

Monthly Farming Update

January 2011



I Policy issues

- 1 More detail has emerged of the funding cuts faced by Defra over the next four years. The Environment Agency budget will be cut by 21 per cent to £652 millions and Natural England's budget will be cut by a similar percentage to £155 millions. The Forestry Commission budget will fall by 25 per cent to £33 millions and that of the National Parks and Broads Authorities by 13 per cent to £46 millions. Efficiency savings will generate £162 millions arising from £49 millions from administration, IT and estates; £8 millions from Regional Development Agencies; £30 millions from flood management; £5 millions from Catchment Sensitive Farming; £9 millions from the Rural Development Programme; £45 millions from external contractors.
- 2 EU Health Ministers have voted in favour of extending mandatory country of origin labelling of beef, veal, fruit and vegetables to include lamb, pork and poultry.

II CAP (etc.) support details/payments

- 1 The Rural Payments Agency is to conduct a thorough review of the recognition of all Producer Organisations. It will commence in February and is likely to take 3 to 4 months. Outstanding payments due to POs may be made but only in cases where the Agency has conducted a "risk analysis".
- 2 By mid-December 85,060 farmers in England, representing 80.6 per cent of the total number, had received Single Farm Payments totalling £1.16 billions, 67 per cent of the total fund of £1.72 billions.

III Grants/regulations/legislation/environment

- 1 The Country Land and Business Association has launched a policy paper "The Tide is High". It urges the Government to protect good agricultural land from flooding and to take action to improve water quality and resources.
- 2 The Metaldehyde Stewardship Group has reported the widespread discovery of higher than permitted levels of metaldehyde in water this autumn. Examples of exceedencies in early October were found after heavy rainfall on the Waveney, The Yorkshire Ouse and the Teme in Worcestershire. In November excess levels were found in the West Midlands in the Rivers Blythe, Tad Brook and Leam.
- 3 The Scottish Government has launched Wildlife Estates Scotland, an initiative to highlight conservation of habitat and wildlife. The initiative has been developed by the Scottish Rural Property and Business Association and the Scottish Estates Business Group.
- 4 The Soil Association is calling for EU rules to be changed to allow human sewage to be spread on organic farmland. It claims that supplies of phosphate rock are running out.
- 5 A project with funding of £3.9 millions has begun at Aberystwyth University's Institute of Biological, Environmental and Rural Sciences to assess the amount of methane being released into the atmosphere by livestock.
- 6 Scotbeef and the Royal Highland and Agricultural Society of Scotland are to contribute towards the £2.4 millions centre for production, animal health and food safety at Glasgow University.

IV Other matters of farm finance and tenure

- 1 While farm incomes across the EU 27 member states rose on average by 12.3 per cent in 2009, incomes in the UK fell by 8.2 per cent, the largest fall of all the states. Incomes rose in 21 states with the largest rises in Denmark (54.8 per cent), Estonia (48.8 per cent), Ireland (39.1 per cent), the Netherlands (32 per cent) and France (31.4 per cent). Other than in the UK the largest falls were in Romania (8.2 per cent), Greece (4.3 per cent) and Italy (3.3 per cent).
- 2 Agricultural output in 2010 in the 27 EU member states is estimated to have increased by 4.3 per cent as a result of a 6.3 per cent increase in the value of crop production and a 2.4 per cent increase in animal production.
- 3 The latest survey from Andersons suggests that Total Income from Farming should be about £4.2 billions in 2010, marginally up on 2009, but will fall to £3.5 billions in 2011.
- 4 Farm incomes in Wales rose on average by 16 per cent in 2009/10 from £31,300 to £36,200.
- 5 A Commission for Rural Communities report has revealed that a quarter of farming households in England are below the official poverty line with an income of less than £20,000.

V Product prices

A. Crops

- 1 December saw milling wheat break through the £200/tonne barrier and oilseed rape top £400/tonne; prices that arable farmers adore but livestock farmers and biofuel producers abhor. All this occurred in the lead up to Christmas, following which the markets tend to snooze until after the New Year. By the end of December prices had improved across the board. The largest positive factor continued to be the high level of overseas exports from the UK, the highest in well over a decade and far higher than expected. Meanwhile, pushing prices in the other direction, the latest Defra 2011 crop planting survey predicted wheat area up marginally and expectation is that the total EU wheat area will be 2% higher than 2010. Following the concerns in November over the Euro's long term viability, things have settled down and the Euro has regained a little strength. LIFFE wheat futures strengthened materially in the short and medium term, over the course of December, in line with the spot market: In late December deliveries for May 2011 and November 2011 and 2012 stood at £205/tonne (up £20), £170/tonne (up £19) and £147/tonne (up £6) respectively.
Average spot prices in late December (£/tonne ex-farm): feed wheat 181; milling wheat 204; feed barley 166; oilseed rape 400; feed peas 203; feed beans 205.
- 2 The lead up to Christmas saw the potato market improve further, although much of this was as a result of specific Christmas / New Year programmes organised by buyers months in advance; for this reason the average potato price has remained less volatile than previous months. The average price in late December was £19 higher than last month's close at £164/tonne (£112/tonne at the same time last year). The free market price followed the average closing £19 higher at £173/tonne (£93/in December 2009). Grower confidence remains relatively strong which, combined with a strong export demand - particularly to the Canary Islands and Northern Europe - and the recent cold snap has added fuel to the "fire" of rising prices. Growers with high quality crop seem to be holding back once more, leaving cold stores shut until the spring; leading to good premiums for quality samples.

By late December: King Edwards were up marginally with prices sitting between £180 and £220/tonne, best samples reaching £230. Desiree prices were holding firm at between £170 and £210/tonne, relative to skin finish; premium samples up to £220. Other red varieties were holding steady at between £150 and £200/tonne. Estima prices were firming changing hands at between £190 and 210/tonne for grade one, £230 for samples with high baker content; Maris Piper prices were showing signs of improvement with firm demand, trading at between £200 and £230/tonne for grade one; £250 for best quality.

B. Livestock

- 1 The average steer price climbed steadily over the course of the month, in the lead up to Christmas and the New Year. By late December the average price was up by 11p on November's closing position (up 7.5 per cent) at 159p/kg lw, 1 per cent above the price a year earlier. The average heifer price rise tracked the steer price this month. By late December the premium over steers was still 5p, giving an average price of 164p/kg lw (less than 1 per cent above the average a year earlier). The average dairy cow price stood at £1,101 per head in late December, 23 per cent below the average price a year earlier.
- 2 Average lamb prices also climbed steadily in the lead up to the festive break, reaching 173p/kg lw by the end of December, 5p up on last month's close (3 per cent) and 3p (1.5 per cent) above the average price in December 2009.
- 3 The average pig price, in line with the seasonal trend, held steady at 136.5/kg lw which is 1.5 per cent below the prices a year earlier.
- 4 The average UK farmgate milk price for October (reported in December) strengthened for the fifth month in series to stand at an average of 25.62ppl (up 2 per cent). The average price a year earlier was 5 per cent lower at 24.44ppl. Milk quota prices showed little movement during the month. By the end of December clean 4% butterfat holdings were trading marginally stronger at 0.28ppl and leased quota (also 4% butterfat) remained static at 0.06ppl.

VI Other crop news

- 1 Estimates of output figures for 2010 of the 27 EU member states show that crop prices were up by 8.9 per cent overall with oilseeds up 27.1 per cent, cereals up 22.5 per cent, potatoes up 13.1 per cent and fresh vegetables up 9 per cent. Crop volumes were down 2.4 per cent with sugar beet down 6.8 per cent, potatoes down 6.7 per cent and fruit down 4 per cent.
- 2 The Scottish Government's 2010 agricultural census has shown the total cereal area to be down 5 per cent on 2009 largely due to a reduction of 41,786 hectares of barley.
- 3 Strategie Grains has estimated the 2011 EU harvest of soft wheat up 7 per cent on 2010. The biggest increase is expected in Germany with smaller increases in France and the UK. Barley production is expected to increase by 5 per cent and maize by 6 per cent.
- 4 Despite the 2010 harvest being the third biggest crop on record, ethanol production in the US is expected to account for more than a third of the crop. Meeting the mandate set by the Renewable Fuels Standard would require 4.5 billion bushels of corn but production is expected to have exceeded the mandate by 3.8 billion litres using 5.1 billion bushels.
- 5 A change has been announced to the way Recommended List trials for oilseed rape are compiled in an attempt to bring new varieties to the attention of growers more quickly. Varieties will undergo five years of trials, two years of National List trials and three years of Recommended List trials, followed by two years on the Recommended List itself.

- 6 The Scottish Agricultural College has concluded that fludioxonil treatment can provide an effective single solution for the vast majority of wound diseases, skin infections and field origin diseases in potatoes and should be available for the 2012 growing season.
- 7 The Hall Hunter Partnership is to buy the chrysanthemum nursery of Donaldsons and use it for strawberry production.

VII Other livestock news

- 1 Estimates of output figures for 2010 of the 27 EU member states show that animal production prices were up 2 per cent with milk up 9.4 per cent, sheep and goat meat up 7 per cent and cattle up 0.4 per cent. Pig values fell on average by 2.6 per cent. Volumes overall increased by 0.4 per cent with milk production up 1.4 per cent, pigs up 0.1 per cent but cattle down by 0.8 per cent.
- 2 The Radcliffe Advisory Group on Responsibility and Cost Sharing has recommended the establishment of a Partnership Board to give industry a stake in animal health and welfare policy. The Board would comprise representatives from Defra, the main industry sectors and interest groups. It would be the single source of departmental advice to the Government on all strategic animal health and welfare matters in England.
- 3 The Food Standards Agency has announced that “food obtained from the descendants of clones of cattle and pigs does not require authorisation under the novel foods regulation”. It has also stated that the labelling of such food would be “unnecessary and disproportionate”.
- 4 A Defra report “Does membership of Farm Assurance Schemes Affect Compliance with Animal Welfare Legislation and Codes?” has concluded that levels of animal health and welfare compliance on farm assured holdings were twice as good as those not in the schemes. The report was based on five years of inspection data covering 38,000 farm inspections.
- 5 Defra has announced that testing of fallen sheep and goats for BSE and scrapie will be based entirely on a random survey of sheep remains, post-slaughter. EU rules require the UK to test 10,000 fallen adult sheep and 500 fallen adult goats each year as well as 10,000 sheep sampled on a random basis at selected abattoirs. The changes are expected to result in savings of £1 million.
- 6 The Scottish Government has announced that all Scottish sheep keepers have a legal obligation to advise their local divisional veterinary manager if they suspect their flock is infected with sheep scab.
- 7 The Government has decided against implementing a ban on the marketing of antimicrobials to farmers by designating farmers as “professional keepers of animals”. Direct marketing is banned in the rest of Europe as farmers are designated as “members of the public”.
- 8 A study by the English Lamb and Beef Executive has revealed that livestock producers who reduce their environmental footprints earn more than polluting counterparts. Beef producers can improve returns by up to 50p/kg while the returns of sheep farmers improve by 28p/kg.
- 9 The Veterinary Laboratories Agency and Liverpool University are seeking farmers to help in the development of a test to detect resistance of a fluke to triclabendazole-based flukicides.
- 10 Scandanavian co-operative Arla and Hansa-Milch, a co-operative based in northern Germany, are expected to merge shortly.

- 11 Copa-Cogeca, the European body representing farmers' unions and farming co-operatives, has issued a declaration agreeing to phase out the surgical castration of pigs.
- 12 EU Ministers at a meeting of the council responsible for Employment, Social Policy, Health and Consumer Affairs have dropped plans for the compulsory labelling of non-skinned meat and meat products.
- 13 The European Commission has accepted a recommendation from the European High Level Group for Milk whereby milk producer organisations will be allowed to control up to 49 per cent of the total milk volume in any one country.
- 14 Waitrose has increased the premium it pays to its 60 aligned producers supplying Dairy Crest from 5ppl to 6ppl.
- 15 Milk Link and Volac are to join forces to create a whey products production facility at the Taw Valley Creamery in North Devon costing £10 millions.
- 16 Cornish Blue has been crowned world champion at the 2010 World Cheese Awards.
- 17 Meat Promotion Wales (HCC) has published a booklet on alternative bedding materials.
- 18 Public education in agriculture continues to cause concern. An NFU poll of 3,000 people has found that 20 per cent believe turkeys can fly, 14 per cent didn't know whether they could fly or not and 10 per cent thought turkeys came from Turkey!

VIII Inputs/Supply businesses

- 1 The International Fertilizer Industry Association has announced increased sales of 13 per cent in 2009 and increased consumption of 7 per cent. It is predicting further growth in consumption of 4.7 per cent in 2010/11 and 3.8 per cent in 2011/12 and is concerned that soaring prices could precipitate a "second food crisis" similar to that of 2008.
- 2 Estimates for the 27 EU member states suggest that input costs will have risen in 2010 on average by 0.8 per cent driven by increases of 6.7 per cent for energy and lubricants, 3.2 per cent for feeding stuffs and 3.3 per cent for buildings maintenance.
- 3 A study commissioned by the Crop Protection Agency, "The Value of Crop Protection", has claimed that consumers would have to pay an extra £70 billions a year for food if farmers were unable to use pesticides.
- 4 The Government has announced a three-month amnesty for pesticides and biocides. Growers can dispose of any out-of-date or revoked products until 14 March as part of Project Security of the Operational Environment.
- 5 Fargro has announced the availability of two new biopesticides, both based on naturally-occurring fungi. Prestop is based on *Gliocladium contumeliosum* and can be used on vegetable, salad and herb crops. The second, as yet unnamed product, contains the fungus *Metarhizium* and is used to control vine weevil.

IX Marketing

No News.

X Miscellaneous

- 1 The Duke of Gloucester is the new president of the Royal Agricultural Benevolent Institution.
- 2 Bernard Matthews, the turkey farmer, has died, age 80.
- 3 The Agricultural Industries Confederation has launched its Dangerous Goods Safety Adviser Register.
- 4 The Fendt 828 Vario has been named 2011 Tractor of the Year.

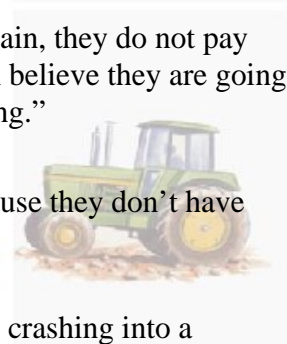
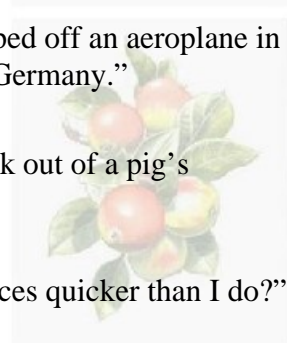
- 5 New Year Honours for the sector: Colin Smith OBE, Assured Food Standards; Anne Buckingham MBE, beekeeping in Surrey; Lewis Grant MBE, Meat Hygiene Service; Amanda Gray MBE, Bioenergy industry; David Jones MBE, ploughing in Wales; Edwin Lello MBE, farming in Cornwall; William Vaughan MBE, Farmers Union in Wales; Sheila Warner MBE farming in Wales.



Postscripts

Clarksonisms

1. "I'm sorry, but having a DB9 on the drive and not driving it is a bit like having Keira Knightley in your bed and sleeping on the couch."
2. "The last time someone was as wrong as you, was when a politician stepped off an aeroplane in 1939 waving a piece of paper in the air saying there will be no war with Germany."
3. Illustrating the lack of power of a Boxster: "It couldn't pull a greased stick out of a pig's bottom."
4. "I don't understand the bus lanes. Why do poor people have to get to places quicker than I do?"
5. Clarkson's highway code on cyclists: "Trespassers in the motorcars domain, they do not pay road tax and therefore have no right to be on the road, some of them even believe they are going fast enough to not be an obstruction. Run them down to prove them wrong."
6. "Britain's nuclear submarines have been deemed unsafe ... probably because they don't have wheel-chair access."
7. On the Lotus Elise: "This car is more fun than the entire French air force crashing into a firework factory."
8. "The air conditioning in a Lambo used to be an asthmatic sitting in the dashboard blowing at you through a straw".



Predictive Text

I should start by wishing you all a very happy new year before I make a few predictions for the coming year.

Having driven past the queues for the Bluewater and Lakeside shopping centres on 27 December on my way up to Yorkshire it underlined to me that a large part of our population have lost their perspective on what is important. This is hardly news. The majority of our young cannot communicate and spend their lives with their heads buried in computer screens and on networking sites. It seems odd to me that we are predicting increasing life expectancy yet what I see in the street is a greedy population that does not exercise and eats to excess. In the US two thirds of adults are overweight and we cannot be far off. A short term increase in life expectancy perhaps but in the longer term is this really true? My point is that economics is driven by reality and not theory, supply must equal demand sooner or later and no derivative trader or hedge fund can stop this. Our population demands food and lots of it and increasingly they are going to become more expensive to support. "Yes but" I hear you say "we are a global economy and what happens here doesn't really matter in the grand scheme of things".

True but we have followed the US and gradually the economies of China and India will follow. Affluence equals greed and greed makes people fat, lazy and unhealthy. This all equals more demand for goods and food but also the inputs that produce it.

2011 is going to be a shock to many. We are already seeing that the average wage is having to cope with increasing costs of the basics - food, fuel and energy. This year will only see this getting worse and it is likely we will see interest rate rises to boot. The question is will people sacrifice a new DVD a week for a belly full of food? And to what extent will our livestock and fruit and vegetable farmers be the pawns in the supermarket price wars?

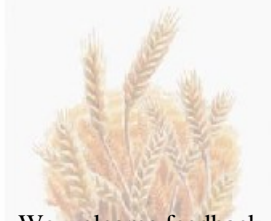
Commodity prices will stay high. I just think the demand curve is such that I cannot see it coming down. The issue with this sector is how much of any increased margin is swallowed up by increasing input costs and overhead costs. The reality is that farming may become a more sustainable sector in the UK but the risk curve will steepen as the working capital requirement does. In other words if it costs £150 to produce a tonne of wheat and the crop fails to perform there is a much bigger gap to fill. Risk versus return, more risk the same return.

You all have to get better at buying and managing volatility and this should be on everyone's New Year's resolution list. For example we know that the fuel price is only going one way so what are you doing about it? Are shares in BP a good hedge? I am not joking.

A quick note to commercial landlords as are a large proportion of farmers. Be smart about your offerings to tenants. You are going to have to fight for tenants as I know many of you already are. Some of you are going to have to accept that maybe a change in planning to residential is the best way forward, I just hope the councils recognise this.

As for tax well it definitely is not coming down and it is likely the Office for Tax Simplification's work will see some of the tools available to this sector disappear. I have attached a separate note on this. Our unhealthy population needs more support and long term tax reductions are just not going to happen.

I can pretty much sum things up in four words 'Everything is going up', blood pressures included. Be positive though as a sector we have something that people need not just want. This is a sustainable sector, we just need to keep evolving and questioning everything that we do.



We welcome feedback on the MFU. Does this issue raise any questions in your mind?

Would you like more information on a particular item?

Please ring one of our agricultural specialists:

Martyn Crawley
Richard Davis
Nick Holmes
Henry Mullens

Southern England
Mall House
The Mall
Faversham
Kent
ME13 8JL

Tel: 01795 594495
Fax: 01795 594499

East Anglia
1 Penn Farm Studios
Harston Road
Haslingfield
Cambridge
CB23 1JZ

Tel: 01223 874693
Fax: 01223 874451

E-mail: mfu@chavereys.co.uk
www.chavereys.co.uk

If you would like to add a friend or colleague's name to the mailing list please contact Lindsay Glead

The MFU was edited from 1991 to 2006 by John Nix, Emeritus Professor of Farm Business Management

