

Summer 2010



Farming for the Environment

Jonathan Lacey - Consultant: Yeovil Office
Tel 01458 223224 email: yeovil@laurencegould.com

The Campaign for the Farmed Environment has been operational for nearly one year, but despite widespread publicity, the response from the farming community has, in our experience, been muted. This is not because farmers disagree with its aims, but more that it is one more bit of paperwork on an already overloaded desk.

The scheme itself was introduced by the industry, with key partners such as the NFU, CLA, LEAF, FWAG and AICC, to promote voluntary management of farmland to 'recapture' set-aside benefits from a relatively small area of well located and positively managed land. In doing so the hope is that it will negate the threat of compulsory and regulatory options together with the additional paperwork that this will inevitably generate.

The aim is to meet agreed national targets by June 2012 and as such farmers are being asked to adopt or to continue management practices that will:

- Ensure that Entry Level Scheme (ELS) agreements contain the right options in the right places to create important habitats for wildlife on the farm, and potentially double the area of key in field ELS options (additional 40,000 ha).
- Retain a certain level of uncropped land and strive to improve the management of at least one third of this land to support habitats for birds and wildlife and improve resource protection (retain current 179,000 ha of uncropped land).
- Increase the current national level of voluntary environmental management by at least 30,000 ha.

The scheme has identified specific management practices which work within three key themes:

Resource Protection: CFE offers farmers a range of options to help protect watercourses by:

- Tackling the source of run-off, flooding and erosion
- Slowing down pathways of soil erosion
- Creating physical barriers

Carefully targeted management can help prevent sediment and other pollutants from reaching water and reducing water quality, which is already a key objective under the Water Framework Directive.

Encouraging Farmland Birds:

- Food during the winter and early spring can be supplied by 2ha of seed rich cover crop or 5 ha of over wintered stubble per 100ha.
- Nesting habitats can be catered for by good field margin and boundary management, with some bird species such as Skylarks requiring in-field options.
- Insect rich foraging habitat, such as conservation headlands, cultivated margins and flower rich margins, at approximately 1ha per 100ha should provide enough feed for the young of farmland birds.

Promoting Farm Wildlife:

- Bees, butterflies and a wealth of other insects can benefit from establishing a network of flower-rich habitats across the farm (evidence shows that 14 times as many bumblebees are attracted to nectar mixes compared to grass margins).
- By buffering and protecting water, there is the potential to provide habitats for bats, newts, water voles, and other small mammals.
- Unimproved or flower rich grassland are of great value to a wide range of farm wildlife.

So what can farmers do?

As the CFE is broadly consistent with the aims of ELS, those who are making an ELS application, or are about to renew, are asked to consider adopting one or more CFE measures within their agreement.

For those that do not wish to undertake ELS there are 16 voluntary management options that can be considered. There is a simple form available to record these options and this can be kept on farm.

The uptake of the CFE will be monitored by a postal survey, Natural England will record the uptake of CFE options in new ELS applications and there will be a small number of on-farm inspections.

Therefore the industry has been given the opportunity to deliver environmental benefits voluntarily and to do this everyone will have a role to play. If CFE is successful further regulation should be avoided, but if it is not then the industry cannot say it did not have the opportunity.

SUMMARY

Cereals: Dry weather across the EU and Russia, coupled with potential weather issues across other major grain growing regions has resulted in reduced production estimates and sharp price increases. This is despite ample world stocks.

Oilseeds: As with grains, prices remain volatile, but have increased over harvest due to weather related yield concerns and external market forces. It should be noted that recent increases in grain and oilseeds have been fuelled by speculative interest with funds returning to agricultural commodities.

Potatoes: Early potatoes were in short supply this year and this prompted good clearance. This should help support maincrop prices provided consumption holds up.

Beef: Prices have reduced due to increased supply following higher UK slaughterings and a weakening of the euro which lead to increased imports. With feed prices on the rise margins are likely to tighten.

Sheep: Prices have remained firm, largely due to a shortage of lambs.

Dairy: Producers in the UK are still exiting the industry, however milk prices have recently improved.

Pigs: Prices have remained firm, despite increased supplies.



Comment: Extreme weather conditions across the main grain growing regions of the world have ignited grain markets with global supply forecasts being reduced almost daily since the end of July. Prices have reacted sharply and UK wheat values have risen by 50% in six weeks despite the fact that domestic yields are generally being better than expected. However global supplies remain good with stocks quoted as being 30% higher than when prices last spiked in 2007/08. This is prompting many to consider increased forward sales.

Cereals: With harvest dragging on in many regions, it is still not totally clear what effect the lack of rainfall has had on crop yields, particularly on the lighter land. Since early April, rainfall was below average in 9 out of the 13 week period to the end of June. Average rainfall in the 3 months from the end of March was only 85mm. It was drier in the east with only 65-70mm compared to 80-100mm in the west, with wheat crop demand during the same period typically 160-200mm.

Early indications suggest that UK yields are better than many expected, although the same cannot be said of many other wheat producing areas. Strategy Grain reduced the EU 27 soft wheat crop down by 3.5mt to 129.5mt with reductions in France, Germany and the UK. Russian crop losses have created the most concerns due to severe drought, which has caused emergency status to be declared in 17 grain growing regions. Analysts estimate that the drought, thought to be the worst in 130 years, has helped to destroy 9.6Mha of crops. This has prompted Russia to ban exports for the coming season and helped stimulate world wheat markets, with daily price fluctuations of £10/t reminiscent of those seen in 2007.

With difficulties likely to continue in Eastern Europe, reduced plantings in Canada following heavy rains, the Southern Hemisphere harvest still 4-6 months away and the EU surplus below expectations, there are reasons to believe the recent price increases can be sustained. Domestic ex-farm feed wheat prices are currently trading at approximately £140-145/t for the autumn.

However it should be noted that the main difference between now and 2007/08 is that global stocks are far higher and thus talk of shortage is premature. Therefore unless the US maize crop suffers as a result of unfavourable weather conditions (affecting the overall global feed grain matrix), or world production continues to be revised down, it is difficult to see how the current prices can be sustained over the longer term. It is likely that markets will be prone to bouts of profit taking, and volatility and as such forward prices of approximately £125/t for November 2011 and 2012 may tempt some into committing to sales earlier than normal.

Milling variety plantings for 2010 were high and with the quality of early harvested crops good, milling premiums came under pressure. However the wet harvest weather is thought likely to have spoiled a significant proportion of the national crop and this has helped improve the premium back to over £15/t, with the possibility of further increases as the true availability of supplies becomes known.

The barley harvest started in early July in the south, with reports of variable yields. Quality appears good with high specific weights, low screenings, and nitrogen varying between 1.5 and 1.9. Since then barley prices have followed wheat upwards, although the discount for feed barley to wheat currently at 15-20% is still wide. Malting barley prices have risen following feed, with premiums steady at £15-20/t. Lack of demand running up to Christmas is likely to keep premiums down, however reductions in barley planting this season could soon push prices and premiums higher.

Autumn planting and cropping choices are currently being considered, and the suggestion is that many farmers will be tempted to increase their wheat area on the back of strong cereal prices. This should increase domestic supplies and adds further weight to the arguments of those committing grain forward for autumn 2011.

Oilseeds: Winter oilseed rape yields are also thought to have suffered from the prolonged dry spell this spring, albeit that definitive yields are still awaited.

Prices have firmed through harvest helped by increasing concern over the condition of crops in the EU and also Canada. In the EU both Germany and France have reduced their forecast yields down by 10-17%, and continued rainfall across Canada has effected spring plantings and crops in the ground. In addition the Ukrainian harvest was hampered by the weather and production estimates are being written down daily.

As a result domestic markets have firmed, with ex farm prices for harvest peaking at £300/t before dropping back. Prices going forward look likely to be supported by the US soybean market, which has recently reached a six month high on the Chicago Futures despite record plantings and reported good establishment.

However it should be noted that the recent increases in grain and oilseeds markets have partly been fuelled by speculative interest. Funds have been returning to agricultural commodities, perceiving them as good value against other investments, but they could leave just as quickly.

Pulses: Most crops in the north are looking well podded having had sufficient moisture to see them through to harvest. However southern crops have been variable, with many having suffered from drought and heat stress. This has generally been reflected in lower yields for those crops harvested so far.

Prices have not yet responded to this news but the pulse market has followed the upward turn of wheat. However there appears to be only minimal consumer buying of new crop at these increased levels, with beans at around £165/t, a £20 premium over wheat.

Potatoes: Domestic prices improved significantly during late spring when there were limited supplies and strong demand for the last and the best of the old crop. Lower than usual imported supplies also helped to boost new crop values during this time and consequently the Potato Councils weekly average price during mid June stood at £141.84/t compared with £128.35/t for the same period in 2009.

Prices have stayed relatively firm since with adverse weather conditions across most Northern European and Mediterranean countries both delaying and reducing imports. Israeli production is thought to be around 30% less and Spanish plantings approximately 50% less than 2009.

The good demand and favourable weather has meant that UK crop clearance has generally run ahead of last year and this bodes well for prices in the coming months. However the effect of the drought on yields is not yet clear and with consumption falling there may yet be some downward pressure exerted.

Sugar Beet: Many crops on heavier land suffered from the dry conditions during establishment, with protracted emergence making weed control difficult. On lighter soils crops got away better, but then the dry weather restricted development. As such the recent rains have been most welcome and crops enter the autumn looking to make up yields and sugar.

The beet price for all permanent contracted tonnage in 2011, which is now calculated using the formula agreed following the Inter-Professional Agreement (IPA) between British Sugar and the NFU earlier in the year has been fixed at £23.60/t, some 10% lower than 2010. Unfortunately the calculation was completed before the sharp increase in wheat prices.

Another development from the IPA was the creation of an Outgoers Scheme with British Sugar offering lower yielding growers the opportunity of selling their contract entitlement and obtaining additional compensation. This was completed in August with the uptake believed to have been modest.



Comment: The livestock sector has generally benefited from higher market prices, although these have been reducing recently. This has provided many with a welcome boost although the potential for increased feed prices with a surge in domestic grain prices and relatively high protein prices could limit margins in the future. The UK dairy sector has seen recent price increases, but many would say not fast enough given that commodity markets have been rising for some time both globally and domestically.

Beef: The first half of the year saw prime cattle prices show a week on week decline from the high of 290p per Kg DW in January to 264p at the end of June for an R4L Steer (down 7% on the year). Prices have since firmed slightly and in mid August prices of 271p were down 5% on the year.

Cull cow prices have also been trading below last year's levels but saw an increase of 7% through the 1st quarter and by mid August were trading at 194p per kg DW.

The decline in prices on the year has been a result in higher slaughtering numbers, coupled with the weakening of the euro leading to increased imports.

UK prime cattle slaughterings were considerably higher, with a 5% increase on the year in period between January – May. Young Bulls showed an even greater increase of 31% over the same period (DEFRA). The increase in young bulls is the result of an increasing number of dairy calves being kept for rearing, promoted by the low grain price over the last year. With the recent sharp increase of feeding costs, this may influence numbers retaining going forward.

From the period January to March, imports and exports of beef were up 12% and 7% respectively on the year. This has resulted in a net increase of supply by 4,890 tonnes. The decline in the Euro has allowed the Irish to increase exports to the UK by a significant 24% (UK Market Survey) and this has put further pressure on prices through the increased supply.

The demand for beef has not mirrored the increase in domestic supply and increase of imports. The four week period to 16th May saw only a slight increase in consumption on the year, with a 2% increase in beef burgers and grills (UK Market Survey), a reflection of the ideal BBQ conditions.

Looking forward, if the euro continues to weaken against the pound, this is likely to contribute to the current downward pressure on beef prices through increased imports. The beef herd has seen to have stabilised (0.1% increase between December 2008 to 2009), which will maintain current domestic supplies. (DEFRA)

Sheep: During the first quarter of the year, the sheep market remained buoyant with prices at 447p per kg DW for the last week in April, up 32p (8%) on the same period in 2009. This trend has continued into the summer and in mid August the 367p per kg

DW, was up 40p (11%) on the year. The only trend which appears to raise concern within the sheep markets is the continued reduced consumption, with the 12 week period to the 18th May seeing a 4% reduction in the purchase of sheep meat in the UK as reported from the UK market survey (EBLEX).

The price of new season lamb has been maintained at these levels primarily due to the general shortage of lamb throughout May and June. The first quarter of the year has seen both export and imports of mutton and lamb lower by 10% and 8% respectively. This has resulted in a net tightening of supply by 931 tonnes (UK Market Survey).

On top of this, the cold late spring left new season lamb 2 to 3 weeks behind on previous years which, as well as the increased number of farmers lambing later to reduce feeding costs, resulted in fewer lambs ready to slaughter through May and June. This is highlighted by the slaughter numbers for new season lamb being 10% down in May on the year (DEFRA).

The cull ewe trade has remained firm through the first half of the year which may be a reflection of the tightening supply of ewes for slaughter. During the first 5 months of 2010, the ewe slaughtering figures were 21% down on 2009 (DEFRA). This could be the first signs of the national flock stabilising after a constant period of decline over the past years as more farmers are choosing to retain stock.

Looking forward, there is confidence within the industry that the price will be maintained providing good returns for the year. Despite the strengthening pound, there is still a high demand for lamb for the export market.

Store buyers made healthy returns last year after paying for what appeared to be high priced store lambs. This will keep buyers in the market, leading to a strong store market for the coming year. This should provide a base to the market where all lambs will be at a premium.

The store market will also be kept up by the limited availability of lambs owing to the fewer breeding ewes and poor lambing this spring. Since December 2006, there has been a 7% decrease in the female breeding flock (DEFRA).

It would be expected that the increased optimism would encourage more farmers into the sheep sector. However in reality this is still not happening due to the high labour requirements and lack of skilled staff and shepherds available.

Dairy: The Emergency European Dairy Fund 2009 has been appearing in dairy farmer's bank accounts since April 2010. The payment of 0.2ppl has been made to farmers for production during the 12-month period of greatest market disturbance (1/10/08 – 30/09/09). Farmers need to check their bank statements to ensure that this payment has been received although remittance advice has been sent by the RPA.

UK consumption of milk has seen another small increase of 0.7% compared to the last year. This is good news for the sector as the rising consumption of liquid milk means that a greater proportion of milk produced in Great Britain will benefit from the premium prices compared to other processing contracts.

Although the number of dairy farmers has fallen by 30% in the last 6 years from 16,031 at March 2004 to 11,366 at March 2010, the annual rate at which farmers are leaving the industry has been slowing down since 2006, which may have contributed to the stabilisation of milk production. Total wholesale milk deliveries (not adjusted for butterfat) were 12,858 million litres for the year 2008/09 and 12,825 million litres for the year 2009/10, a drop of less than half a percent.

Commodity markets across the EU have been strong in recent months. This is reflected by a tight supply situation in the EU butterfat market where milk supplies have been 1-2% down on the previous years since September 2009 and this was further disrupted by the impact of cold weather across Northern Europe in early 2010.

Factors that could counter-balance the current upward movement in commodity prices are the release of intervention stocks, a strengthening of Sterling against the Euro and the possibility that EU milk production could recover if prices start rising.

On balance, experts believe that the market is likely to remain firm over the coming months which should support the rise in farmgate milk prices the industry is currently experiencing.

The DEFRA farmgate milk price was 23.63ppl for May 2010, up 3ppl on May 2009 and up 0.06ppl on the previous month. However the relationship between sterling and the euro has a major impact and if sterling continues to strengthen then recent increases in farmgate prices may begin to falter.

Pigs: The DAPP continued to rise through the spring and summer, but by the end of June the price had stabilised and then fell slightly, which followed the trend of 2009. Since then the DAPP has held up reasonably well at 146.93p/kg (mid July), spot sellers (which account for about 20% of volume) have found it difficult to find buyers, due to cheaper imports and indifferent retail demand.

The relatively stable pricing is despite increased domestic production. UK clean pig slaughterings totalled 690,000 head during May, 11% higher than in the corresponding month a year ago and in the first 5 months of the year, clean pig slaughterings in the UK increased by 7% year-on-year.

Cull sow slaughterings are also higher and in the UK totalled 16,000 during May, an increase of 12% compared to a year ago, and in the year to date sow cullings are up 10%. However this has had a negative impact on prices with values for cull sows falling steadily since the spring.

Despite the continuing consumer popularity (pork purchases up 8% year-on-year), EU average prices are forecast to slide by an equivalent of 11p/kg by the last quarter of the year, and consequently many expect the DAPP is likely to follow.

Further Expansion: With 50 years of successful consultancy to the rural sector Laurence Gould Partnership continues to expand, with two new consultants joining our experienced teams in Newmarket and Burgess Hill.

Tim Kneale has recently joined our Newmarket office, and will be assisting with current clients and RDPE applications and projects. Tim is a farmer's son from the Isle of Man, and is a graduate from Harper Adams where he studied Countryside and Environmental Management. He is also an accomplished shot and hopes to be representing the Isle of Man at the Commonwealth games in October.

James Stone will be joining our Burgess Hill office in September 2010 as an Environmental Consultant.

James is a graduate from the University of York where he has studied Environmental Science at Degree and MSc level. He will be assisting Paul Homes-Ling with Environmental Appraisals, and renewable energy solutions for businesses and land managers.

The Dairy and Livestock Show 2010 7th & 8th September NEC, Birmingham

Please do visit us at the show for a review of recent developments within the dairy industry, renewable energy opportunities and an update of grants available.

Budget Cuts and Changes to the RDPE:

The new Government has promised budget cuts of 25% in real terms by 2014-2015 and this will undoubtedly result in reduced expenditure within DEFRA, with a 5.5% cut (£162M) already announced for 2010/11.

Natural England announced that their budget will be cut for this year, although it is unclear by how much, but indicated that existing environmental agreements and capital works will be honoured. However there will be a significant reduction in any new in-year capital works and as such these schemes will become more competitive with only those providing the best environmental gains being funded.

The future of funding through capital grants and processing and marketing is also uncertain as the Regional Development Agencies, who operate the schemes, are due to be abolished by 2012. Many RDAs are not committing beyond 2011, although the original RDPE is effectively in place until 2013.



The initial cuts to services are likely to be as a direct result of a reduction in direct funding from DEFRA, rather than reductions in match funding. However DEFRA has been given permission by the EU to reduce the level of match funding going forward and also the rate of Exchequer co-financing required to match funds generated through Voluntary Modulation has been reduced from 60:40 EU:UK to 75:25.

It is therefore difficult to predict where further cuts will fall, but it is clear that the Government not only wishes to change the overall budget of the RDPE, but also the way that it is spent. It has indicated that it wishes to move funding into programmes to increase competitiveness, and that it views the current split of funds which give 80% to environmental schemes, but only 10% to competitiveness, as unbalanced. This is more likely to be a long term strategy, as any change would require approval from the EU, and as a result is unlikely to change before 2013 - 2014.

Thus whilst there is still much uncertainty, it is clear that cuts to the budget, and/or changes to the funding streams will be required if government targets are to be met. It is therefore vital that where capital investment or environmental schemes are being considered, early submissions should be considered. Our experience of previous grant schemes suggest that delaying commencement of the application process could risk missing out on potential support.

For a free consultation on the opportunities for your business please contact one of our local offices.

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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 Shephard
Tel: 01458 223224
yeovil@laurencegould.com

Entitlement Trading
Ian Thompson
Tel: 0131 331 3431

Agri-Food Sector
Keith Leddington-Hill
Tel: 01223 813622
keith@laurencegould.com