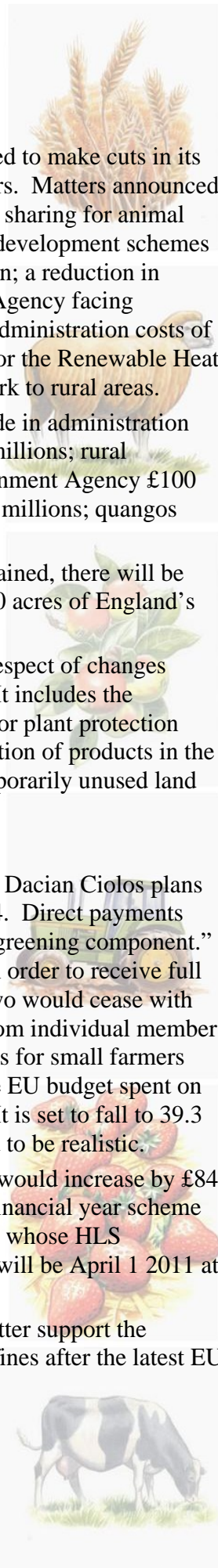


Monthly Farming Update

November 2010





I Policy issues

- 1 As part of the Comprehensive Spending Review, Defra will be forced to make cuts in its spending of about £700 millions, or 30 per cent, over the next 4 years. Matters announced by the Government include a commitment to responsibility and cost sharing for animal health; a £66 millions reduction in contributions to England's rural development schemes but an 80 per cent increase in Higher Level Stewardship participation; a reduction in quangos from 92 to 39 with Natural England and the Environment Agency facing "substantial reform" and large reduction in funding; a reduction in administration costs of £174 millions with 5,000-8,000 job losses; a funding commitment for the Renewable Heat Initiative; funding of £350 millions for a superfast broadband network to rural areas.
- 2 The detail of the spending review has indicated that cuts will be made in administration £174 millions; flood defences £110 millions; capital spending £47 millions; rural development £66 millions; Natural England, WRAP and the Environment Agency £100 millions; animal health, marine strategy and British Waterways £50 millions; quangos £114 millions.
- 3 Defra has confirmed that while the Forestry Commission will be retained, there will be substantial reforms. Unconfirmed reports suggest that up to 320,000 acres of England's woodland could be sold off.
- 4 The Fruit & Vegetable Task Force has published its action plan in respect of changes needed in the fresh produce industry production and consumption. It includes the Chemical Regulation Directorate reviewing the approvals process for plant protection products and setting up a biopesticides team to speed up the registration of products in the UK; landowners and developers should be encouraged to make temporarily unused land available for fresh produce

II CAP (etc.) support details/payments

- 1 A leaked Brussels document reveals that Agriculture Commissioner Dacian Ciolos plans to "green" Pillar One of the next CAP which will take effect in 2014. Direct payments would comprise an area-based flat rate payment plus a "mandatory greening component." Farmers would be required to undertake agri-environment actions in order to receive full payment. Existing support for Less Favoured Areas under Pillar Two would cease with support coming in the form of "voluntary co-financed payments" from individual member states. There would be a cap on large payments, minimum payments for small farmers and support targeted at "active farmers" only. The proportion of the EU budget spent on agriculture has fallen from 75 per cent in 1985 to 42 per cent now. It is set to fall to 39.3 per cent by 2013 and further cuts of up to 30 per cent are considered to be realistic.
- 2 Despite Defra announcing that Higher Level Stewardship spending would increase by £84 millions in 2011/12 rising to £154 millions by 2015, in the current financial year scheme funds have been exhausted. Natural England is advising any farmer whose HLS application had not been approved by October 20 that the start date will be April 1 2011 at the earliest.
- 3 Defra has set up a working party to produce clarified guidance to better support the Producer Organisations scheme. The UK is likely to suffer further fines after the latest EU audit.

III Grants/regulations/legislation/environment

- 1 The latest results from the Renewable Fuels Agency show the amount of renewable fuel for transport being sourced from British growers has increased to 10 per cent of total biofuels used in the UK, double last year. Of the 10 per cent, 6 per cent comes from wheat, 3 per cent from sugar beet and 1 per cent from oilseed rape.
- 2 The Countryside Survey Integrated Assessment report has revealed that, between 1990 and 2007, the number of wild plant species providing nectar for bees declined in small patches of semi-natural habitat. The decline is blamed on the growth of more competitive plant species and is considered to be the cause of a reduction in the number of pollinating insects.
- 3 IGD has released a new guide to water use in the supply chain “Understanding, assessing and managing water in grocery supply chains”.
- 4 Greenvale has reported that its Project Cascade has reduced water consumption by 60 million litres, or 75 per cent of its annual usage, at its fresh potato processing plant at Tern Hill, Shropshire.
- 5 PepsiCo, which owns Walkers Crisps, Quaker Oats, Tropicana and Copella, is to cut carbon emissions and water usage across its core crops in the UK by 50 per cent over the next 5 years. Initiatives include the use of a web-based crop management tool developed in conjunction with Cambridge University; use of low-carbon fertilizers; the replacement of 75 per cent of potato varieties with others which will significantly improve yields and reduce wastage.

IV Other matters of farm finance and tenure

- 1 A report, “Financing Nature in an Age of Austerity”, published by the RSPB, calls for a levy on pesticides and fertilizer use to “reduce negative behaviour” and “unlock private finance” to protect the environment. The report also suggest a conservation credits system; a greater role for business and communities to protect nature; a green tax on farmer’s peat extraction.
- 2 Quality Meat Scotland is to create 22 business improvement groups in Scotland, each involving up to 18 businesses to collect financial baseline monitoring and to benchmark figures with a view to improving members’ competitive performance.

V Product prices

A. Crops

- 1 Volatility remains the buzz-word of the grains market worldwide as uncertainty is inherent throughout. Cereal and oilseed prices have gained strength over the course of month, resulting from a number of factors: continued concern over the 2011 harvest wheat acreage in Russia due to drought, unease that Brazil may not be able to expand sugar production at the rate required and concerns over low Malaysian rainfall affecting palm oil output being positive factors, whilst improved weather conditions in Canada and the strengthening Sterling are pushing prices down. Despite quality being a major issue throughout the EU, the milling premium has dropped back by a third to £20. LIFFE wheat futures strengthened across the board over the course of the month; most notably in the short term. In late October deliveries in November 2010, 2011 and 2012 stood at £171/tonne (up £19), £145/tonne (up £14) and £137/tonne (up £10) respectively. Meanwhile the pulses market has relaxed.
Average spot prices in late October (£/tonne ex-farm): feed wheat 155; milling wheat 175; feed barley 144; oilseed rape 325; feed peas 170; feed beans 175.

- 2 The average potato price has been relatively variable this month. Following on from the price collapse seen in September, the weakening continued into the early part of October but was followed by a minor recovery, a further drop and another recovery. Despite all this the price closed £9 lower at £128/tonne (£92/tonne in October 2009). Maincrop harvest progress is still behind the three-year average for this point in the season, particularly in Eastern parts of the country, with 16% of the UK crop still unharvested at the end of October. The market is left unsure as to the expected outcome. The average price is still suppressed by the level of poorer quality crop being sold soon after harvest but more than half the volume of crop movement is under contract. The free market price followed a very different line this month, gaining a further £13/tonne in the first fortnight, but dropping by this amount and more over the latter half of the month to close £6 lower at £138/tonne (£73/tonne a year earlier).

By late October: Estima prices remained variable but within the same baker-driven parameters as last month, trading at between £145 and 180/tonne for grade one; Maris Piper was trading at similar levels to September - between £165 and £200/tonne for best quality. Red varieties including Desiree were continuing to trade well but with supply outweighing demand, prices were slightly down at £160 and £190/tonne. There has been greater availability of King Edwards this month and whilst they continued to carry a premium, it was lower resulting in prices of between £180 and £210/tonne.

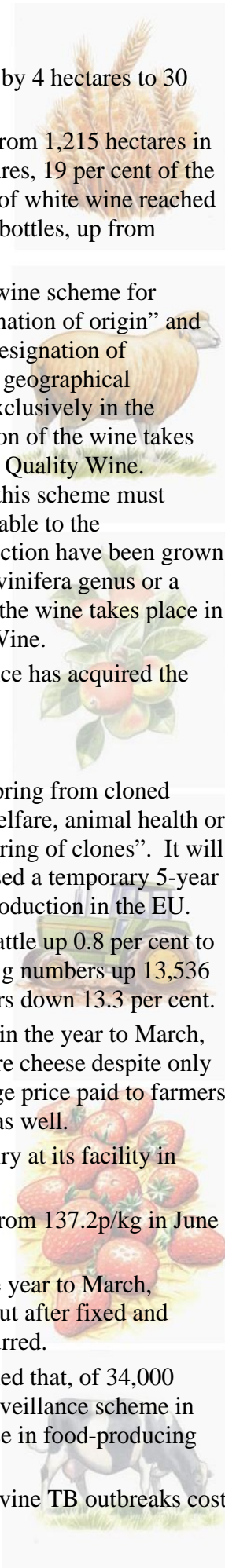
B. Livestock

- 1 The average steer price tailed off marginally in the early part of the month, but recovered in the latter stages. By late October the average price was up 3p (2 per cent) from September's close to 144p/kg lw, standing 4 per cent below the price a year earlier. The average heifer price had a similar week but dropped back a little harder early on. By late October the premium over steers had dropped to 8p with an average price of 152p/kg lw (1 per cent below the average in late October 2009). The average dairy cow price in late October, having dropped below £1,000 per head mid month, stood comparatively improved at £1,177 per head, 12 per cent above the September average and under 1 per cent below the average price a year earlier.
- 2 Average lamb prices dropped below 150p/kg lw in the early part of the month. Mid-month saw a recovery but whilst prices almost reached 160p/kg, they tailed off as the month end approached. By late October the average UK lamb price was 153p/kg lw, 1p (0.5 per cent) above last month's close and 15p (10 per cent) above the average price a year earlier.
- 3 The average pig price, in line with expectation, dropped by a further 2.5p/kg to close at 137.5/kg lw, 4.5 per cent below the prices a year earlier.
- 4 The average UK farmgate milk price for August (reported in October) followed the trend set over the previous three months and strengthened further to stand at an average of 24.68ppl (up 2 per cent); the highest average since December 2009. The average price a year earlier was 5.5 per cent lower at 23.26ppl. Milk quota prices dipped fractionally in the month, but recovered again. By the end of October clean 4% butterfat holdings were back to trading at 0.30ppl and leased quota (also 4% butterfat) was marginally lower at 0.06ppl.

VI Other crop news

- 1 Russia has extended its ban on wheat exports to July 2011. The US Department of Agriculture has forecast that Russian wheat exports will fall to 3.5 million tonnes in the year to June 2011, down from 18.56 million tonnes in the previous year.

- 2 The United States Department of Agriculture has estimated the US maize crop to be 321 million tonnes, 10 million tonnes below the 2009 crop. Stocks are forecast to fall from 43.4 million tonnes a year ago to 22.9 million tonnes, the lowest for 15 years.
- 3 Initial estimates from Masstock SMART farming show that oilseed rape plantings are up 5-10 per cent pushing the national crop to its highest ever level at 1.48 million acres.
- 4 Rothampsted Research has reported that resistance to the grass-weed herbicide Atlantis is spreading with Dorset and Warwickshire being the latest counties affected by resistant blackgrass populations.
- 5 Survey results published by CropMonitor show that foliar disease levels in 2009/10 season winter wheat crops were the lowest ever recorded. Conversely the incidence of light leaf spot on oilseed rape stems was higher than the long-term mean.
- 6 The resistance-breaking strain of rhizomania, first identified in rhizomania-resistant varieties of sugar beet in 2007 in the Orford area of Suffolk, has spread to Ipswich. The disease can reduce root weights by over 50 per cent.
- 7 As a consequence of unexpectedly low yields this year, sugar beet growers are to be permitted to grow 20 per cent over and above their British Sugar contracts in 2010/11.
- 8 The Scottish Government's June agricultural census shows oilseed rape acreage up by 23.9 per cent or 17,141 acres; barley acreage down by 104,928 acres; total cereals area down by 57,867 acres.
- 9 The HGCA has reported that wheat bulb fly infestations are at their highest level for 6 years this autumn. In eastern England 80 per cent of the fields tested had moderate to very high infestations with potatoes and sugar beet being most affected.
- 10 The Scottish Government has confirmed that the packer of Vivaldi and Innovator potatoes has undertaken that Scottish crops of these varieties will be removed to England for grading and processing as part of measures to prevent the spread of *dickeya solani*. Growers will be unable to plant potatoes for at least 2 years in fields where the disease has been identified in crops.
- 11 The Food & Environment Research Agency is consulting with the potato sector on proposals to introduce measures against the flea beetle *Epitrix* which has been identified in Spain and Portugal.
- 12 Following the withdrawal of Birds Eye from a pea-growing contract, 150 East Anglian farmers have contracted with Kent-based frozen fruit and vegetable processor Ardo UK.
- 13 The UK shallot market has grown by 46 per cent in value in the past 5 years to £8.6 millions while volumes have risen by 27 per cent.
- 14 Fruition, the UK's largest top-fruit producer organisation, has unveiled a planting programme of 750,000 new trees over the next 3 years thereby increasing production from 50,000 tonnes to 65,000 tonnes.
- 15 The Co-operative Farms plans to plant Sweetie apples in 2011. The New Zealand variety is a cross between Gala and Braeburn.
- 16 Figures up to 9 October show that Morrisons is the leading supermarket when it comes to selling home-grown apples and pears with a 26 per cent share of the market, up from 21 per cent at the same time last year. Sainsbury's had a 24 per cent share, Tesco 19 per cent, Asda 11 per cent, the Co-op 8 per cent and Waitrose 6 per cent.
- 17 The Food Standards Agency has discovered traces of waxing agent morpholine on supplies of Chilean fruit. The agent is viewed as a food additive and is banned in the EU.
- 18 East Malling Research is to host a technical update on soft fruit research on 24 November.

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- 19 Tangmere Airfield Nurseries is to expand its glasshouse production by 4 hectares to 30 hectares. The glasshouses are used for pepper growing.
 - 20 The wine hectareage in 2010 has increased to 1,323.51 hectares, up from 1,215 hectares in 2009. Chardonnay is the most widely planted variety at 249.3 hectares, 19 per cent of the total. Pinot noir follows at 247.77 hectares. The number of bottles of white wine reached 2.47 millions, double that of 2008, while red wine reached 706,933 bottles, up from 300,533 bottles in 2008.
 - 21 The United Kingdom Vineyards Association has introduced a new wine scheme for English and Welsh wines which features the terms “protected designation of origin” and “protected geographical indication” on product labels. “Protected designation of origin” denotes quality and characteristics that are attributable to the geographical environment in which it is produced; the grapes have been grown exclusively in the defined region and are only of the *Vitis vinifera* genus; the production of the wine takes place in the defined region; wines will be labelled English or Welsh Quality Wine. “Protected geographical indication” denotes wines produced under this scheme must possess a specific quality, reputation or other characteristics attributable to the geographical region; at least 85 per cent of grapes used for its production have been grown in the defined region with the rest from the UK and are of the *Vitis vinifera* genus or a cross of *Vitis vinifera* and another genus of *Vitis*; the production of the wine takes place in the named area; wines will be labelled English or Welsh Regional Wine.
 - 22 Kent-based fresh produce distribution and logistics firm Fresh Service has acquired the Paddock Wood and Sheerness operations of RW Simpson.

VII Other livestock news

- 1 The European Commission has stated that a ban on the sale of offspring from cloned animals “would not be justified on grounds of protecting animal welfare, animal health or public health in so far as there are no welfare concerns for the offspring of clones”. It will require a complete traceability system to be in place and has proposed a temporary 5-year suspension on the use of first generation animal cloning for food production in the EU.
- 2 The Scottish Government’s June agricultural census records total cattle up 0.8 per cent to 1.83 millions; sheep numbers down 2.5 per cent to 6.75 millions; pig numbers up 13,536 to 409,577; poultry laying flock up 16.7 per cent but broiler numbers down 13.3 per cent.
- 3 DairyCo’s annual Dairy Supply Chain Margins report reveals that, in the year to March, supermarkets increased their margins on fresh milk, mild and mature cheese despite only marginal changes in retail prices. But in the same period the average price paid to farmers fell by 2p to 23.8p per litre and processors margins were squeezed as well.
- 4 Tomlinson Dairies is to build a new 100 million litre processing dairy at its facility in Wrexham.
- 5 Bpex has forecast that the overall costs of pig production will rise from 137.2p/kg in June to 158.3p/kg this month mainly as a result of increased feed-costs.
- 6 Figures from Eblex “Business Pointers” producers show that, in the year to March, lowland suckler herds recorded an average calf output of £401.95 but after fixed and variable costs are taken into, a negative net margin on £87 was incurred.
- 7 The annual report of the Veterinary Residues Committee has revealed that, of 34,000 samples from domestic produce tested under the UK’s statutory surveillance scheme in 2009, only 2 cattle tested positive for products not authorised for use in food-producing animals.
- 8 Research undertaken by the University of Exeter has shown that bovine TB outbreaks cost farms between £505 and £3,184 per month.

- 9 Beef imports into China increased by 173 per cent in the year to August to 3,737 tonnes. Uruguay has a 39 per cent market share followed by Brazil 27 per cent, Australia 20 per cent and New Zealand 13 per cent.
- 10 Marks & Spencer is to add Blonde d'Aquitaine bulls to its approved beef breeds sire list.
- 11 The National Audit Office has criticised Defra's financial record-keeping stating that Defra's data on animal health is not good enough to justify a comprehensive animal health cost-sharing policy.
- 12 The Food Standards Agency is considering forcing abattoirs to introduce CCTV cameras or face additional inspection costs.
- 13 Exercise "Silver Birch" will take place on November 9 and 10. Involving Animal Health, Defra, the Scottish Government, the Welsh Assembly Government and key operational partners, it will simulate an outbreak of foot-and-mouth disease on a national scale to test plans and policies for its control and eradication.
- 14 The worldwide eradication of rinderpest (cattle plague) has been officially announced.
- 15 In the year to 30 April the British Wool Marketing Board recorded a decrease in the clip from 30.8 million kg to 28.4 million kg. The Board incurred a loss of £105,000 and reported a funding deficit of £7.549 millions in its pension fund.
- 16 Hi Health and Biobest Laboratories (Herdcare) have merged brands and services to become Hi Health Herdcare.

VIII Inputs/Supply businesses

- 1 GrowHow UK has forecast short-term fertilizer price increases of 15-20 per cent on the back of higher nitrate, phosphate and potash prices.
- 2 Specific off-label approval has been given for the use of Roundup Ace on outdoor crops of vegetables against volunteer potatoes.
- 3 The Horticultural Development Company has been granted specific off-label approval for the use of Syngenta's Fubol Gold WG on soft fruit.
- 4 Growhow has announced 34.5 per cent Nitram prices of about £210 per tonne, nearly 20 per cent higher than the same time last year. Imported AN is trading at £195-£200 per tonne.

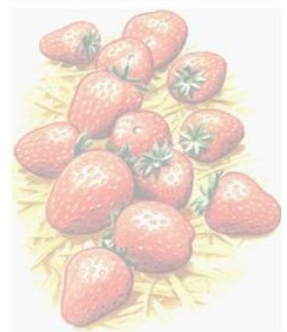
IX Marketing

- 1 Overall the grocery market grew by 4.1 per cent in the 3 months to the end of September, ahead of inflation which was 3 per cent. Sainsbury's recorded growth of 5.6 per cent with its market share up by 0.2 per cent to 15.9 per cent. Waitrose growth was 9 per cent with its market share up by 0.2 per cent to 4.2 per cent.
- 2 Defra's latest "Food Statistics Pocketbook" shows that UK consumption of fruit and vegetables is falling. In 2008 on average UK households bought 4.1 portions of fruit and vegetables each day but wastage meant consumption was only 2.7 portions per day, well short of the 5 a day goal.
- 3 Organic food and drink sales through supermarkets reached £82 millions in September, an increase of 15 per cent on the previous month.
- 4 A survey of 14,000 people conducted for From My Farm has revealed that one in 10 think that strawberries and sprouts are grown on trees; one in 5 thought Granny Smith was a British apple and also thought the British apple season lasted all year round.
- 5 Research undertaken by the British Cheese Board has revealed that one in 10 people believe Britain makes fewer than 10 cheeses and the same number do not know milk is the main ingredient.

- 6 Worldwide Fruit Ltd, the top-fruit marketing company, achieved a pre-tax profit of £1.5 millions in the year to June compared to a loss of £95,000 in 2009.

X Miscellaneous

- 1 UK tractor registrations for machines over 50hp reached 11,413 units by the end of September, a decline of 12.6 per cent compared to the same period in 2009. The average power registered has been 143hp, a fall of 1.3 per cent in 2009.
- 2 Mary Creagh, MP for Wakefield, has been appointed Shadow Defra Secretary. The junior ministers are William Bain, MP for Glasgow North East; Jamie Reed, MP for Copeland in Cumbria; Peter Soulsby, MP for Leicester South.
- 3 George Dunn, chief executive of the Tenant Farmers Association, is to also act as chairman of Farm Crisis Network.
- 4 Helen Browning has been appointed as the new director of the Soil Association.
- 5 The new chairman of British Goose Producers is Eddie Hegarty of Norfolk Geese.
- 6 Standen Engineering, based in Cambridgeshire, has purchased Deptford Marketing.



Postscripts

Holiday Comments

With the harvest in and drilling done, farmer's minds now turn to holidays. In the unlikely event you stoop to travelling with Thomas Cook, here are some comments from people you could travel with.

"I think it should be explained in the brochure that the local store does not sell proper biscuits like custard creams or ginger nuts."

"It's lazy of the local shopkeepers to close in the afternoons. I often needed to buy things during 'siesta' time – this should be banned."

"On my holiday to Goa in India, I was disgusted to find that almost every restaurant served curry. I don't like spicy food at all."

"We booked an excursion to a water park but no-one told us we had to bring our swimming costumes and towels."

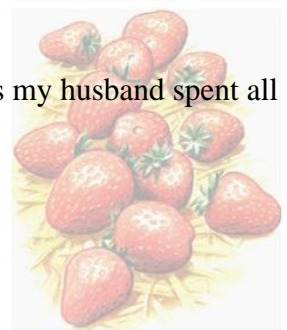
A tourist at a top African game lodge overlooking a waterhole, who spotted a visibly aroused elephant, complained that the sight of this rampant beast ruined his honeymoon by making him feel "inadequate".

A woman threatened to call police after claiming that she'd been locked in by staff. In fact, she had mistaken the "do not disturb" sign on the back of the door as a warning to remain in the room.

"The beach was too sandy."

"We found the sand was not like the sand in the brochure. Your brochure shows the sand as yellow but it is white."

"Topless sunbathing on the beach should be banned. The holiday was ruined as my husband spent all day looking at other women."



Dr Foster went to Gloucester.....

You can learn a lot from nursery rhymes. Other than the fact Dr Foster was characteristic of the NHS, allow me to explain...

As I am considering fitting some photovoltaic cells to my garage I thought I would bore you with more talk of renewables. The thing is all of those families relocating from Chelsea to my newly converted garage will want plenty of hot water and I may as well get the State to pay for that as well through the Feed in Tariff. Only £400 a week poor sods!!

Whilst doing my research I came across a very interesting table.

Type	Typical cost of project (£/Kw)	Typical Return	Typical payback period (years)
AD	4,000	16%	6
PV	4,200	9%	11
Hydro	3,000	18%	6
Wind	3,250	18%	6

I have no idea how accurate this is and no doubt every project is different. Let's call the figures indicative for an on farm/estate project.

But let us factor in a few variables to the equation. As we know variables always tend to be adverse and rarely favourable.

Let's put in an interest rate of 5% and a risk rate of 5%. Let us then assume the project actually costs 10% more than we thought and then take off tax. Let us not forget that the reliability of the feed in tariffs (as I predicted) is now being questioned.

Suddenly things don't look quite that good and, frankly, look decidedly dodgy.

At the end of the day a lot of what we are seeing is no more real than a Jilly Cooper novel. These numbers and projects are as new to the salesmen as they are to you.

Is it really sensible then for the government to make us rush into relatively unknown territory on the back of subsidy i.e. FITs or whatever the project receives? So we can learn lessons from abroad? , e.g. Germany, but how many things actually translate when geography and demographics change.

Why do I say rush in? Because everyone is panicking about the feed in tariff going and they want to get it done before it does.

Shouldn't the tariff be going towards good sustainable projects?

The point is that any renewable project is speculative unless you have an issue with energy security. So for a large packhouse or storage complex it is not just about the maths.

What are the property issues? As with me, saving £800 a year in energy costs is all well and good but what about the fact the panels have just knocked £100,000 off the value of my house. What will the land use be worth in 10 years?

Don't be like Dr Foster, put a stick into the puddle to find out how deep it is before you step in it.



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

Would you like more information on a particular item?

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

