Review of
AGRICULTURE

Laurence GOULD

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RDPE - Opportunities for the Future

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After a delay of twelve months the Rural Development Plan for England (RDPE) has been launched this spring and this article looks at the opportunities the grants available under the scheme may offer for rural businesses.

Under the new scheme funding has been structured into three streams:

Axis 1: Improving the competitiveness of farming and forestry,
Axis 2: Improving the environment and countryside
Axis 3: Rural quality of life and diversification of the rural economy.

The total RDPE budget for the period 2007 to 2013 is £3.9 billion and Axis 2 will absorb 80% of this budget to fund Environmental Stewardship schemes. This is being administered by Natural England.

Axis 1 and 3 will receive the remaining 20% of the budget and is to be administered by the Regional Development Agencies (RDA's) and it is on these areas that the following article will concentrate.

The budget for Axis 1 & 3 is primarily split into three areas:

1. Large Capital and Renewable Energy Projects
These are to be managed directly by the RDA's and are likely to be large collaborative projects with a total project spend of at least £100,000. For many of these projects a restricting factor will be state aid rules that for the first time will apply to much of this programme.

2. Bottom-up delivery through 'Local Action Groups' (LAGs)
This is for smaller and community based projects (total project spend is likely to be less than £120,000) and is known as the LEADER approach. Unfortunately the delivery mechanism for this aspect is unlikely to be in place before late 2008 or even early 2009.

3. Vocational training
This will be managed either through local training providers or the RDA's.

It has been agreed that a minimum of 5% of the Axis 1 and 3 budget is to be delivered via the LEADER approach although in some regions this is anticipated to be as high as 55%.

Grant rates for individual projects are capped at 50% of the capital expenditure although a rate of 30-40% is expected to be more typical. However, for large projects where state aid rules apply, the rates could be less than 10%. For training courses commercial businesses are capped at 70% of training costs but for non-commercial training a grant of up to 100% of training costs is available.

Those with larger projects (grants >£50,000) and renewable energy projects will have to apply directly to the RDA. This is initially started with an Expression of Interest being submitted or in some regions an informal initial discussion with the RDPE team. All regions are similar in their approach in that without initial project approval from the RDA a full application cannot be made.

Full applications are expected to include a completed application form, a business plan (possibly including a marketing plan) or for smaller projects financial projections, three competitive quotes for all expenditure, evidence of planning permission (if applicable) and copies of the last three years of accounts.

Generally projects will be appraised against published regional priorities, but other factors will be considered and these include:

- Evidence of collaboration;
- The potential to be an example of best practice;
- The ability of and resources within the business to deliver a successful outcome;
- The overall viability of the project together with the need for state aid;
- Evidence that all environmental requirements and legislation shall be met.

Laurence Gould is already helping clients to develop projects, liaise with the RDA and develop business plans. Examples of such projects are CHP plants, Anaerobic Digestion projects, packhouses, farm shops, winter storage reservoirs and grain stores.

Community based projects throughLEADER include discussion groups, facilities for farm visits and rural education centres.

In some cases other funding streams such as the woodland, bio-energy (capital and infrastructure) or regional redundant building grants schemes may be more appropriate. For more information on grant schemes or to discuss potential projects please contact your local LGP office.

SUMMARY

Cereals: *Spiralling input costs and falling grain futures markets have given the sector a reality check in recent weeks. Risk management will again come to the fore.*

Oilseeds: *The unprecedented price levels are good for margins but the food vs biofuel argument has become more complex as food prices rise.*

Potatoes: *Old crop prices have remained relatively strong without being spectacular. The new crop has gone in well albeit that the weather has slowed development.*

Beef: *The upward trend of prices looks likely to be sustained. Unfortunately costs are also increasing and margins remain slim.*

Sheep: *Prospects are better but again the cost of inputs threatens to erode gains.*

Dairy: *Most producers are now taking advantage of milk price increases but the sector will need to seek further increases to mitigate rising costs.*

Pigs: *The plight of the industry has been highlighted in recent weeks. Prices are rising but further increases are required to provide a long-term solution.*

Poultry: *The celebrity chef factor continues to affect sales of both intensively and non-intensively reared birds.*

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ARABLE

Comment: **With volatile grain prices it is now more important than ever to consider input costs and gross margins. Figures recently prepared have highlighted that generating the same gross margin as the 2006 harvest year will require an average yield of 8.5t/ha and an average sale price of £120/t. With increased fertiliser prices and spray costs also set to increase by around 20% it is now more important than ever for growers to maximise sale prices which is where risk management will become essential. It is important to fully understand the risks associated with marketing grain and to act accordingly.**

Cereals: Domestic feed wheat prices have continued their roller-coaster ride over the last few months. During March and April continued concern over world stock levels pushed grain prices back higher, with the US achieving record price levels and domestic ex-farm feed wheat prices reached £195/t. However there has been a suspicion that these rises were fuelled by 'money men' switching from troubled financial markets and this appears to have been borne out by subsequent events.

Since the spring a combination of factors has seen markets weaken significantly. Generally across the world there has been a lack of 'bad' news and new crop prospects are improving. Add to this the fact that domestic consumers of wheat now appear to have plenty of forward cover into the summer and UK feed wheat prices have fallen back sharply to below £150/t.

Opinion is now divided as to whether there is capacity for prices to increase again before the end of the season. In the immediate short term there appears little to suggest they will, but there is always the potential for a late season surge if harvest is delayed or early harvest reports are poor. It is also notable that the discount from new to old crop has narrowed from £45 to £10 per tonne. This would suggest that if old crop prices are to rise, new crop values are now likely to follow.

Looking forward current world stocks represent 13%-15% of world consumption (20%-22% is seen as an acceptable level) and this means that global supplies should remain tight and are likely to remain so despite an increase in plantings (IGC early estimates indicate Canada +10%, EU +6%, USA +6%, and FSU +3%). To put things into context over the last 10 years there has been a 170 mt draw down of wheat/coarse grains and this is unlikely to be reversed in one season.

Higher plantings may ease the situation, but weather events can quickly reverse the situation and as a result growers should be prepared for another volatile trading year especially if market speculators return. Although they are slightly off their highest values futures markets for the 2008 and 2009 crops remain relatively strong with £135/t currently available for Nov 2008, and £140 for Nov 2009. Whether these values are high enough to tempt forward sellers remains to be seen, but with many having been caught last year, there is a general reluctance to commit significant tonnages again. However the option should not be discounted as there is a big potential wheat harvest looming and the current prices should secure most producers a reasonable margin.

In contrast to feed wheat, domestic milling wheat prices have remained relatively stable as consumers chase short supplies. It is likely that premiums will remain good as planting surveys suggest a further move away from milling varieties last autumn and 'speculative' applications of nitrogen to improve the quality of group two varieties may be tempered by high nitrogen fertiliser prices.

Generally favourable spring planting conditions have meant that spring barley crops have established well across the UK and Continent and as a consequence of the increase in crop potential forward prices for malting samples have fallen slightly from their peak of £200/t ex farm for harvest. Forward feed barley prices have also generally drifted lower (following the wheat) and this has maintained malting premiums at around £60/t. This provides scope for malting prices to fall further if crop prospects remain good and anyone who has not contracted forward may now have to rely on a weather market to see prices increase.

Oilseeds: Old crop prices continued to climb to £350/t during the spring - an increase on harvest values of nearly £200/t for those fortunate enough to have some to sell. Forward prices for new crop have also been strong at £320 to £350/t despite the fact that planting data suggests that the 2008 OSR crop would be the second biggest UK winter sown crop by area at 0.5mha. However establishment was very variable last autumn and many crops have suffered over the winter period as a result and with strong EU demand likely to continue and oil prices increasing almost daily, it is difficult to see why prices should weaken.

Pulses: All pulses trading well as consumption homes tidy up the last remaining lots available. New crop prices are lagging behind old crop, however protein demand is good so hopefully prices should remain high as long as compounders use them.

Spring Beans are likely to have a similar acreage as last year, however pea acreages will be down again as poor yields and gross margins push growers into other commodities.

Potatoes: Potato prices remained relatively strong through the period to end March with lower utilisation and imports generally off-setting reduced domestic supplies. However stocks at this point were 11% down on the previous year and this provoked markets into a late season rally with the GB average price increasing by £25/t to mid May.

Early planting of the 2008 crop initially progressed well and was well ahead of last year at the end of February. However a cold wet March slowed progress considerably both in terms of planting and crop development.

The cold weather has meant that the harvest of domestic new crop has been delayed and this also helped keep old prices firm. However the warm weather in early May should help crops catch up and new crop supplies will start to increase.

With planting of the 2008 maincrop only just nearing completion Information on the final planted area is limited but BPC estimates for mid May put the planted area at 110,000ha some 16,000ha below 2007. These figures should get closer, but it suggests that the UK area will not be significantly different to last year.

Sugar Beet: Average results from the 2007/08 campaign show higher sugar contents (18.4% compared to the five-year average of 17.4%), low dirt tares and good amino N of 62mg/100g of sugar. Yields were not so good at 56t/ha (average 58t/ha) and this has prompted BS to pay for all C beet at the full A&B contract price.

DEFRA have accepted British Sugars proposal to relinquish 13.5% of its sugar quota. Growers have already had their contracts cut by 10% for the 2008 season and compensation is payable, but the precise level is currently unclear, it being subject to negotiation.

Cereals 2008 - 11th and 12th of June

This years Cereals event will be held at Heath Farm Leadenham in Lincolnshire and Laurence Gould will again be attending. Please feel free to join us on stand no 223 where we will be investigating how to adapt your business strategy to changing market conditions. Refreshments will be served throughout the day.

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LIVESTOCK

Comment: The livestock sector is currently in a period of flux with price increases largely being overtaken by cost increases and hence margins are reducing or in many cases becoming negative. Clearly in the short term producers have to cope with this threat but they must try not to lose sight of the fact that in many cases production is falling and demand is increasing. The draw of imports away from the UK to areas such as China may also help margins to recover and collectively the sector must now pull together (at all levels) and make the most of a market opportunity.

Beef: Prices have continued their remarkable rise, with R4L average steer prices at just under 270p/kgdwt in early May. A combination of tight supply, the strength of the Euro increasing the competitiveness of the renewed export market, limited imports and strong domestic demand meant that prices are 28% higher than 12 months ago.

DEFRA data indicates that UK prime cattle slaughterings were 4.5% down year on year from Jan-April to 724,000 head. Exports during Jan/Feb were over 33% higher than the same period of 2007 and imports for the same period were 7% lower year on year, and the impact of the ban on Brazilian beef was also still to take effect.

Despite higher prices domestic demand remains good, with TNS data indicating that consumption in the UK rose by c. 5% year on year and that the value of purchases rose by over 5%. This suggests that to date, consumers appear to have taken price increases in their stride.

The buoyancy in the finished market has led to high store prices. Although the late spring tempered demand, MLC data indicates average prices are some 10-12% higher year on year.

The December census shows that the UK beef breeding herd reduced in size by 3% year on year, reflecting the removal of older cows before the OCDS finishes and also the impact of the ending of direct support in the sector. Breeding cow numbers have dropped 5% since 2005 and a number of processors are concerned over the continued drop in numbers, noting that the industry may lose its 'critical mass' if numbers continue to fall.

The recent proposals under the CAP Health Check may provide a means of checking this slide in numbers, with the potential to divert further support to the beef sector.

Looking forward, price prospects remain bright due to continued limited supply both domestically and internationally. In turn, steady demand for domestic consumption and exports is likely to see prices continue to rise as processors compete for supplies.

However, the unprecedented rise in feed, fertiliser and fuel costs must temper some of the optimism in the sector. Early forecasts indicated that the increase in feed price was adding some 25p/kgdwt to the costs of production and producers need to be aware of the impact of increasing costs of forage production over the coming year on their margins.

Sheep: The sheep sector is making a strong recovery from the depths of the FMD fiasco in 2007, with new season lamb prices currently some 198p/kglwt and new season lamb close to £100 per lamb, over 47% higher than 2007 prices year on year.

Over 472,000 (15%) additional clean sheep were slaughtered in Q1 2008 as producers marketed lambs held back due to FMD and took advantage of higher prices.

A 2% reduction in imported lamb during Jan/Feb, coupled with a 22% increase in exports due to the weak £ has helped the improvement in prices and it is noted that New Zealand imports fell by 7% as they supplied the increasing Chinese market and also continued to reduce their ewe flock.

Cast ewe slaughtering also rose by 3% in Q1 as marketing restrictions ended and high feed prices meant producers were less willing to carry ewes through the winter period.

December census data confirmed the continued decline of the breeding flock, with the UK breeding flock numbers falling by a further 1% year on year and the total breeding flock now at 14.8m head, a fall of 8% since December 2004.

Alongside this, TNS data indicates that year on year domestic consumption is up 4.7%, though 3 month data shows a 3% year on year fall in consumption, possibly as a result of higher prices.

All these factors bode well for the coming marketing season. The weak £ has a major impact on this sector and an expected higher level of exports should mean that prices remain strong over the coming months. There is anecdotal evidence that some producers are cashing in on high prices by selling breeding ewe lambs into the fat trade, reducing the potential for production in future years.

Producers are finally in a position where their faith in the sector may be rewarded, though the impact of higher feed prices and a late spring means improved lamb prices are a necessity rather than a luxury.

Also, despite the positive news on the supply of vaccine against Bluetongue, the risk of the disease looms large in the background for UK producers. An outbreak would have severe ramifications for a sector that appears to be on the verge of finally being able to return to profitability in 2008.

Dairy: The final quarter of 2007 saw increasing enthusiasm within the dairy sector as higher farm gate prices began to take effect. Milk prices in the year to December 2007 averaged 20.66p/litre, up 15.2% on the previous year and spot prices are even higher.

Milk prices are now on average about 7-8p/litre higher than their recent lows, but a significant proportion of this uplift has been eroded by increases in the price of key inputs, namely fertiliser, feed and fuel. For many producers this has effectively reduced the increase in net margin to around 2p/litre although the precise figure will vary depending upon the intensity of the dairy herd, with the more intensive farms likely to experience the lowest benefit.

The position is further complicated by the fact that many producers who bought forward feed and fertiliser last autumn have until now been partially protected from the increase in prices. However with fertiliser and fuel prices continuing to rise sharply, further increases in production costs are likely (with the latter likely to impact on contractor costs for the coming season).

Whilst the improved returns may help, producers have continued to exit the industry. MDC figures for January 2008 show that producer numbers for England and Wales declined again over the year to 12,514.

The number of cows in dairy herds has also continued to fall with 1.954 million cows at June 2007, a drop of 1% from the previous year.This coupled with a fall in the average yield per cow has adversely effected the volume of milk produced. With quotas having been increased by 0.5% for 2007/08, it would therefore seem unlikely that the UK will reach quota this year.

Pigs: The last quarter has seen the DAPP rise by around 20p/kg towards 130p/kgdw and whilst this has provided some relief, it has not come soon enough for others who have left the sector.

Even at current prices it is still very difficult to break even and further price increases are required to produce positive margins.

A sharp reduction in breeding sow numbers across the continent, suggest that supplies will tighten and if sterling remains weak against the Euro, there is scope for further rises provided consumers continue to buy British.

Environmental Services:

Laurence Gould now offer a full range of Environmental Services, managed by Paul Holmes-Ling. Paul has over 10 years of experience in delivering pragmatic solutions to farmers, landowners and rural businesses in environmental and conservation matters.

Our environmental services will be tailored to your business needs but can include:

Environmental appraisals: Working with you and your staff we can assess your business's environmental impact and develop an action plan for improvements. Every business is different but typical impacts will include energy, carbon, water, packaging and waste. The appraisal can be used as a very effective business tool, helping you to save costs, improve efficiency, achieve better compliance with environmental laws and regulations, gain a marketing edge and improved company profile and of course a reduced environmental impact.

Renewable energy solutions: We can help you find the ideal renewable energy solution to fit your business needs, be it creating 'in house' energy or selling to the grid. With experience of a wide range of renewable projects including biomass, biogas (anaerobic digestion), wind, photovoltaic and hydro as well as involvement in several large biofuel projects we can guide you through the process from feasibility, business planning, budgeting and planning to grant applications and project management.

Environmental benchmarking: With our partners Prime Numbers' we are currently developing an objective, measurable and reviewable system for benchmarking the environmental performance of agricultural businesses.

Environmental impact assessment: Our service is designed to deliver a practical approach to EIA, using our experience in the agricultural sector to come up with practical solutions and mitigations that work for the farm business, whilst satisfying and sometimes exceeding planners and environmental expectations.

Green House Gas and carbon accounting: We can offer a range of services to calculate your business's 'carbon' account and work with you to develop action plans for making reductions. We can also investigate your business potential for sequestering carbon and the potential for carbon trading.

Laurence Gould Partnership have just completed a major project for Natural England which involved benchmarking 200 farms across England in terms of their 'carbon' footprint.

For more information contact Paul Holmes-Ling on 01444 232822 or 07713 334821 or email: paul@laurencegould.com

Edinburgh Office:

Laurence Gould's Edinburgh office has just expanded with the recruitment of two new members of staff.

Stephen Melville joins the team in Edinburgh having previously worked for Armstrong Watson Chartered Accountants in Carlisle where he trained as an Agricultural Consultant and recently completed his ACA training.

Stephen comes from a family farm near St Andrews and his role is to develop Whole Farm Review and Farm Management work in Scotland and the North of England.

Angus Kerr is a graduate of Newcastle University and joins us from Harbro Ltd, a leading feed supplier in Scotland and Northern England, where he provided technical support for their customers and sales team.

Angus comes from a farming background in the SW of Scotland where his family farm 600 dairy cows and will be providing support to the existing team in Edinburgh whilst developing SRDP work.

Single Payment Scheme: The 2008 SPS application forms should by now have been returned to the RPA for 'processing'.

However LGP staff have been reporting problems with payments relating to previous years. Most common are problems relating to the processing of entitlement transfers, but also where full payments have been made the entitlement values used in the calculation of payments have often been incorrect.

If you would like someone to check your payment please feel free to contact your local LGP office.

It has also been recently announced that for 2009 land under permanent fruit orchards, nursery crops and vines which was previously ineligible for payment, will become eligible.

At this stage, all growers with land in these categories should ensure that their land is registered on the Rural Land Register. If it is not then an RLE1 form will need to be completed.

A consultation is currently taking place to decide whether growers with land in these categories will be allocated new entitlements and it is expected that there will be further announcements regarding this during 2008.

However even if growers are not successful in being allocated new entitlements to cover all of their SPS eligible land for 2009, there should be an opportunity to purchase entitlements before the 2009 SPS claim.

We would be delighted to discuss this situation further if you have land under permanent fruit orchards, nursery crops and vines and think you will be affected.

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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
- Sourcing Finance
- Occupational Health

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