returns from UK flocks in the coming year.

Although prices for 2011 look to remain buoyant for the sheep industry leading to good returns for well managed flocks, there is going to be added pressure on the sheep industry with feeding and forage costs impacting on margins. These will have greatest affect on the high input, intensive, early lambing ewes, with the increase in feed costs looking to add £2.50 - £3.50/ewe as well as a further £1.50 - £2.50/hd to finishing lambs.

Producers should focus on targeted feeding rations and batching ewes in the run up to lambing to maximise the efficiency and returns from feed to protect the potential profits available for 2011, together with ensuring that other costs are kept under control wherever possible.

Dairy: In a repeat of 2007, dairy commodity prices are soaring across the world with annual comparisons showing that world SMP prices are up by 17.9%, while WMP prices are 22.6% higher. These rises provide strong justification for increasing farmgate milk prices, with the DEFRA average farmgate price for the UK standing at 26.14ppl in December 2010, 1.44ppl (5.8%) more than the December 2009 price of 24.7ppl.

In response to this and to relieve the increasing pressure of soaring input and production costs, several companies have introduced increases in milk price over the last few months. Although these price increases are positive, the largest increase so far has only been 1ppl, and according to a recent NFU report, it is thought that the 'average' dairy farmer is losing 3.16ppl. It has therefore been speculated that unless there is a rapid increase in farmgate price, UK production may fall back over the next year as more exit the industry.

Statistics show that a further 443 (3.9%) left the sector over the 12 months to January 2011, with the largest fall (4.4%) seen in Wales. Despite this, those that remain are producing more milk. In January UK milk deliveries stood at 1,105 million litres, which is 54 million (5.1%) up on January 2010. On a cumulative basis, milk deliveries for the first 10 months of the 2010/2011 milk year stood at 11,153 million litres, 422 million (3.9%) up on the same period for 2009/10.

Encouragingly UK consumption of milk has increased by 2.1% compared to last year, however sales by value fell by 3.9% with the average price for liquid milk in the retail sector down 4ppl over the period. Increased consumption is good news for the sector as it means that more GB milk will benefit from the premium compared to processing contracts.

However whether this relates into a meaningful increase in the price paid to farmers remains to be seen.

Pigs: The downward trend in the DAPP continued through the latter part of 2010, and by December it was 137p per kg, 10p lower than the peak in June.

The weaker prices reflect increased domestic supplies. UK clean pig slaughterings for the 11 months to December totalled 8.5 million head, 400,000 higher than in 2009, which is an increase of 6% year-on-year, when combined with increased weights.

Cull sow slaughterings in the UK were up year-on-year as producers remove unproductive sows from the herd, but as yet there has been no evidence of complete herd disposals.

There is still continuing consumer popularity (pork purchases up 2% year-on-year), however whilst UK prices are showing signs of increasing values are still well short of a level that will produce a positive margin and this will undoubtedly put further pressure on producers.

Future Delivery of the Rural Development Plan.

Keith Leddington-Hill, Managing Director

Delivery of the RDPE socio-economic elements will continue for the remainder of the programme period, to December 2013. This will be delivered through DEFRA by providing a stronger national lead and a network of locally accessible delivery support.

The transfer of on-going RDPE delivery functions from Regional Development Agencies (RDAs) to core DEFRA will take place on 1st July for Axis 1 and 3. A specific emphasis on providing support for the uplands will be incorporated into the planning of future delivery under the programme, and funding will continue to be used to support farming competitiveness for the remainder of the programme period to end 2013.

Over the remainder of the programme period there is about £384 million available under Axis 1 and 3 of the RDPE to support improvements in farming competitiveness and support for the broader rural economy. About three quarters of this funding will be delivered through the new arrangements, with the remainder for other schemes; predominantly the agri-environment schemes and catchment sensitive farming schemes managed by Natural England and also the Forestry Commission.

Of this £117.19 million has been allocated to the Regional Development Agencies to support eligible actions under the RDPE Axis 1 and 3 for the 2011/12 financial year.

DEFRA was able to maintain a commitment to funding of all Axes for the remainder of the programme period, but with the austerity measures affecting all government departments, it was necessary to make reductions in parts of the programme. As a result the budgets are lower than anticipated at the outset of the programme. Over the programme period as a whole, spend on Axis 1, 3 and 4 is expected to be in the region of £530 million.

As the administration transfers to DEFRA, delivery will move towards a more consistent national approach. As part of this transition, current processes used to determine the allocation of budgets will be reviewed and may be changed to better support the new delivery arrangements.

The programme will continue to support projects that address the programme objectives and priorities for delivery. However, given existing levels of commitment and the pressures on remaining budgets, access to funding support is likely to become increasingly competitive. Future delivery will be focused on identified priorities under the programme, including; farming competitiveness, skills, the uplands, rural broadband and tourism.

The Regional Local Action Groups (LAGS) have had serious budget cuts for the period April 2011 to March 2012 but should have more funds available for the rest of the programme to December 2013. There are opportunities within the LAGS to support projects from added value, farm modernisation, setting up micro business and tourism.

Despite the cutbacks and uncertainty Laurence Gould are preparing applications to seek funding for 2011/2012 and are planning the project developments for implementation from March/April 2012 to take advantage of the funding in 2012/13.

Potential applicants should be aware that the lead-in time for many projects can be 9-12 months when one includes the time involved in planning, preparing and processing of applications. Thus whilst current funds may be limited it is worth starting to investigate options now.

To discuss any projects you may have please contact Keith Leddington-Hill. 01223 813622
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SRDP Update.

Peter Hall, Director - Edinburgh

The latest round of SRDP results have recently been announced with Laurence Gould continuing to have considerable success in securing grant support for our clients projects, although the scheme is getting increasingly competitive and bureaucratic with a tightening budget.

However although the funding is tightening, there are still opportunities for business, environmental and diversification projects with grants of up to 70% available for eligible projects. The scheme is becoming ever more focused on the national targets meaning that prior planning and structuring of applications is essential for success.

The Scheme National Targets are:

- The encouragement of young new entrants into farming
- Increased production of Organic produce.
- Activities which bring important environmental sites (SSSI, SACSs, SPAs and Ramsar Sites) into favourable condition.
- Woodland Expansion.
- Slurry storage improvements in NVZ areas.
- Diffuse pollution mitigation in priority catchments.
- The conservation of Red Squirrels.

Disappointingly, with the announcement that 2,655 km of hedgerows have been planted through the SRDP, this option will temporarily be removed for the coming round to refocus funding on other environmental measures.

With Scottish Parliament elections due in May 2011, any change in Government may result in revised future funding priorities, but the next round of applications is due for this autumn.

If you would like to discuss any potential project to determine if there is an opportunity for granted funding please contact: Peter Hall 01383 730538
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