Review of
AGRICULTURE

Laurence GOULD

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Autumn 2009

Energising Your Business

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In farming and horticultural businesses, energy costs may only represent a small percentage of turnover, but reducing them will increase profits and competitiveness. In addition to economic benefits there are other issues that need consideration including; energy security (securing your business from increasing and unknown future energy prices), environmental benefits (reducing your carbon footprint), and political reasons (potential marketing and customer demand issues, and we are all part of the Kyoto treaty).

Renewable energy is also now a serious consideration for businesses looking to reduce costs, secure their energy, and potentially generate additional income. This has been helped by government support for farm businesses through the Rural Development Programme for England (RDPE) and the Scottish Rural Development Programme (SRDP), and more widely in the form of Renewable Obligation Certificates. In April 2010 these are due to be replaced by what appears to be a more financially attractive Feed in Tariff (FiT). FiTs have been successful in European countries in encouraging large investment in both renewable technologies on the ground and the industries that support them. The UK scheme proposes to guarantee a generation tariff, and a minimum export tariff for 20 years. See back page article.

Many businesses struggle to know where to start and at Laurence Gould we can guide businesses independently through the various issues connected with energy generation and usage.

Energy monitoring and efficiency: Taking steps to use energy more efficiently is the first course of action when reviewing any investment in energy. In order to help businesses to understand where their energy is being used we have developed an energy monitoring service. This provides sensors that give real time information on energy use, which can then be utilised to devise a strategy to generate savings. The technology can help to pinpoint under-performing, faulty, inefficient or badly managed equipment, and it is likely that for most businesses the cost of the service would be recouped within a year.

Renewable energy options: We have now helped many businesses to determine whether they have potential to develop renewable energy projects for their businesses. The key is understanding the energy requirements (hot water / electricity) and then looking at the resources available. For example is there a biomass resource? A wind resource? Or potential to generate energy from waste? Once these have been identified we can then look at the financial and practical implications of the projects. Financial considerations often include; displacement of own energy, selling to a third party (via a private wire or pipe agreement), selling to the grid and potential grant aid. Practical issues frequently include; planning, logistical issues, what additional permissions are required, what feedstock may be required, and best prices for any energy sales.

Monitoring: For wind and hydro projects a lack of available good quality data on wind speeds and water flows have led to a lack of confidence in investing in these technologies. To solve this we have developed a low cost option for measuring wind and water speeds. The service involves the provision of data logging equipment which will accurately measure and record wind and water speeds over time. This data can then be used to determine the feasibility of a potential project and also the best turbine for the site. Depending on the location planning permission may be required, and we can guide you through this process where necessary.

Planning: For many projects, in particular wind, we know that planning will usually be the main issue! We have experience of the planning process across the UK and can help you through the critical pre-planning and planning application process where necessary.

Renewables and energy usage are very topical at present. However, as with other business decisions, consideration of current practices, possible solutions, and alternative options, all need to be considered carefully. As independent consultants we can assist to ensure that both financial and practical implications are investigated, and to maximise the benefit to the individual business.

SUMMARY

Cereals: *Fears for a smaller than expected harvest do not appear to have been realised, although results are variable. Plentiful domestic supplies and increased world stocks, mean that prices for the coming season are likely to remain under pressure.*

Oilseeds: *Yields nationwide have been variable but generally good. Prices remain volatile, largely due to currency fluctuations and external market forces.*

Potatoes: *Harvest of the 2009 crop is progressing well but Increased yields and plentiful supplies mean that prices are 15% down on last year.*

Beef: *Prices have remained strong which together with a slight reduction in input prices should help improve margins. Complacency should be avoided however as for many returns are still marginal.*

Sheep: *With lamb prices continuing to improve year on year, partly due to demand and weak sterling, producers are finally in a position where their faith in the sector may be rewarded. Careful management will still be required to realise these potential gains.*

Dairy: *The recent collapse of DFoB coupled with a reduced milk price has reduced the confidence in the sector, and many producers are still considering their long term commitment.*

ARABLE

Comment : Whilst wet weather prolonged harvest in many regions, others areas completed harvest quickly, but then struggled to establish new crops in dry conditions. However a return to low grain prices has been widespread and this has quickly reversed the optimism of 12 months ago and many are facing the possibility of selling produce at below the cost of production. This again highlights the need to look at all marketing avenues and ensure that decisions spread the risk, both for grain sales and input costs.

Cereals: The UK harvest proved sporadic, with dry conditions in the East, matched by equally wet conditions elsewhere.

UK Wheat yields have been variable, but in general are better than expected. Elsewhere production estimates in France have been lifted to just over 38 mt, which is larger than last year, and Germany is likely to exceed expectations as well.

The International Grain Council recently increased its' estimate of the world wheat production by 2mt to 654 mt. Smaller than expected harvests in Canada and Argentina are anticipated to be offset by larger crops in Russia, China, and the USA, making 2009-10 production only 5% less than last year's record. Conversely the IGC has lowered its forecast for world wheat consumption by 2 mt, to 642 mt, mostly because of the likely substitution of feed wheat with cheap maize in many countries.

The implication of these figures is that world wheat stocks are returning to 'comfortable levels' and this has eased concerns over supplies and hence world prices have fallen and taken domestic values with them. Currently prices for November 2009 have fallen to below £90/t, with November 2010 wheat only trading at 10% above this.

Even at these levels the UK is struggling to be competitive on export markets. Whilst the 2009 crop was smaller than 2008, a significant carry-over of the 2008 crop is likely to push the exportable surplus over two million tonnes. This is currently hanging over the market and domestic prices are likely to remain under pressure until exports pick up. In the meantime markets will remain sensitive to the value of Sterling as this will determine our competitiveness for any export opportunities that do exist.

Despite some delay in harvest, milling wheat quality appears good, with hagbergs and proteins better than a year ago, although some crops in the west and north have suffered more due to the wetter conditions. Currently domestic milling wheat prices are trading at a £30-£40/t premium over feed wheat, but this is falling as more supplies become available.

Low demand for feed barley means the market is operating at a significant discount to the wheat market, and intervention is again being considered. Due to high yields and good quality across the EU there is currently no demand for malting barley on the domestic or export markets. With the extra malting barley carried over from 2008, the UK could have a large exportable surplus, and with stiff competition from other EU and Black Sea countries, prices are likely to remain under pressure.

Despite the low prices it is likely that autumn drillings will be up on last year, unless poor weather conditions intervene later in the autumn. As a result, end markets and variety choice will need careful consideration this autumn, together with carefully targeted inputs where producers wish to achieve premiums for their wheat.

Oilseeds: Despite the difficult establishment in most regions last autumn, the UK oilseed rape crop appears to have performed better than expected. The UK crop is anticipated to be at 1.7 mt, up over 200,000 tonnes on pre-harvest estimates. This reflects the general picture across Europe, with France likely to see a record 5.3 mt, and Germany at 6 mt.

The higher yields have put pressure on prices with the MATIF rapeseed futures currently standing at £220 - £230/t for November 2009. Whilst these prices are well down on last year, markets have been partially supported by global commodity markets and these have continued to be influenced by the firm soyabean market, with the Chinese continuing to buy and stocks starting to dwindle. In addition crude oil prices are recovering from their sharp fall earlier in the year and this has resulted in additional buying demand from the bio-fuel sector.

Markets for the coming months are therefore delicately poised. On one hand bumper harvests across the EU mean supplies will be up, but outside influences will continue to have a bearing on the overall market, particularly if the soyabean harvest is compromised or if crude oil continues to firm.

Pulses: The bean market is following the wheat market down as consumers refuse to take any forward cover. With harvest only just completed it is difficult to predict the potential, and if quality of human consumption beans is compromised, this will put further pressure on the feed bean market. Peas appear to have performed well, with good yields and quality available. Prices have remained firm for good samples (£210-£220/t ex farm for large blues), and there appears a good demand for buy back contracts for next spring.

Potatoes: Early harvesting of the 2009 crop initially progressed slightly behind last year with approximately 11,500 ha completed during mid August as compared with 13,500 at the same time last year. However with early yields good, plentiful supplies have kept prices under pressure and the BPC average price during mid August had weakened to £121.93/t, significantly below the £146.38/t received at the same time during 2008.

The BPC also revised their estimate in June for the 2009 total UK planted area to 130,268ha. This figure is very similar to the final 2008 figure, which stood at 130,234 ha and compares with a five-year average in the region of 129,000 ha.

Across the other main Northern European countries statistics show an increase in the 2009 maincrop area to around 502,852 ha, a rise from 495,665 ha in 2008. The biggest increase in plantings has been seen in Belgium where the area has expanded to 55,632 ha from 50,575 ha in 2008, and this is partly due to many new growers planting this season where land has become eligible for single farm payment.

Early reports suggest UK maincrop yields are good and therefore unless poor weather intervenes it looks likely that domestic supplies will be up. If this scenario is repeated on the continent then prices will remain under significant pressure and the penalty for any quality problems will be severe.

Sugar Beet: Harvest of the 2009 beet crop is just about to start and generally crops look well although dry conditions across the East mean that yields may struggle to meet those of last year.

Discussions on the 2010 contract price began back in April with the NFU proposing a figure of £34.50/t which they believed would encourage growers to invest in the industry and ensure a long-term supply. Their argument was further strengthened at the start of August when world sugar prices reached a 28 year high.

However an agreement has yet to be reached and British Sugars' current proposal involves keeping the same price as 2009 of £26/t as an interim deal with a condition of addressing the contract issues over the following six months. Unfortunately the delay is once again impacting upon growers cropping plans for next year.

The EU restructuring compensation was paid in full to growers in June, with the exchange rate used in the calculation at 1 Euro = £0.87 meaning that the compensation was approximately £1.90 per tonne of quota held during the three year reference period 2006-2008. The compensation was awarded to growers following the 13.5% reduction in the total amount of the UK quota made in 2008.

LIVESTOCK

Comment: The beef and sheep sectors have continued to see firm prices for finished animals. In addition there has been some reductions of certain input costs since last year, which have improved margins for many. However it is vital that businesses are not complacent as margins are still tight and further increases will be required to ensure long term sustainability. The collapse of DFoB will have reduced the confidence of many within the dairy sector, and the recent price reduction will not have improved views.

Beef: Prices have remained high over the summer, averaging 286p/kg dwt (R4L prices), which is up 15% from 2008 levels, and reflects a continuing tightness of supply in the UK.

MLC figures indicate prime cattle slaughtering is up 2% in the UK, which was largely due to a 7% increase in prime heifer slaughtering.

However exports in 2009 have increased by 5.5% (27,300t) and exports to non-EU countries covers half of this amount. The quantity of exports remains on an upwards trend, with April being 7% up on the year before. The Netherlands are the largest destination for UK beef, although volumes have dropped 4% year on year.

Imports for 2009 are forecast to be 2.5% down from 2008 and are also expected to be lower in 2010 as a consequence of Sterlings' weakness.

Store cattle prices remain high, which is a reflection on the finished prices now available.

A major improvement in cull cow prices has been seen in the last year with prices currently standing at 107p/kg deadweight, 20.4p/kg higher than midsummer 2008. An increase in exports to Europe has helped to support prices, which in turn has been made possible by the strength of the euro against the pound.

MLC forecasts suggest that the number of animals in the UK will continue to fall. The total number of slaughterings (prime cattle, cows and adult bulls) is forecast to drop by 1.4% in 2009 and 4.2% in 2010.

The outlook for the remainder of 2009 and 2010 therefore looks positive but there are threats to the current price. With feed costs currently low, it will be possible for more farms to keep livestock over winter to gain extra weight. This could lead to an oversupply in the spring and if the 3% drop in consumption in the last 3 months continues it could lead to a small price reduction.

Scotland has recently been awarded TB free status by the EU, which could create problems for producers selling stores to Scotland with all animals requiring pre-movement testing.

Sheep: The current price of lamb (370p/kg dw average for the last 3 months) has been an average of 33p/kg dw higher than in 2008.

Production in 2009 is set to be 15% lower than in 2008, and a further decrease of 3% is expected in 2010. It is also forecast that the national flock will be 4.5% lower by the end of 2009 and a further 0.5% in 2010 (MLC). These factors together are likely to ensure that the supply of meat remains tight.

Imports of sheep meat are 2-3% higher in 2009, encouraged by the lack of domestic supply available. However the imports have been kept in check by the strength of the pound which has also lead to an improvement in exports in 2009 by 2.2%.

On the downside consumption of lamb is predicted to fall by 3.8% in 2009 and by a further 3.6% in 2010, as a result of the aforementioned drop in production, resulting in potentially higher prices.

The recent store lamb sales in Scotland have shown a big return of confidence to the sector, with prices up some 50% year on year. The upcoming breeding sales will provide an interesting barometer on the confidence within the sector.

Cull ewe prices around the country are still rising, at a UK average of £55/hd, which is the highest for over a decade, despite the fact that the number of culls available are increasing.

It is likely that the tightness of supply is set to keep prices buoyant. The major concern to the sheep sector now will be the implementation of electronic ID and the associated costs it will bring.

Dairy: The collapse of Dairy Farmers of Britain has featured in many recent headlines. The co-op went into receivership in June, leaving around 1,800 producers without payment for milk produced in May as well as lost capital invested in the company over many years. The demise of DFoB left members with the prospect of selling milk at 10ppl to the receivers, or needing to find another supplier at short notice, together with a number of questions relating to the cause of the collapse.

In July there were 11,709 dairy producers in England and Wales, 34 less than June, with annual comparisons showing that the number of dairy producers has fallen by 467 (3.8%). According to a recent 'Farmer Intention Survey' carried out by the DairyCo it is expected that the number of dairy farmers will continue to fall and that fewer farmers intend to expand.

The capital expenditure required to meet new Nitrate Vulnerable Zone regulations will threaten English producer numbers further as the cost of constructing additional winter slurry storage will impact on finances.

EU milk supplies increased by 1.2 billion litres between 2007 and 2008 leading to imbalances in supply and demand as consumption dropped, with the majority of this excess having been processed into intervention. The EU commission is proposing to extend the intervention window for buying skimmed milk powder and butter to the end of February 2011, in a bid to prevent further declines in EU commodity prices and ultimately ease pressure on farm gate prices.

There have been some improvements in British cream and butter prices over the summer but prices are linked to the relative strength of sterling and its impact on the competitiveness of foreign commodity imports into the UK.

The average farm gate milk price fell by 0.74 p/litre between April and May 2009 to 22.5 p/litre, which is almost 2 p/litre lower than May 2008. The 22.5p/l excludes milk supplied to DFoB and with this included the UK average milk price for May drops to 20.6p/l.

Despite the reduction in producers, and the lack of confidence in the sector, demand for dairy cattle remains strong. The price of freshly calved cows and heifers in June/July averaged £1,281/head and £1,462/head respectively, however the average price of Holstein Friesian heifer calves dropped significantly in July to £28.77/head from £107.68 in June.

Pigs: The weaker value of sterling, tight supplies and good domestic demand for pork have all contributed to a firm pig market this year. The DAPP has increased week on week since early January, averaging 152.8p/kg at the end of May, which represented an increase of 22% compared with a year ago, and the highest price since 1996. In July the DAPP hit a record high of 155.7p/kg, however this has now eased.

Cull sow values have remained relatively firm at 110p to 114p/kg, with cull sow exporters still short of numbers.

With pig meat's new found consumer popularity, combined with a tight supply, as producers show little enthusiasm for expansion, the DAPP price is expected to remain above 140p/kg during the second half of the year. If this happens producers will stand a good chance of recouping most of the losses they incurred prior to last October.

Rural Development Programme for England: So far in 2009 Laurence Gould has been successful with 10 grant applications exceeding £2 million in support aid to clients.

These applications have covered:

- A number of processing and storage projects, including two for grain storage and four for top fruit packing and storage.
- An organic fruit group.
- A farmer group who collaborated on a wind farm project.

In addition there are a number of new projects that we are currently involved in which include anaerobic digestion, reservoirs, and adding value to livestock, top fruit, and arable enterprises.

The potential rates for grant aid range from 15-40% depending on the project proposal.

For a free consultation on the opportunities for your business please contact one of our local offices or Keith Leddington-Hill; email: keith@laurencegould.com

Scottish Rural Development Programme: The SRDP continues to evolve. There are still considerable funds available for projects ranging from large scale capital works (potato cold stores, new dairy units, slurry systems etc.) through agri-environmental schemes, to diversification and renewable energy projects.

The Cook Review left most of the major parts of the programme unchanged - notably grant rates remain at 40%(non LFA) or 50% (LFA) and there is no upper limit on the funds available for most projects. However, it is trickier to get projects to score well and every potential project will need careful consideration and planning to ensure a successful outcome.

For more information contact Stephen Melville or Angus Kerr (pictured): Tel 0131 3313431.

Currency Hedging: On 30th September 2009 the exchange rate at which the 2009 single farm payment (paid in sterling) is converted from euros is fixed. Last years' exchange rate of 0.7903 meant that 2008 payments were 15% higher than 2007 and currently a further similar sized improvement is likely for 2009 with the exchange rate approaching 0.9.

However in the last 12 months the rate has fluctuated between 0.77 and 0.97, and claimants are considering the options available to try and manage the risk.

So what can be done? There is the opportunity to 'fix' the exchange rate at any time of the year by locking into or 'hedging' the currency value. A number of farmers did this last spring, but apart from a lucky few that agreed rates in excess of 0.9, it looks likely that there will have been little benefit from doing so. However this misses the point in that the process should be viewed as a means of reducing risk rather than maximising the payment.

For those with larger payments (circa £100,000) there are more complex mechanisms that can fix minimum values or provide a trading range (much as wheat options do). Currencies can be traded up to two years in advance which means that it will soon be possible to consider hedging for 2010 and 2011.
For more information please contact your local office.

Wind Turbines: The government has announced proposals for new Feed In Tariffs (FiTS) which are due to be introduced in April 2010. These proposals aim to support renewable energy generation and are weighted heavily in favour of smaller projects such as on farm and farmer collaborative projects.

The table below sets out the current proposed support compared to the existing ROC support for wind.

Generation tariffs for FITs (2010-2011)

Technology	Scale	Proposed Initial Tariff (p/kWh)	ROCs support (p/kWh)
Wind	<1.5kW	30.5	9
Wind	1.5-15kW	23	9
Wind	15-50kW	20.5	9
Wind	50-250kW	18	4.5
Wind	250-500kW	16	4.5
Wind	500-5MW	4.5	4.5

Source: Department of Energy and Climate Change

If adopted these proposals will improve the economics of small scale turbines. For the smaller turbines FiTS will more than halve the pay back period compared to the ROC scheme and should provide an income stream together with a hedge against future energy price increases.

The planning issues and application requirements are also likely to be lower for the smaller turbines of 50 kW and below. Moreover farm sites generally have fewer issues with neighbours for smaller masts at 15-30 metres high.

As a guide a typical 200 cow dairy unit would use the equivalent energy of a 50 kW turbine at a wind speed of 6 m/s (130,000 kWh).

We are assisting a significant number of farmers across the UK with site assessment, feasibility and planning for smaller turbines to take advantage of these new tariffs when they are introduced.

For an initial telephone consultation please contact your local office. Robert Schiller: Mobile: 07966 236332 email: robert@laurencegould.com

Laurence GOULD PARTNERSHIP LTD

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.

Our services include:

- **Farm Business Consultancy**
- **Farm & Estate Appraisals**
- **Commercial Horticulture**
- **Grant Applications**
- **Computer Services**
- **Employment Issues**
- **Contract Farming**
- **Farm Tenancies**
- **Entitlement Trading**
- **European Consultancy**
- **Litigation Support**
- **Environmental Consultancy**
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