Review of
AGRICULTURE
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NVZ - Implications for Livestock Businesses

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The new NVZ rules that farmers and advisors will need to follow in NVZ areas has been passed by Parliament, and will become law from January 2009.

The area under the NVZ has been increased from 55% to 70% of England.

The following are some of the changes to come into affect:

1. Both manure management and nutrient management plans will become compulsory. Proformas are being created for both and should be available later.

2. Storage requirements will be 5 months for cattle slurry and 6 months for pig slurry/poultry manures. This will be difficult for some farmers and could require substantial storage investment. At this time there will effectively be no grant assistance in England for new storage.

Although farmers will have 3 years from Jan 2009 to increase storage capacity if required, farmers must show some level of forward planning. Leaving this until the last moment will be not be acceptable to inspectors.

Poultry litter and solid manures with low available nitrogen content (< 30%) must be stored:

- At source, in the livestock house
- At a suitable, temporary field site, or
- On concrete constructed to the appropriate standard.

The requirements for a suitable field site, include:

- Temporary field heaps must not be located within 50m of a spring,well or borehole, or within 10m of a surface water or land drain.
- Temporary field heaps must not be located in any single position for more than 12 successive months
- There must be a 2 year gap before returning to the same field site.

3. Livestock manure loadings shall not exceed 170kgN/ha in each calendar year averaged over the farm, but on a field limit, this must not exceed 250kgN/ha.

DEFRA have applied to the EU for a derogation for farms with greater than 70% grass to have a max limit of 250kgN/ha. However there is no guarantee of success.

4. Records must be kept for 5 years and include the following:

- Copies of completed calculation procedures and risk assessment
- Annual field records of the balance between crop requirement and supply of nitrogen
- Imports and exports of manures

5. The requirement to have a cover crop where ground would otherwise be left bare over winter has been dropped. If soil erosion and run-off is not reduced DEFRA may re-introduce the idea at the next review.

Although the new rules will become legislation in January 2009, implementation will be staged, and the key dates are as follows:

September 2008
Regulations were laid before Parliament, and at this time, guidance and advice packages for farmers, and the NVZ maps were made available.

January 2009
Farmers with land located in an **existing** NVZ will need to comply with the new action programme (subject to the below transitional arrangements for some of the measures) and these requirements will be incorporated into cross-compliance.

The process for farmers to appeal against the inclusion of land within a new NVZ designation will be launched. A deadline of 28 days for submitting an appeal will be set.

January 2010
Farmers with land located in a **new** NVZ will need to comply with the new action programme (subject to transitional arrangements)

January 2012
Latest date for complying with the following action programme measures:

- Additional storage capacity
- Closed period for organic manure applications (where additional storage is required)
- Storage of solid manure

Overall these new rules could have been a worse, but the storage requirements will hit some farms very hard, together with the need for more record keeping.

If you would like to discuss any of these issues further or discuss some of the financial implications for you business then please contact your local LGP office.

SUMMARY

__Cereals:__ The difficult harvest in many regions, coupled with increasing input costs and falling spot grain and futures markets have given the sector a reality check in recent weeks. Risk management will again come to the fore.

__Oilseeds:__ As with the cereal sector falling prices, coupled with difficult drilling conditions have reduced the buoyancy of the recent months.

__Potatoes:__ Prices have remained relatively strong compared to last year, with difficult harvest conditions having affected early progress. However improving conditions could put downward pressure on prices

__Beef:__ The upward trend of prices looks likely to be sustained. Unfortunately costs still remain high and margins remain slim, although with reducing grain prices returns could improve.

__Sheep:__ Prospects are better but again the cost of current inputs threatens to erode gains.

__Dairy:__ Most producers are now taking advantage of milk price increases but the sector will need further increases to mitigate recent rising costs. Overall production figures are down with August figures the lowest since the deregulation of the MMB in 1994.

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ARABLE

Comment: After a difficult harvest, the arable sector has come down from the highs of the Spring, with grain prices continuing to fall. Farmers are having to find additional working capital for this coming season to fund increases in variable and fixed costs, and in many cases pay for these earlier. The increases in working capital, and recent decreases in commodity prices will undoubtedly make decisions for plantings and rotation difficult for this coming year.

Cereals: The last few months have been difficult for the cereal sector. Despite record yields in many areas, the overall UK crop is of variable quality resulting from the difficult harvest conditions that continued well into September. Many farmers were faced with the prospect of cutting damp grain in between showers, and having to travel on saturated fields to enable completion of the harvest. Not only could this have implications for the next crops, but many are now faced with increased drying costs to ensure marketable grain.

In conjunction with the strong production in the northern hemisphere, there have been larger crops in the major exporting countries (Canada, EU, USA, and Australia), resulting in a record worldwide harvest of 676 Mt, up 4 Mt from the previous estimate. This should enable a rebuilding of year end stocks by about 40%. However, at 39 million tonnes, they are still forecast at 12 million tonnes below the 25-year average level.

Despite world stocks of wheat remaining at historically low levels, the UK has produced a large feed wheat tonnage with varied quality. Coupled with strong competition from Black Sea wheat which is weakening prices on the export markets the feed grain markets have plunged from their highs of last year, and at present are continuing to fall. The financial turmoil in the US as well as theUK adds additional downward pressure to commodity markets, as speculators leave the futures markets. Domestically this has pushed grain prices back to the levels seen in 2006, down some 30-40% on last year, with little prospect of them recovering in the near future.

In contrast to feed wheat, domestic milling wheat prices have remained relatively stable as consumers chase short supplies. With reduced availability, It is likely that premiums will remain good.

In addition planting surveys suggest a further move away from milling varieties and 'speculative' applications of nitrogen to improve the quality of group two varieties may be tempered by high nitrogen fertiliser prices this season.

The feed barley market has continued to trade at a premium over wheat, however as wheat prices continue to reduce, barley will inevitably follow, so as not to price itself out of the market.

Despite the difficult harvest, large crops of good quality winter and spring malting barley have been produced. As a result the UK crop now faces a surplus that has limited markets and will need to be priced accordingly. Malsters are believed to have fulfilled their contracts for Q4, and are unlikely to re-enter the market until after Christmas.

With reduced prices for cereals on the futures market, and increasing costs farmers will have been considering their options for crop rotations carefully, and many may have been reluctant to cultivate marginal land preferring to consider fallow as a less costly option.

Oilseeds: The majority of the oilseed in the southern region was harvested before the weather broke, and yields were generally good. Further north harvest conditions proofed more testing, but despite this yields were maintained. Worldwide harvest has been good with USDA figures predicting rapeseed production at 53Mt, an increase of 10% over last year.

The price has fallen from the highs of last season, down 30% on last years high prices. Prices have stabilised slightly in recent weeks, but increased supplies worldwide look set to keep prices under pressure in the short term.

EU prices continue to reduce, with the MATIF rapeseed futures at £230-235/t for November 2009.

Establishment of the new crop across the country has been difficult, but the recent dry weather has seen some catch up. With late drillings, some growers have been switching from conventional varieties to hybrids due to increased vigour, but despite this surge of late plantings, it is likely that total plantings will be reduced for this year.

Pulses: Yields on the whole have been reported good despite the difficult season, although prices have followed the wheat market and reduced by some 40% compared to last year.
Many farmers may be considering growing pulses for this year, hoping to make savings on fertiliser costs, however it will be vital to ascertain that margins are sufficient and consideration given to contracts available especially for specialist pea markets where available.

Potatoes: The early UK harvest was slow due to the difficult conditions and total clearance at the end of September stood at 46,300 ha or 36.6% of the total area compared with 68,300 ha or 52.2% at the corresponding time in 2007. Estimates suggest that clearance was approximately 10 days behind last year, but the recent better weather has resulted in most growers now catching up.

The weekly average price at the end of September stood at £127.12 per tonne compared with £106.52 per tonne at the same time in 2007, partly due to the limited supply available. With supplies increasing there is likely to be downward pressure on potato prices.

The BPC estimate of total potato plantings for the 2008 year in the UK was placed at 128,515 ha, this was a revision down from the initial estimate of 130,500 ha. The total plantings figure shows a reduction of 1.7% on that given for 2007, which stood at 130,758 ha but is above the 5-year average of 127,920 ha.

Early harvest estimates suggest that yields are up on last year and this will mean that supplies to the market will be good and that will in turn limit price increases in the medium term.

Estimates from northern EU countries suggest that production is down compared to 2007 and this should limit imports into the UK, and support domestic markets.

Sugar Beet: The 2008/09 campaign has got under way with the initial samples indicating an average sugar content of around 16.5% which is expected to improve markedly as the harvest gets fully under way. Root sample weights collected during September have also shown a 20% increase on the 5 year average.

The negotiations for the 2009 beet price came to an end at the beginning of August with British Sugar offering two different contract options. The first option involved a fixed price of £26 per adjusted tonne, an increase of £1 from the original offer and the second a minimum price of £24 per adjusted tonne, plus a currency and wheat price escalator. In addition the transport allowance was increased by £1/ t for both.

Although British Sugar have increased the 2009 contract price it is still below the £30 per tonne that growers were hoping for, and growing beet on marginal land will need to be looked at carefully.

Growers will also have received the application for Sugar Restructuring Aid that is to be submitted by 31st October. This scheme applies to all eligible growers who held contracted tonnage during any of the three reference years (2006-08) The payment is likely to be approximately £1.72 per tonne per year, and is due to be paid in June 09 (37%) and Feb 2010 (63%).

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Comment: The livestock sector has seen recent price increases, however despite the potential for lower feed costs due to recent reduced grain prices, other variable costs and fixed costs are still volatile. Prices will need to rise further to provide sufficient returns for the future, and businesses will still need to budget carefully to maximise returns. The price increases in the dairy sector have mostly been eroded by increases in costs, however the farm gate price is expected to continue to rise over the coming months. Bluetongue is still a concern, with the whole of England & Wales now in a protection zone.

Beef: Beef prices have remained buoyant into the third quarter of 2008. R4L prices at the 285p/kgdwt level, 70p/kgdwt higher than last year.

Contributing to the higher prices is the fact that supply in the first 6 months of 2008 was down 3% year on year to 432,000t, due to the fall in prime cattle slaughterings. The contracting herd and lower calf registrations means the current tight supply should continue into 2009.

Although Brazilian beef imports have decreased due to the current ban, Uruguay has taken over as the largest South American exporter to Europe. Overall imports are similar to 2007 levels for the first 6 months of the year. Exports of beef have increased by 35% in the first half of the year, and 35,000t were exported following the lifting of the foot and mouth ban.

Higher retail prices for beef have meant that the consumption of beef and beef products has dropped during the summer, with sales of higher value cuts more affected. Stewing steak for example is down by 32%. However due to an increase in retail price the total value of sales increased by 3% compared to the same period in 2007.

Looking forward, the prospects for finished livestock prices remain good. Currently high store cattle prices reflect finishers confidence in the market. However, it is also unlikely that there will be further increases in the retail prices of beef due to pressure from the consumer. A decreasing UK herd coupled with static imports and increasing exports will keep supply tight however and support the current level of prices.

Sheep: Having dropped to a low of 268p/kgdwt, the lamb price has recovered to above 290p/kg, which is 60p/kgdwt or 22% up on 2007 prices (although the 2007 prices will have been influenced by foot and mouth restrictions). The delayed tupping in 2007 due to movement restrictions and a dreary spring have resulted in the quantity of lambs being marketed being down by 11%.

However, the major factor for the increased lamb prices is the weakening of sterling against the euro. This has lead to a reduction of imports (4% lower than 2007) and increase of exports (6% higher than 2007) in the first half of the year. In particular New Zealand imports have reduced by 6% due to a tighter supply caused by their 10% reduction in flock size.

After the initial surge in supply during the early part of the year due to foot and mouth, clean sheep slaughterings in Q2 were 9% lower than in the previous year due to farms choosing to prioritise the new lamb crop over the cull ewes to reduce the feed costs.

Although the retail price of lamb increased by 12% in the summer, consumption dropped by 12%. These two figures created a 1% increase in expenditure on lamb compared to 2007.

The steady drop in the UK breeding flock along with the continued limited imports and expanding export market provides optimism for prices. Over the next 6 months any increase over 2007 prices will be required to compensate for higher input costs.

Dairy: The mood in the dairy sector is fluctuating. At the beginning of the year the prospect of an increase in milk price filled much of the industry with a positive air. Since then, although milk price has risen, some businesses have come to the end of fixed price contracts on key inputs, and are now facing rising costs of production, resulting in little change to the overall margin.

Based on LGP calculations a typical 7,000 litre herd on a liquid contract receiving 26 ppl, (an 8.5ppl rise on the previous year milk price) after taking into consideration recent cost increases, shows a net surplus of 0.6ppl to allow for profits and re-investment. If margins do not improve significantly, farmers will be reluctant to reinvest in their business, and overall production could fall further.

The number of producers in England has now fallen below 10,000, with only 9,954 producers in England, a drop of almost 5% compared to August 2007.

As a result of farmers exiting the industry, milk production has fallen significantly below quota. For the 2007/08 year milk production (adjusted for butterfat) was 744.7M litres below quota. Commentators state that this trend is continuing for the 2008/09 quota year with milk production 11.4% below profile for September. Over on the continent, however, the EU commission have confirmed that 7 member states (Germany, Italy, Austria, Cyprus, Ireland, Luxembourg and the Netherlands) are facing fines in excess of 340M euros in respect of 1.2M t of over production in 2007/08.

According to DEFRA's current calculations, ex-farm gate milk price averaged 25.8ppl for July an increase of 6.16ppl on the previous year.

A change to retail prices was announced in August as supermarkets reduced the price of some own branded liquid milks which and this was followed by a brief promotion of own label milk at heavily discounted prices. Despite this supermarket price war, the farm gate price is expected to continue to rise over the coming months.

Pigs: In the week ending 20th September the DAPP stood at 135.9p/kg dw, 1.3p off its peak in July but still 27p higher than a year ago. Price levels have been sustained by a combination of declining supplies in the UK and other EU countries and the weaker value of sterling.

n the UK June 2008 census, the provisional pig breeding herd showed a further decline year-on-year, to 423,000. However, in view of the very high sow cullings in early 2008, the recorded 7% decline may well be an under estimate. In-pig sow numbers declined by 13%, which suggets that there could be some further decline in the breeding herd.

With supplies expected to decline further over the next few months, both in the UK and EU, there is clearly a potential for further upward pressure on pig prices before the end of the year. This might be tempered by consumers reluctant to pay higher retail prices.

Blue tongue: On going blue tongue restrictions have affected both the beef and the sheep industry during the course of 2008. As of 1st September 2008 the whole of England and Wales was place in a protection zone which remains in place following the vaccination process. This has caused movement restrictions and problems for many farmers.

The situation is becoming simpler within the UK with Scotland set to become a protection zone when it starts is vaccination programme in November. This process should simplify the movements around the UK.

The ongoing cost of the vaccination is around £1 per cow and £0.50 per sheep, but in Scotland the Scottish Government is meeting half of this costs. Vaccination will continue, however the uptake is rumoured to be poor in some areas.

Matters of Finance: The past 15 years has been one long party for consumers who have been able to spend their increase in equity in their homes safe in the knowledge that their net assets were improving and there was no sign to it ending.

Even last year with Northern Rock and sub prime hitting the front pages the true reality of what was to follow failed to curb expenditure.

There is now a major credit crisis, the banks have limited capital and are reluctant to lend to each other and the benefits from the government bail out have still to work through the system.

The banks are under pressure to improve profitability to either pay back the Government loans or contribute towards raising finance to meet Government targets. The days of banks providing highly competitive rates over base are currently at an end, we are seeing rates rising on bank facility renewals and substantial rate rises for new loans. To provide businesses with the strongest negotiating position, owners need to have accurate financial forecasts for the borrowing required, and be aware of the most appropriate structure for that debt. For new projects, particularly those with buildings, strong evidence for market demand are needed to convince the bank to support.

Commentators indicate that base rates are likely to fall,with the forecasts suggesting 3.5% or below. Any benefit from the fall in base rate is likely to be tempered by the banks increasing their margins.

However, banks remain keen to lend, and will look at new customers and provide competitive quotes to secure new business. In many ways for some banks the current crisis and uncertainty is one of their best opportunities to expand their client base.

If you would like to discuss any of these issues further then please contact your local LGP office.

Environmental Services: Over the last year the environmental team at Laurence Gould have been working on a wide range of renewable energy projects with rural businesses across the UK.

This has included running workshops for Business link, the development of a renewable energy website for the High Weald AONB, advice to a wide range of businesses on renewable energy options, providing a bespoke 'Renewable Energy Appraisal Service', and grant applications.

Our team has also recently expanded with the arrival of Ewan Delany who will be based in the Newmarket Office. Ewan has a wealth of environmental expertise and has joined us from Cambridge University, and is developing environmental training through the RDPE.

If you would like more information then please contact: Ewan Delany 01223 813622 or email ewan@laurencegould.com

In addition, Laurence Gould can now provide assistance with planning and diversification with the recent appointment of Robert Schiller in our Edinburgh office.

Planning and diversification: Farmers and landowners are entering a new and exciting period . Many farming and rural businesses will develop secondary income streams, through renewable energy, and other diversification projects.

The most crucial aspect of any new venture is the quality of the idea, linked to the ability of the individual to deliver.

Grants can make a good business venture better and in many instances are required to help meet the capital cost of the project, and for rural businesses grant aid is almost always available somewhere. New grant schemes appear and disappear, and existing schemes are constantly changing.

Laurence Gould can provide advice all aspects of renewable energies and diversification projects, and some of the current projects that we are involved in include:

North Cornwall Wind Farm Co-operative - A group of farmers in north Cornwall and Devon have come together to form a wind farm co-operative. Each farmer will have 2 wind turbines on each farm. The planning process has taken time, however all have now obtained planning consent. The grant bodies are all interested in the project as it demonstrates how energy can be generated and collectively sold as a group. We are preparing the various grant applications and putting together the financial package to fund the project.

The Ashgrove Project - This is a unique project which involves a racing yard, renewable energies and a charity for the disabled and under privileged young people of Scotland. Wind turbines generate the power to run the racing yard, hydrotherapy pool, riding centre and houses on the site. Water and heating is provided by ground source heat exchange pumps. From conception to completion this project has taken 3 years.

Anaerobic digesters - Currently we are working on several anaerobic digesters varying in size. The largest is being submitted in the North West with the capital cost being in the region of 2.5 million pounds. The crops that supply the system will be contracted out to the surrounding farmers. We have developed a bespoke package that can guide land owners and farmers from conception to development.

If you would like more information on any of these services please contact:

Robert Schiller 07966 236332 or email robert@laurencegould.com

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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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- Contract Farming
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