Review of
AGRICULTURE

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Single Farm Payments Past, Present & Future

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With the Single Payment Scheme just about to enter its' fourth year of operation, things appear more settled but some significant changes have recently been announced and with a mid-term health check due, further modifications are possible. The following article summarises the current position and also considers the possible future of the scheme.

Past:

2005/06 Payments: The RPA are still struggling to complete payments for the 2006 year and there are still a significant number of unresolved issues relating to 2005. Many of these cases have entered 'Redefinition' but do not appear to be emerging from this process very rapidly despite assurances that this is almost complete. We are also still finding errors in the payments made to individuals and it is well worth double checking. However this is often easier said than done because claimants do not always have a 'Payment Statement' which details how payments have been calculated in terms of entitlement numbers, rates and deductions.

Exchange Rate: The Euro/£ conversion rate for the 2007 SFP has been set at 69.68p which is better for UK farmers than the 67.77p for 2006. This will improve the rate of UK payments, albeit that increased deductions for modulation will erode this benefit!

Present/2008 Claim:

Set-Aside: As a result of the increasing grain prices the Agriculture Council has agreed to an effective nil rate of compulsory set-aside for the 2008 harvest year. This will mean that farmers can grow crops or keep livestock on all eligible land used for their SFP claim. The ruling will not affect the size of an individuals' payment and land can still be left uncropped provided it continues to meet cross compliance requirements. A decision is yet to be made on the future of set-aside for 2009 and subsequent years.

The amount of extra land entering production as a result of this ruling will not really be known until the spring when planting is completed. However some land is likely to remain uncropped which will help lessen the negative environmental impacts that have been quoted.

FVP Authorisations: A review of the fruit and vegetable sector has led to the abolition of the Fruit, Vegetable and Potato authorisation system from 2008. This will mean that any grower cropping the land with this type of crop can use this land to claim the Single Payment. This should ease the process of completing SPS claims for land rented under short term arrangements for these crops.

10 Month Rule : There are proposals to simplify the 10 month 'occupation' period to one day (possibly 15th June but more likely 15th May). At first glance this will make things easier, but problems could occur when occupation changes during the year and penalties for earlier cross compliance breaches are effectively applied to the new occupier. Also the change could lead to significant taxation disadvantages because it is possible that the change in timing could result in two Single Payments being included in one financial year.

Future:

As the reviews and health checks commence there appears to be a thrust towards simplification of systems with administration and cross compliance high on the agenda. The way is also open for member states to influence future thinking and to this end the possibility of payment 'capping' has been raised once again.

DEFRA has itself recently published a paper on the future of farm support and within it, it promotes 'a fair, simplified, common framework for farmers across Europe, rather than a control system which stifles them' and also an approach 'which helps our farmers to preserve the natural heritage that we all value. That means effective, targeted schemes to protect our landscapes and wildlife. And it means helping farming to adapt to the impacts of climate change and to become part of the solution'.

This suggests that the UK is keen that the environment takes an increasing role in the justification of farm support to the taxpayer. Whilst it is easy to see the domestic attractions of this, it remains to be seen whether other members of the EU can be convinced and then exactly how much they are prepared to pay.

SUMMARY

Cereals: *The last few months have been a roller-coaster ride for producers. Droughts, then floods and then a doubling in prices. All of which mean that individual returns are likely to be very variable.*

Oilseeds: *Firming prices have helped OSR maintain its position within most arable rotations. Strong EU demand suggests prices will remain high and margins good.*

Potatoes: *Despite relatively good harvesting conditions the crop has suffered badly from earlier weather conditions and disease pressure. Prices are reasonable and may rise further as supplies out of store tighten.*

Beef: *FMD and Bluetongue continue to blight the sector. However the regional movement restrictions have provided some relief in recent weeks.*

Sheep: *Again, FMD and Bluetongue have caused major upheavals. Upland producers were initially the worst affected with the European light lamb market closed, but wider price pressure means that all producers are facing difficulties.*

Dairy: *Buyers appear to have finally realised the reduction in the size of the UK dairy herd will threaten supplies. Milk prices are rising as a result but so are costs, particularly for concentrate feed.*

ARABLE

Comment: The arable sector has witnessed an unprecedented year which will see vastly contrasting income levels depending upon how badly yields were affected by the weather and when the crop was sold. Therefore whilst the headlines suggest that profits have 'doubled' on the back of high grain values, for most the actual out turn will be somewhat less dramatic. However compared to the livestock sector prospects are generally relatively bright. This is good news for the sector but growers must be wary of the inflationary increases in costs that will almost inevitably follow the perceived uplift in margins.

Cereals: The past few months have proved a roller coaster ride for UK arable farmers. At the' Cereals Event in June many growers felt that crops had recovered well from the spring drought and the £100/t for new crop feed wheat brought a renewed enthusiasm to the sector. However what followed has left even the most outspoken commentators speechless. Floods in July, a wet August, and UK yields that suggest the recovery in crop condition was largely cosmetic, have reduced UK supplies. Normally this would have firmed prices but problems elsewhere in the world created near panic on grain markets. From June onwards growers witnessed the largest month by month increases on record with prices rising to £185/t by mid September. Then, just when £200/t looked a real possibility, markets dipped to around £150/t.

The reasons for this are somewhat difficult to establish. Hindsight suggests that markets may have over-reacted, but there is also some suggestion that rising grain futures attracted city investment which thrives (and profits) on market movements down as well as up. There is also a considerable tonnage of wheat sold for Oct/Nov at prices well below £100/t and this could be satisfying much of the pre-christmas domestic demand.

There is some belief that markets will recover some of the lost gains after Christmas and this is based on the premise that buyers will have to re-enter the market for the relatively small amount of crop that is unsold. This is supported by the fact that the HGCA estimates a 13.4 mt harvest for the UK wheat crop which was down 1.25 mt on 2006 and the fact that with global wheat output at 580 mt, world stocks are forecast to fall to a 27-year low of 110 mt. This position could be eased by a large Australian crop, but estimates are currently reducing in the face of their extremely dry weather.

Lower yields and indifferent quality have meant milling wheat premiums have improved and up to £25/t over feed was available in early September. Crops were generally badly effected by the wet August with specific weights, protein contents and Hagberg weights all declining.

The UK barley crop has been estimated at 4.5 mt and this suggests that the exportable surplus will be relatively small and therefore there was very little to stop domestic feed barley prices following feed wheat on its upward path post harvest. However the principle of a malting 'premium' over feed has become largely irrelevant as the trade chases short supplies of crop which has suffered serious loss of quality during the rain in August. This, and strong export potential have led to prices in excess of £200/t for top quality samples and there is little sign of this weakening.

In terms of the new crop, drilling has progressed well in generally benign conditions and following the increase in prices, UK wheat plantings predicted to be up 5% on last year at 2m Ha. The temporary abolition of set-aside could in theory free up land for a further 300,000 Ha to be planted but it remains to be seen how much of this area enters production as growers avoid poorer land.

For those planning their marketing strategy for 2008/09, futures markets for the 2008 harvest initially rose sharply, but have settled at around £120/t for Nov 2008 and recently have been relatively stable at this level. This is a level that many arable farmers should be happy to commit at, but these values show a £50/t discount to values for July 2008 and this would suggest there is still some potential for movement although it remains to be seen whether this will be in old or new crop prices.

Oilseeds: Despite the large UK oilseed rape area available for harvest, yields were generally disappointing and as a result prices rallied in August from £165/t. The continental crop output was also lower and thus price rises continued towards £250/t through October. With the prospects for US soyabean and Australian canola crops mixed, and demand strong (Oilworld have forecast world rapeseed consumption to rise by 4 mt to 19 mt in 2006/07 led by demand from biofuels) EU rapeseed prices are expected to remain firm into the New Year.

The newly planted UK OSR crop is now the second biggest winter sown crop by area at 0.5m Ha. Forward prices are very attractive at £240/t but some problems with establishment mean that many crops are vulnerable entering the winter.

Pulses: Pea yields have generally been poor with unfavourable growing and harvesting conditions taking their toll on crops. However beans have generally fared better with some excellent crops reported across the country.

Prices have also increased to around £190/t from £135/t resulting in some growers generating very welcome £400/acre gross margins. French imports continue to help supply the domestic market demands.

Potatoes: With maincrop lifting drawing to a close in relatively good conditions many growers will be looking back at a very testing season. Indeed summer flooding/waterlogging and intense blight pressure have caused some crops to be written off and many other will have high levels of outgrades.

Thus whilst the 2007 planted area was 3% higher than in 2006 at 130,758 Ha, the losses during the season have effectively reduced the total production to 2006 levels. The picture is slightly different across the rest of northern Europe with 43.9mt forecast, an increase of 5.7% overall.

To date domestic prices have not risen as sharply as one might have expected although they are still slightly above last years values for mid October. This is a reflection of the higher proportion of 'fixed price' contracted supplies at this time of year, but also the fact that many growers have chosen to market crops rather than take the chance of storing them.

The quantity and stability of those crops in store will now become the main factor in future price movements. A firming of prices is likely but the size of any increase is likely to be limited by the threat of imports, at least in the short term.

Sugar Beet: The 2007/08 beet lifting campaign commenced in early September and initially harvesting was limited by dry soil conditions and the fact that growers were keen to leave beet in the ground in an attempt to gain additional yield. However yields are likely to be variable with many crops badly effected by establishment problems in the dry spring and waterlogging in the summer.

For crops that have been harvested sugar contents of 17.8% are well up on the 16% of last year and amino nitrogen impurity levels are lower.

British Sugar are currently under pressure to review their pricing arrangements for the 2008/9 crop to counter the increase in grain and oilseed prices.

LIVESTOCK

Comment: The dark cloud of Foot and Mouth disease (FMD) returned in August and again in September and whilst thankfully the outbreaks appear to have been contained, all UK livestock producers have suffered from the effects of movement restrictions. If this wasn't bad enough the first UK incidence of Bluetongue has also brought further restrictions.
At long last there has been some better news for the dairy sector with significant milk price increases announced. Unfortunately input costs are also rising particularly for feed and therefore many livestock producers face a challenging winter.

Beef: In spite of FMD and Bluetongue, deadweight prices for R4L steers moved up to 211p/kg in August, increasing to 215p/kg by the end of September, similar to the price levels in 2006. Liveweight prices were more affected, dropping from 115p/kg in July to 107p/kg after the second set of FMD restrictions were lifted. This dip was deemed to be as a result of reduced buyers as supply was 30% down on the same period in 2006.

The export ban has impacted upon cull cow prices with liveweight prices falling to 49p/kg in September compared to 77p/kg in the same period in 2006. This is highlighted by the fact that 75% of beef exported in the first 5 months of 2007 was cow beef. The main recipients being Holland and Ireland.

Beef imports continue to rise with figures for the period from January to July 2007 up 6% from 2006 at just over 140,000 t. Nearly 60% of this figure came from Ireland with 12% from Brazil. The EU Health Commissioner, Markus Kyprianou, is under pressure to impose a ban on this Brazilian beef however as there are concerns over FMD, animal drug records and traceability.

Consumption of beef continues to rise, in the 12-week period to the 9th of September consumption was 11% up at 63,000t. Expenditure had also increased by 13% to £332 million. Given the poor summer weather the main purchases were second quality stewing beef, mince and second quality roasting joints, traditionally labelled 'winter cuts'

The June census demonstrated a further reduction in the national beef herd which will lead to the number of prime cattle coming forward reducing. MLC figures have indicated that carcass sizes are 2% up on 2006 weights at 334kg, even so this is unlikely to match the increased domestic consumption trends leading to increased imports. The census showed a 2.5% drop in the UK beef and dairy herd to 10,312,000 animals. Beef falling by 2.4% and dairy by 1.2%.

Sheep: The sheep sector seems to have borne the brunt of the FMD outbreak, mainly as a result of the second outbreak which came at the exact time when sales were due to commence and the main trading period was beginning. Matters have since worsened as restrictions continued and now regional differences in support and assistance are set to divide the industry further.

Deadweight prices have dropped from 258p/kg at the end of July to 216p/kg at the end of September, some 24.5p/kg down on the same period in 2006. Interestingly the effects of the 2001 FMD outbreak were more severe with the deadweight price in autumn 2001 at 163p/kg although the overall drop in price due to the disease was only around 20p/kg.

Liveweight sales have shown a similar downward trend moving from 111p/kg in July to 79p/kg at the end of September, a massive 23p/kg lower than the same week in 2006. Cull ewe prices had dropped significantly from £28/hd in July to around £18/hd at the end of September.

Consumption trends have followed the beef sector with an increase in the 12 weeks to the 9th of September of 7.5% with a 9% increase in expenditure to £129million. The main increases were seen in shoulder roasting joints (up 30%) and stewing lamb (up 24%).

New Zealand continue to dominate the import market accounting for 80% of the 81,000t of mutton and lamb imported to the UK. With 68% of their EU sheep import quota used already this year the volumes set to influence the market for the remainder of the year should be reduced.

MLC predictions highlight reduced sheep numbers which should lead to tightened supply in 2008. With increased consumption this should provide improved prices however this may not be enough to undo the damage caused by FMD for some producers. The June census highlighted a drop in the UK flock by 3.3%, mainly attributed to the fall in breeding ewes.

Northern Ireland:
The Northern Ireland Red Meat Task Force have released a Strategy Review of the beef industry. The Review concluded that in order to make suckler enterprises viable the farm gate price for prime cattle would need to increase to £3.20/kg. The Review also concluded that suckler beef producers would be better off if they used the SFP to diversify or leave the industry. This is a hugely significant paper, not only for Northern Ireland but also for the red meat industry in the rest of the UK as there are many similarities to suckler enterprises in Scotland, England and Wales.
The Full Report can be found at **http://www.niredmeattaskforce.co.uk/progress-report/**

Dairy: The statistics behind the dairy sector are still fairly mixed. On one hand the number of producers are still falling, 848 have left in the last 12 months and production is 120 million litres down on the previous year. However the milk price in August was the highest since 2001 at 20.70p/l and given the milk price increases announced since there should be grounds for optimism for those left in the industry.

However the sector has been dealt further blows by FMD, Bluetongue and cereal prices. Feed costs have risen on the back of world events with soyameal up £38/t and rapemeal £78/t higher. With futures markets strong for cereal and oilseeds through to the end of 2008 this pressure seems set to remain. It is estimated that the increased input costs and rising feed costs could swallow up between 2.0ppl and 3ppl of the milk price increases received. This could mean that many producers are not much better off which would hamper much needed reinvestment programmes on farm.

Important considerations for producers now must be to review their businesses in light of these latest issues. Further pressures will come in the form of competition for good grazing and silage land as cereal producers seek to utilise land for arable cropping.

The cancellation of the Dairy Event in September denied many the chance to learn about key new developments in the sector. One such area is the proposed new NVZ regulations which could lead to 70% of the farmed area in England being designated as an NVZ. There is also a move to limit total Nitrogen applications to 170kg/ha per calendar year averaged across the farmed area.

Pigs: Although the GB DAPP has remained relatively stable over the last quarter at 109p/kg producer margins have tumbled following FMD movement restrictions and rising feed costs. Cull sow prices have been badly hit by the export ban and oversupply and at 15p/kg are a third of values this time last year.

Although the impact of movement restrictions should ease, it looks likely that grain prices and therefore feed costs will stay at high levels for some time to come. This leaves many producers questioning their desire to continue in the sector for those that choose to continue, an increase in prices is imperative.

Paul Holmes-Ling: Laurence Gould is pleased to announce that Paul Holmes-Ling has joined our team and will be based in the Burgess Hill office.

Paul has joined us having worked in the South East for FWAG as a Regional Director, he specialises in environmental and sustainability issues having developed a mixed environmental and agricultural background.

The addition of Paul to the team has enabled our range of services to be expanded considerably. In addition to the already strong Environmental Stewardship advice currently provided our new services will cover;

- Environmental Management Systems
- Environmental Impact Assessments
- Farm Assurance and Accreditation Schemes
- Renewable Energy Services
- 'Green' tourism Projects
- Environmental Audits and Reviews
- Carbon Assessment and Management
- Project Management
- Environmental Training

Paul will be pleased to discuss any potential projects further and can be contacted on 01444 232822 or 07713 334821 or email: paul@laurencegould.com

Rural Development Programme England: The new RDPE scheme which runs from 2007 until 2013 is currently being rolled out across England. The scheme replaces the previous Rural Development Programme the ERDP which funded projects under the RES, PMGS and VTS etc.

At the time of writing the launch of the RDPE in terms of content and funding streams is still under review by the EU. Once the schemes are approved they should provide financial support to develop opportunities for collaboration, processing, training and diversification projects. The targeting of support and assessment systems will vary between regions and will be different from the previous ERDP schemes in the criteria for projects, targets and outputs.

Different regions are asking for Expressions of Interest prior to full application and therefore if you have a project in mind please contact your local office to discuss the options available.

The South West Dairy Event:

As a result of the cancelled event due to FMD this years event has been rescheduled for the 30th of January 2008 at the Bath and West Showground, Shepton Mallett.
As ever, Laurence Gould Partnership Limited will be present at this popular event and will welcome new and existing clients and contacts to the stand. We can be found in the Edmund Rack Pavillion on stand 93.

Environmental Stewardship: Natural England are commited to reaching targets set regarding Environmental Stewardship across England by December 2007. The targets relating to the Entry Level Stewardship (ELS) are based on the percentage of land area and vary slightly from region to region as detailed below:

West Midlands	55%
South East	66%
East of England	69%.
East Midlands	68%
South West	49%
North East	61%
North West	49%
Yorks & Humber	60%

Natural England are keen to meet these targets but are reportedly some way from achieving them. As a result they are pro-actively approaching farmers and this provides an opportunity for those that have not yet entered the scheme to access the £30/ha (£12/ac) annual payment.

However with many enterprise gross margins rising many are questioning whether the lost income is covered by the ELS payment. This can only be assessed on a case by case basis, but perhaps the most critical issue revolves around how much land needs to be taken out of production to achieve the points target. This very much depends upon the nature of the farm and how many of the various 'management plans' are adopted.

If you are considering an application to the ELS or the HLS please feel free to contact your nearest office to discuss things further.

Occupational Health: Laurence Gould have launched a new Occupational Health service which is aimed at helping you to manage your duty of care in respect of Health and Safety at work.

Employers are responsible for providing a safe working environment and have a duty to ensure that work undertaken by their staff does not cause ill health. To support employers, we are now able to provide a comprehensive Occupational Health service for clients which includes;

- Pre-Employment screening
- Health surveillance
- Immunisation and vaccination
- Absence management
- Rehabilitation after sickness
- Stress management
- Operational risk assessment

The role of the service is to help employers maintain and improve staff health and to ensure that staff are not at risk from, or adversely affected by, their employment. The service can also investigate accidents and ill health and can provide recommendations for risk reduction following such an investigation.

To discuss how the service can benefit you further please contact Keith Leddington-Hill on 01223 813622

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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.

Our services include:

- Farm Business Consultancy
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- Contract Farming
- Farm Tenancies
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- European Consultancy
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- Environmental Consultancy
- Sourcing Finance
- Occupational Health

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