RBR
Rural Business Research

Intelligence from the Regions – October 2014

Status

Twice a year staff of the RBR provide up to the minute information from their Regions on what is happening on farms and local markets together with a summary of current attitudes and concerns. The website; http://www.ruralbusinessresearch.co.uk will carry the latest collated report. Comments are welcome as well as any queries; please contact the Editor; philip.robertson@nottingham.ac.uk

This information is provided by RBR staff and every effort is made to check its accuracy and validity. It should be recognised that whilst some of the information is anecdotal, that is its value in giving a current and real insight into what is happening within the industry. As with all information it should be used with care and in context.

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Key Points

- The 2014 cereals harvest has generally been reported as being of above average yield and good quality.
- Significantly lower prices for cereals has meant that forward selling appears to have been the best option for marketing 2014 cereal crops.
- There is some evidence of lower input costs associated with 2015 cereal crops, with reductions to seed, fertiliser and fuel costs being reported.
- Sugar beet growers are known to be very disappointed about the price cut for 2015 beet and some plan to grow less beet in future in fear of a low surplus to quota price.
- Horticultural businesses have reported on-going price pressure from supermarkets and the cancellation of expected crop collections, which have contributed to some reported trading losses.
- The English apple crop is reported as being excellent in quality but yields both in the UK and across Europe are high, putting downward pressure on prices.
- The period from April 2014 until October 2014 witnessed a sharp reduction in the farmgate milk price.
- Milk production levels for the first half of the 2014-15 milk year are running at a 20-year high.
- Store cattle prices have remained high despite the decline in fat cattle prices. However, a recent increase in demand has led to an increase in fat cattle prices reversing the downward trend that began in March 2014.
- The sharp and earlier than usual seasonal fall in fat lamb prices has led to a distortion in normal marketing patterns with many lambs being withheld from sale.
- Reports of shoulder fly-strike have been received from a number of regions. The reasons for this are not yet understood.
- Despite the relatively poor trading conditions for fat lamb, breeding ewe prices have remained buoyant.
- Pig and poultry producers have welcomed the reduction in feed costs as a result of lower cereal prices. This will help alleviate the concerns of declining pig prices which have been exacerbated by the Russian ban on imports.
- Farmer reaction to the new Common Agricultural Policy (CAP), and in particular the requirement for greening measures, has been mixed, with some quoting that they have many options open to them and don't foresee any problems, whilst others have quoted that significant changes to rotations and land management strategies will have to be made.
- Cash flow is a real concern for many farmers amid concern that bank managers might not be very sympathetic to this issue.

Summary

❖ Arable

- Crop protection costs for the 2014 harvest look to be higher than normal due to high incidences of fungal diseases that emerged up to three weeks earlier than could have been expected and required extra treatments.
- High blackgrass populations and resistance to herbicides continued in 2014 and is a major concern, particularly amongst producers on heavy land.
- The general consensus is that the 2014 cereals harvest has been above average yield and of good quality.
- Forward selling of 2014 cereal crops appears to have been the best marketing option in light of the sharp decline in cereal markets.
- The fall in cereal prices and their effect on margins has been slightly offset by lower input costs associated with 2015 crops, with reductions to seed, fertiliser and fuel costs.
- The dry conditions experienced in the autumn (2015) caused concerns regarding germination, especially on the lighter soils but on heavier land, high water tables appear to have alleviated some of the worries.
- The loss of neonicotinoid seed dressing has elicited varying reactions amongst producers, ranging from "we've coped before without them, we'll do so again" to "this ban will inevitably result in increased usage of insecticides".
- Despite a lower price and a reduced quota for 2015 sugar beet, most growers recognise that beet looks like being one of the most profitable crops in 2015.

❖ Horticulture

- Horticultural businesses have reported on-going price pressure from supermarkets. Numerous reports have been received of expected deliveries to supermarkets not ultimately taking place, leaving growers with few options for alternative markets and resulting in trading losses.
- There are serious concerns surrounding the Russian ban on imports of fresh produce. It is feared that the ban will lead to the swamping of European markets and result in downward pressure on prices.
- The 2014 apple crop has been reported as good in quality and yield. Industry forecasts show that Cox Orange production decreased by 25%, whilst Gala and Braeburn increased by 24% and 19% respectively.
- Fruit producers are concerned about the effect of discounters on the profits of supermarkets and so creating downward pressure on prices.
- The time taken by buyers to pay their suppliers appears to be on the increase; typically being between 90 and 120 days which has significant relevance to cash flows.

- The 2014 bedding plant and hardy nursery stock trade has been the best since 2011. The prolonged season has increased sale volumes and the improved housing market has fed into an increased demand for garden purchases.

- Increased costs of production cannot be easily passed on to the customer, so growers are striving to make efficiency gains through more effective purchasing of key inputs such as peat; aided by the formation of buying groups especially for those growers with the smaller businesses.

- It has been an exceptional year for field scale vegetable producers, aided by the prolonged favourable weather conditions during the growing season. There have been however, reports of some crop losses as a result of severe rainstorms during August.

- Reports from growers suggest that their only reliable source of labour is from Eastern Europe.

❖ **Dairy**

- The April 2014 to October 2014 period was marked by progressive declines in the price of farmgate milk and production levels not witnessed for 20 years.

- Farmer protests, including the blockading of processing plants, have occurred in October 2014 as the price of milk has continued to fall.

- Dairy farmers consider that the reason given that the fall in the milk price is due to the fall in commodity prices is overstated, especially as over 85% of UK produced milk is consumed in the UK and therefore external factors should have less impact on the UK.

- UK dairy heifers are currently priced at around £2,000 per head making them uncompetitive against foreign imports. Ireland and Denmark are known to be increasing supplies of dairy cow replacements.

- Dairy farmers are entering the winter period with healthy stocks of forage and are also optimistic about lower feed and bedding costs.

❖ **Beef and sheep**

- The six month period up until October 2014 saw a decline in fat cattle prices that was latterly reversed as demand was seen to increase.

- The decline in fat cattle prices did not affect the store cattle trade, where prices remained buoyant.

- A good grass growing season and plentiful stocks of conserved forage have supported the store cattle price, with buyers preferring higher quality animals as the squeeze on margin continues.

- Bovine tuberculosis (bTB) and the Schmallenberg virus continue to affect and disrupt some beef enterprises. Cash flow problems have been reported with some producers having to resort to additional financing in order to support their businesses.

- bTB restriction orders on cattle movement have caused problems for producers hoping to sell cattle via the annual store cattle sales. Producers who have limited housing facilities can face significant challenges if animals cannot be sold on time.

- The 2014 lambing season was generally good with a high number of lambs being produced. After a strong start to the 2014 lamb trade, fat lamb and store prices, were down on the previous year. Store lambs were around £10 per head lower than in 2013, despite being in better condition as a result of a good grass growth year.

- Despite the downturn in the price of fat lamb, the autumn breeding sheep sales have been surprisingly strong, indicating that a degree of confidence remains amongst sheep producers.

- There have been several reports of shoulder fly-stike, which have been rare over recent years with the cause not yet being fully understood.

❖ **Pigs and poultry**

- Lower feed costs, as a consequence of lower cereal prices, have been welcomed by pig and poultry producers.

- There is some evidence that price fixing with suppliers for 2014 may have worked against some producers as the feed price has fallen.

- The availability of reliable labour continues to be a big challenge for large scale pig producers.

- From April 2014 until October 2014, fat pig prices were markedly down on those of the same period in 2013, although weaner prices have remained at a premium level.

- Recent news that a deal has been struck with China for them to import UK pigmeat has raised levels of optimism around the pig sector.

- Poultry meat producers are concerned over press coverage suggesting that two thirds of fresh retail chicken is contaminated by campylobacter. They fear being associated with the high levels of imported poultry meat which do not conform to the high standards of welfare practised in the UK.

- For egg producers, the fall in feed prices has been welcomed, especially after a period of declining egg prices.

- The Woodland Trust is encouraging free range egg producers to plant trees as a means to boost incomes by up to £300 to £400 per 1,000 hens.

❖ **CAP Reform and Environmental Schemes**

- Farmer reaction to the forthcoming requirement for greening measures has been mixed, with some predicting few problems, whilst others foresee the need for significant changes to rotations and land management strategies.
- The extension to the no hedge trimming season until the end of August each year, has not been welcomed by farmers who do not like the overlap between autumn drilling, especially of oilseed rape, and hedge trimming.
- At the beginning of October 2014, there was still some confusion surrounding how farmers count hedges, measure buffer strips and define fallow land.
- The planned re-alignment of environmental stewardship payments, which in some cases will result in a 'missed' payment, is a cause for concern, especially amongst LFA farmers for whom these payments are a significant proportion of total income.
- The change from the SPS to the BPS is raising fears amongst some tenant farmers that landlords could create rental agreements that could deprive them of the basic payment.

❖ **Finance**

- There is evidence of farmers changing their loan companies midway through the loan period, despite the implementation of penalty clauses. At least one bank is mitigating against the penalties by offering 'cash back' to farmers who transfer their loans.
- The lack of dedicated agricultural bank managers is a cause of concern amongst farmers who fear that managers with limited agricultural experience will not appreciate important issues such as varying cash flows, which have been particularly prominent in 2014.
- Farmers have reported increased pressure on bank borrowing limits and the requirement to provide far more financial data on their businesses before extentions to their overdrafts are granted.

- ❖ **Rents**

- Land agents are increasingly approaching tenant farmers concerning changing from Full Agricultural Tenancies (FAT) to Farm Business Tenancies (FBT). Matters relating to inheritance tax on FAT holdings are thought to be largely behind this.
- Planned housing developments are also a motive for changes to the terms and conditions of tenancy agreements.
- The inflationary effect of anaerobic digesters on rented land still persists with reports of land growing maize being rented for between £860 and £1,230 per hectare.

❖ **Renewable Energy**

- Grid connection fees and landlord resistance are significant barriers to renewable energy schemes.
- Large scale solar panel installations are often not locally supported which results in initial planning applications being refused.
- The difference in money between the amount of electricity that could be transported to the grid and the cost of new infrastructure to connect to the grid can be an issue when considering setting up large scale green energy installations.

❖ **General**

- There are indications that on-farm retailing and processing of premium products has recently witnessed an upturn in profitability.
- The frequency of farms experiencing bad debts and empty properties concerning commercial lets has seen an increase.
- Government reforms to the water abstraction licensing system have yet to be finalised. Uppermost in farmer’s thoughts is the right to ‘claw back’ abstraction rights without receiving compensation. Farmer investments in new reservoirs to secure water supplies could be on the increase.

Arable

In the **East of England**, established arable crops grew well in the early summer and offered good yield potential. This provided some reassurance to farmers who became increasingly concerned about falling prices for most combinable crops. Cereals moved rapidly through their growth stages so fungicides at growth stages T0 and T1 were applied up to three weeks early giving rise to the expectation that an additional late fungicide might be required. This would, in turn, lead to higher crop protection costs. Through June, yield prospects still looked good for most arable crops, but concerns about lower prices for cereals and oilseeds remained.

The ongoing problems of high blackgrass populations and resistant populations of the weed to herbicides continued in 2014. As expected, the problems were greatest in winter wheat on heavy land and in wet areas of fields. Some crops, or more typically patches of fields, were sprayed off with glyphosate to reduce the return of seed to the soil.

The cereal harvest started early and good progress was made in the earlier stages with little crop drying. There was a general feeling that favourable yields were not going to make up for the lower prices this year and forward selling was the better option.

The autumn vegetable crops saw an early start to harvest as onions were taken up early. Some potato crops had the tops chopped out of the plants to slow down growth. The harvest of maize for anaerobic digestion also started early in September in East Cambridgeshire. Some weeks before Halloween, pumpkins were turning orange in North Norfolk in late August!

Oilseed rape growers in the **East of England**, with the exception of those in Norfolk, are suffering from establishment issues. In Norfolk, crops benefited from rain soon after drilling, and crops were too established to suffer significant flea beetle attack.

Sugar beet establishment in 2014 was difficult due to excessive spring rainfall; drilling was delayed on the wettest fields. In many cases, sugar beet land had a fine surface tilth but was firm, wet and compacted lower down in the soil profile.

The reduction of the 2015 sugar beet price (to £24 per tonne) provided the necessary price signal to farmers. At least one grower planned to reduce beet acreage to 90% of quota in fear of a low surplus to quota price (which had not been announced at the time of his decision). Sugar beet growers felt betrayed by their customer as, having voluntarily opted to cut quota by 11%, British Sugar extended this to 20% for 2015. Most realise, however, that sugar beet is looking to be one of the most profitable crops for 2015, even with a quota price of £24 per tonne. The drop in price will be slightly offset by the increase in transport allowance.

In the **East Midlands** region, harvest conditions could not have been better with long spells of dry sunny weather. Yields have been variable across the region with both high and more modest yields being recorded. It will be the price per tonne however that that will have the biggest impact on margins. At the time of going to print, feed wheat prices were around £115 per tonne, in comparison to twelve months previously when the average price had been £148 per tonne. Milling wheat prices are on the rise at around £150 per tonne driven by a strong demand for export and domestic demand from millers.

Oilseed prices have slipped from £287 per tonne one year ago to £224 per tonne for 2014 crop, driven by a strong pound coupled with the start of the soya harvest in the US.

Drilling conditions have been ideal from a cultivation aspect but from a germination point of view, soil conditions have been extremely dry.

From Jan 1st 2015, the three crop rule comes into play which will obviously impact on the autumn drilling of 2014. Some farmers are willing to risk reductions in their Basic Farm Payment (BFP) as they believe they will be at a loss anyway because of the new rules.

Blackgrass remains a problem on some farms with rotational ploughing being carried out to counteract this problem. The three crop rule may aid farmers in controlling this further should they opt to grow more spring crops on blackgrass burdened land, in an attempt to reduce grass weed seed banks.

The 2014 potato main crop harvest will potentially be a high yielding one following on from an ideal growing season. Potato prices have remained stable at £136 per tonne and farmers are not seeing the high prices of 2012. As noted in previous reports, we continue to see producers leaving the industry to grow alternative crops.

The 2014/15 sugar beet campaign has got off to a timely start with Newark sugar beet factory opening its doors for processing on September 12th and lifting has taken place amid perfect weather conditions. British Sugar is expecting an exceptionally large crop, well ahead of last year. British Sugar has offered all farmers a contract holiday which will allow them to opt out of growing a crop in the coming year without losing future entitlements.

In the **North East**, a sustained period of settled weather during late spring and early summer provided good crop growth ensuring good prospects for the 2014 harvest. The threat of septoria was particularly acute, with yellow rust clearly evident in susceptible varieties, resulting in the need for a T0 fungicide application on many wheat crops. Winter oilseed rape crops were ahead in their development compared to the previous year, with flowering evident in early May. The first swathing of oilseed rape took place in the region during late June.

Unfortunately cold weather conditions and periods of rain during August increased instances of downtime and crop drying costs but overall yields were still good. A warm September helped significantly with the remaining harvest especially as a large percentage of spring crops planted earlier in the year were still to combine.

Blackgrass is a problem in many wheat crops with one **East Yorkshire** farmer taking drastic action and employing a gang of Eastern European workers to rogue the fields.

The fresh pea harvest was much better than expected at the start of the season, although early drilled crops were affected by water logging, resulting in reduced yields in some areas. Middle and late drilled crops fared much better, with higher than predicted yields recorded. The pea harvest in **East Yorkshire** was however one of the longest on record, with the prolonged drilling season finishing only five days before harvest began.

Autumn crop establishment has generally been good; however there have been instances of cabbage stem flea beetle problems within oilseed rape crops. Ground conditions have been very dry but recent rain, at the end of September, has been most welcome alleviating any worries of autumn drought problems.

After high commodity prices seen in 2012/13 farmers have experienced falling prices this year increasing the prospects for much lower crop output. Farmers are worried that if prices stay low it will be difficult to break even unless premiums for milling and malting are achieved.

A much higher winter wheat area for 2015 in the **North East** looks likely if autumn weather conditions remain good, but farmers are conscious about the forthcoming three crop rule on arable land which will probably force some businesses to increase areas devoted to spring cropping.

In the **West Midlands**, after lower than average yields throughout 2013, crops have yielded well in 2014, even though there was occasional poor yielding where water logging had resulted in poor establishment. Good progress was made with harvesting the early crops but scattered showers and persistent intermittent rain in August acted as a brake on progress, making it a long and protracted harvest for many in the region. The overall quality of the grain has been good, although there are a few reports of low levels of protein in the winter wheat and the inevitable higher drying costs due to raised moisture content as farmers tried catching up during rain free periods in August.

Autumn cultivations have progressed steadily in very good conditions. However, reports of winter oilseed rape being affected by slug damage and disease have been common place. Wet weather in August is to blame for a slug invasion and the temporary ban on the use of neonicotinoid seed treatments has resulted in diseased crops not having established properly. Whilst the emergency use of the crop protection product Insyst has been authorised to protect winter oilseed rape from further damage by cabbage stem flea beetle, it will have come too late for many. The approval was eventually granted for 120 days on Friday 26 September following the completion of technical evaluations. Farmers and lobbyists have pushed hard for this approval over the last few weeks and while they are pleased to see it finally come through, they are frustrated by the time it has taken.

September was a month of little rainfall, which meant that cultivations have been delayed to enable better seed beds and to combat the persistent blackgrass issues.

The low yields of crops harvested in 2013 meant lower volumes to trade and as a consequence, it brought pressure to bear on cash flow throughout 2014. Reports indicate that farmers have responded with increased borrowing and additional drawing down of cereal pool marketing funds to support the business while cash flow is restricted. With no improvement to the cost/price ratio anticipated in the near future, pressure on cash flow is not expected to ease in the short term.

Although future prices look bleak, there is evidence of cost reductions. Seed prices are reported to be lower this year, with for example, winter oats seed down to £360 per tonne from £400 per tonne last year; nitrogen fertiliser is being bought for £260 per tonne, when two years ago it was costing £300 per tonne. The price of red diesel has also fallen with reports of recent purchases being made at 58 ppl, as opposed to the 68 ppl of autumn 2013.

Potato yields look to be good but prices are low at £80 per tonne for the chip shop market and £40–£50 per tonne for the free buy bulk processing. Contract prices are around £120 per tonne depending on date of movement, with prices down on average £18 per tonne from this time last year.

Lifting has progressed well across the **West Midlands** in the dry September weather, although there is a greater risk of bruising in these conditions, so care has had to be taken; recent rain has been welcome by growers to ease the process. A considerably higher percentage of the total crop has been lifted when compared with the same period over the last two years.

Cold store temperatures have been harder to get down due to the ambient temperature in the recent warm weather spell, which will impact further on margins as costs continue to increase.

Weather was extremely favourable in the **South East** for harvest 2014 with the majority of farmers having a good run with the combine. Yields of wheat were reported as 'exceptional' with unconfirmed averages of 11 tonnes per hectare being reported in some parts of the region. Despite generally good harvest reports across the south there have been reports of patches in some areas having been adversely affected by the cold, wet weather in spring 2014, with crop failures occurring.

While 2014 looks to have been an exceptional harvest with an expectation of exceeding the five year rolling average, commodity prices are considerably down (as much as 25%) on the previous year. Reports of arable farmers being extremely pleased to secure grain contracts at £150 per tonne for crops sold forward are in stark contrast to others relying on spot and ex farm prices who are very concerned about prices they may achieve. At the time of writing, a number of farmers were reporting that none of their 2014 harvested crops had been sold as they are waiting to see if there is to be an upturn in prices. This has resulted in serious implications for cash flow for farms, with one farmer suggesting the outlook for arable businesses could remain bleak for some time, especially for businesses with no other enterprises over which to spread their risk.

The issue of the loss of neonicotinoid seed dressing for oilseed rape has, according to farmers voicing an opinion in the **South East,** not yet developed into a major concern. Some comments received offered the view that they managed in the past without neonicotinoids and so they will again. This view was tempered by comments that the real effect will not be recognised until next year and that there are worries that the ban will lead to increased use of insecticides. There has been feedback that some farmers have already increased their insecticide use at the time of writing, with one particular farm reporting to have sprayed insecticide twice up to this point when normally none at all would have been used.

Preparation for the 2015 harvest sees linseed falling out of favour with many arable farmers who have cited low yields and poor returns for the crop. Many farmers gave up growing it for the 2014 harvest and have no plans to grow in 2015. Second year crop wheat varieties are increasingly being planned into the rotation instead.

Across the region, farmers questioned at the beginning of October have reported that most fields have been drilled with wheat, barley and oilseed rape in a timely manner and excellent ground conditions, with first crop wheat already breaking through. Feedback on the introduction of the three crop policy under the CAP greening policy does not seem to have greatly affected farmers' cropping plans on larger arable enterprises, however, smaller mixed farms who have been running occasional arable or two crop enterprises are concerned about having to make changes to their current rotation and land management policy to ensure that the new measures are met.

Despite an extended dry spell potential germination problems have not been widely reported as a serious issue, with soil benefiting from high water tables from the very heavy rainfall the previous winter. There has been some concern expressed in Berkshire that as a result of the extended dry period in September 2014, blackgrass weed has not germinated which raises worries as to whether it will pose an even bigger problem later in the year.

Some arable farmers in the **South East** region have expressed fears that land availability is becoming a significant issue. Farmers are reporting that Farm Business Tenancies on the market are being secured by paying very high rents which they consider would allow tenants to break even "at best". The suggestion is that within the land market, land is being taken on to spread overhead costs over a larger area.

In the **South West**, the cereal harvest started early but was hampered by intermittent rainfall; however, the majority of grain needed little in-store drying. Cereal yields have been good as was grain quality but this in no way makes up for the dramatic fall in the spot price. Farmers with forward selling contracts are generally pleased they signed at much higher prices than the spot prices on offer post-harvest. For example, feed oats (October 2014) are at around £80 per tonne, whereas the forward selling price was around £160 per tonne. Plentiful supplies of oats have meant that lesser quality milling oats have been rejected on grain size specifications, with additional costs incurred by some growers in re-routing the grain to other buyers.

Straw yields have been abundant and price has fallen by a quarter.

A large carryover of old crop potatoes, an early 2014 harvest with high yields and contract potatoes being sold on the spot ware markets, were all factors that led to the potato price falling very early in the season and to much lower levels than budgeted for. Reports suggest that some supermarket contracts have been reneged on despite farmers growing supermarket specified varieties.

There is some evidence of a poor cauliflower season in the **South West.**

It appears that farmers increased usage of fertiliser to replenish the leached nutrients from the soil for all crops.

Across all regions, farmers paid particular attention to clearing ditches to ensure the efficiency of soil drainage in the 2014 season.

Looking ahead, arable farmers have concerns about low prices, the unavailability of neonicotinoids and the unfavourable exchange rate for calculation of Single Farm Payment.

Horticulture

In the **East of England**, there are continued reports of anonymous and deeply felt concerns about the practices of supermarkets. One grower commented that his programme had been 'rationalised' by the supermarket he supplies and this has meant a lower income for him. The penalty for negotiation would be that they could be classed as more of a risk by the supermarket and could lose more contracts.

Trading losses of several Farm Business Survey (FBS) horticultural businesses recently visited revealed similar stories of supermarkets applying price pressure and not always taking product as expected.

We have observed the financial failure of several growers in the year, possibly reflecting the difficult trading conditions of the previous season.

Horticultural businesses generally reported favourable market conditions in spring and summer 2014 with favourable weekend weather allowing barbeques and visits to garden centres.

Despite the demise of SAWS businesses seem to have adequate seasonal labour for their peak labour requirements.

The English apple crop generally has a good colour, eating quality and great taste. In terms of varieties, Gala and Braeburn production increased 24% and 19% respectively compared with 2013, whilst Cox Orange production fell by 25%.

There are serious concerns about the impact of Russia's ban on the import of fresh produce. Producers have expressed concerns that pears may be more at risk than apples because Holland and Belgium produce large quantities of pears for the Russian market which may well now end up on the UK market. The same concerns are being raised about fruit produced in Poland which is also being redirected to the European market rather than to its primary export market in Russia.

Another major concern being voiced by producers is the continued effect of the discounters on the profits of the supermarkets creating a downward pressure on prices being paid for fruit. Cash flow is likely to be an increasing issue as the time taken by buyers to pay their suppliers in the fruit sector is creeping up, commonly between 90 and 120 days.

In the **West Midlands** region, although the yield of apples was only marginally up on last year, quality is excellent after one of the better summers in recent years for sunshine hours. However, production lags behind that being achieved in the **South East**, especially in Kent, due to the older age profile of orchards and the growing of more traditional varieties (mainly Cox) in the region. There have been reports of some very isolated hailstorms in August devastating apple crops and making them only suitable for juicing. In these circumstances, returns are down to less than a third of normal expectations. Future prospects are very bleak as the market has become oversupplied with apples from Poland and other European countries. The seriousness of the situation has been highlighted recently by the dearth of British grown apples in supermarkets and by growers planning to fund a £0.25m promotion campaign for home produced apples.

For cider apples, the quality of the harvested crop is looking particularly good. There are many reports of high levels of sugar content after the warm summer and early autumn, although traditional orchards in this sector have been less productive this year than in 2013. Cider growers are looking at increases to long term price contracts with cider makers, which should help improve margins in the medium term.

Forecasters are estimating that the European apple crop is the largest for at least ten years. A lack of frost in the major fruit producing counties of **Kent & Sussex**, alongside no significant hail to spoil crops, has meant that the **South East** has seen ideal conditions for fruit growers this season. The UK apple crop is forecast to be 225,000 tonnes, slightly less than the high of 2011 but the second largest since 2005.

As for bedding plants and hardy nursery stock, the **West Midlands** has witnessed a 2014 season that has been the best since 2011. Of significance has been the prolonged season resulting in high volumes of sales. Apart from good summer weather, demand has been boosted by a buoyant housing market that has led to enthusiastic 'instant' gardening by new house owners. Profitability remains challenging as increased costs of production cannot be easily passed on to the garden centres due to intense competition in the sector. Instead, producers are making business efficiency gains through more effective purchasing of key inputs such as peat. Examples include buying direct from main suppliers, either as individual businesses if large enough or otherwise by forming buying groups. Growers have welcomed the general levelling of fuel prices and have taken advantage of markedly lower unit prices for heating fuel during the summer.

In the **South East** some smaller growers have reported that sales of bedding plants and hardy nursery stock to the National Trust (NT) for sale through their onsite shops have become a significant income stream, due to the demographic and spending habits of NT members.

One particular grower in the region expressed concern that training for entrants and those already working in the sector is almost, "non-existent." The suggestion was made that it is not clear as to whether the primary responsibility for sector training lies with LANTRA or the local agricultural colleges, with neither, on being approached, having a clear policy.

Looking ahead to the General Election in May 2015, there is concern about possible restrictions on the future flow of Eastern European workers to the UK. Labour demand in the sector is largely met by workers from these countries.

Initial reports suggest that in the **West Midlands**, 2014 was an easier year for growers of field scale vegetables and slightly better for profitability than in 2013. The weather conspired to produce some problems as manifested by intermittent wet weather in August and was problematic for farms that had a lot of workers on call waiting to pick; ensuring labour remains available is a constant added pressure to the business. Year on year the cost of production is increasing, with the prices paid by supermarkets over the last ten years lagging behind when the expectation for higher quality keeps on rising. Businesses in this sector are constantly looking for ways to add value to their crop in an effort to improve margins, but any action to do so is matched with a demand for major investments.

Reports from the **South East** indicate that field scale vegetable yields have been exceptional this year as a result of the extended period of favourable weather conditions during the growing season. It has been a good year for salads which started a week or two earlier than the particularly late season of last year. There have been reports of some crop losses with severe rainstorms in parts of the region during August. Due to a dry September in 2014, there have been some reports of brassicas experiencing uneven germination.

Across the region availability and quality of labour has been variable, with some producers suggesting the only reliable labour being available is from Eastern Europe.

Pesticide restrictions continue to present challenges with weed control. The region's farmers voiced concerns that compliance with the various technical audit requirements for buyer and sector assurance schemes requires increasingly significant levels of resources and management hours.

It has been reported that the 2014 bedding plants and hardy nursery stock season in the **South West** has been a very good one. The summer of 2012 was a complete wash out with very poor sales. The situation improved in 2013 but the season was hampered by a late spring. The 2014 season has been even better with a good spring leading to a warm summer and people wanting to buy plants for their gardens. However, the long term trend is still moving away from bedding plants which take more work and can be expensive. Consumers are buying more perennial plants that require less maintenance.

Forage and Bedding

Favourable grass growth during an extended period of warm weather in April to June 2014 has resulted in good forage yields going into the winter. Some FBS co-operators have indicated that hay quality had been compromised by the wet weather earlier in the year and later on, especially in August. However, this has been tempered by availability through good yields which is in contrast with last year. There are also reports of good quantities of silage being available with timely cutting resulting in good quality stocks in clamps. Some farmers have commented that some later cuts affected by the cold and wet weather in August are of lower quality.

There are strong indications that forage and bedding stocks may exceed demand in the coming year which is impacting, in some cases, on storage space available for straw. It has been suggested that the abundance of poorer quality hay may mean it could be used for bedding, in place of straw. However, there have also been reports from Oxfordshire suggesting hay quality has been better than average and that some farms have decided to chop and plough back straw for its fertiliser value in response to the poor straw market. The abundance of straw has meant that there is an extremely depressed market for round bales as hauliers favour square bales. One farm in the **South East** that uses straw in a biomass burner suggested that when taking into account the margins involved in bringing straw to market, it is more valuable as own use farm fuel.

Dairy

In the **North West** region, the warm weather in mid-April 2014 resulted in good grass growth, with dairy cows being turned out earlier than usual, especially on the extensive systems.

Two major milk buyers in the region, namely Dairy Crest and Arla, announced that there would be no reduction in the milk price for April 2014, which was welcome news. The early turnout and associated reduced costs meant that producers were looking forward to a period of sustained profitability; however, as has been described below, this optimism was short-lived.

The importing of in-calf heifers continued to increase in the region, with increased numbers coming in from Ireland and Denmark. One **North West** producer, wanting to increase his cow numbers, purchased 24 Danish heifers for £1,705 per head. He commented that it wouldn't have been possible to get such a quality batch of UK heifers for the same price in the current UK market. This comment was justified when the very best quality heifers were realising over £2,000 per head in the regions' markets.

The month of May saw wet weather return, catching out some farmers during silaging; others reported soil damage in fields caused by the movement of trailers. One Cheshire farmer was very concerned that the grass they wanted to silage was maturing too quickly, and that when they did manage to harvest the grass, it would have low digestibility.

August saw freshly calved dairy heifers maintain a good trade even though the milk price was falling.

The calf trade in August continued to fall on the back of reduced fat cattle prices. Holstein bull calves averaged £36 per head, which was £13 per head lower than at the same time the previous year. Some farmers were still disposing of the poorest Holstein bulls at birth, in order to save the cost of tagging. Best quality continental dairy calves were still showing a good trade in the region, with one month old British Blue bull calves selling for £520 per head. The average price however, was lower than the previous year, at £214 per head.

September saw the demand for organic milk fall again after a brief increase earlier in the year, which led one **North West** producer to revert back to conventional production. He stated the 3.8ppl premium over the conventional price was nowhere near enough to compensate for the more expensive feed and lower levels of production.

More milk price cuts were announced in September 2014 from buyers in the region, with Muller Wiseman, Meadow foods and Woodcocks all lowering the price by between 1.5 to 2.2ppl, prompting Farmer for Action meetings in the region to consider the possibility of protests. However, one dairy farmer reports that he is not unduly concerned by the price drop as it has been buffered somewhat by the fall in cereal and therefore feed prices. As well as a reduction in feed costs, a better summer has meant that cattle have not been housed as early as usual, leading to reduced bedding costs (which should also be lower by unit cost due to an increased supply of straw this year). Forage supplies should be more than sufficient to last until turnout 2015, meaning that there will be no need to buy in extra fodder this winter. Although the milk price has fallen somewhat, things are perhaps not as bad as they could otherwise be; lower costs should still result in a reasonable margin……. other dairy producers might wish to disagree!

September saw producer numbers in the region fall again, with 16 in Cheshire and 21 in Lancashire leaving the industry between April and September 2014.

In June 2014, dairy producers in the **North East** reported very high yielding first cut silage crops, with one North Yorkshire farmer describing how his mower was unable to cope with the quantity of grass, resulting in him paying a contractor to mow the crop.

In April, **North East** dairy company, Rock Farm, announced it was to cut 2.0 ppl from its milk price, taking its standard price per litre to 31.0 ppl. Suppliers to the company were very disappointed, especially since the larger milk companies held their price for April.

In June, Rock Farm announced that it was to cease trading, leaving 24 North East and North Yorkshire milk producers looking for a new buyer. One small herd producer in North Yorkshire found his options extremely limited, with only three potential milk buyers in his area and two of these only wanting to trade with 1 million plus litre producers.

First Milk suppliers were disappointed in July, when the buyer announced it would be reducing its liquid price by 1.75ppl from the beginning of August.

Total national milk production in August was the highest for 20 years, which came as no surprise to one **Dales** producer whose cows were performing very well. He commented that the summer had really suited the Dales dairy farms, with plenty of grass due to the warm weather and some good silage in the clamp. His cows were producing 5.5 litres per day more than during the same period the previous year.

The continued good grass growth meant that cows were grazing for longer periods and the demand for fodder crops and brewers grains was low. The price of grains was £15 per tonne lower than in the previous year.

Concentrate prices continued to fall in the region, with high energy dairy cake £15 per tonne lower than at the same time the previous year. One **Yorkshire** producer commented that with the excellent summer weather and lower feed prices he was looking at a potentially good financial year. However his optimism, and many more like him, was reduced when in September 2014 Arla announced a cut of 1.67 ppl from the end of September, with poor commodity prices to blame. Other price reductions were announced by both Paynes Dairies and Wensleydale Creamery. The biggest price cut was from First Milk, who announced a 3.0ppl reduction, leaving some producers in isolated areas with no other viable option because there were no alternative buyers.

Producers in North Yorkshire continued to leave Dairy farming at a pace, with 25 ceasing milk production from April to September 2014.

The **East Midlands** witnessed an excellent grass growing year boosting milk yields from forage and ensuring large quantities of top quality, high sugar grass silage. Dairy farmers have also benefited from lower feed costs due to low grain prices. However, producers have seen a slow and steady erosion in their milk price since March 2014 from 34.0ppl to 30.0ppl, with further price reductions in the pipeline. The rising cost of water continues to be a factor on most dairy farms with some farmers looking towards alternative sources such as bore holes or water conservation from roofs.

West Midlands' dairy producers have, like other producers around the regions, taken to protesting about falling milk prices, with recent examples including a group of more than 500 farmers blockading the Muller factory in Shropshire in early October. The financial downturn for dairy farmers follows the big falls in world commodity prices. Many producers struggle to understand how the supply chain works as with over 85% of milk produced in the UK being consumed in the UK, the impact of external factors appear disproportionate. Morale has been badly affected in the industry as the summer has progressed and the milk price continues to fall.

A decrease in the price of dairy rations has to a very small extent helped offset price cuts, with further decreases anticipated. However, some producers who are members of buying groups have experienced a frustrating lag before prices are reduced due to contractual arrangements made by the group to ensure continuity of supply. Producers who have made good quality silage will be better able to control their feed costs when faced with further anticipated milk price reductions, by being able to rely on feeding more home grown forage and less purchased concentrates.

As a high risk bovine TB (bTB) region, a great many farmers continue to have to manage their business under movement restrictions.

At the time of writing the most significant issue being voiced by milk producers in the **South East** are falling milk prices across the sector. Despite universal concern about the situation, some producers who have reported a profitable period leading up to autumn 2014 have expressed the view that reductions in input costs, particularly feed, will to some extent, offset the impact of lower milk prices.

One particular producer advised that they are monitoring cereal prices on a daily basis to determine the timing of buying feed forward. It has also been suggested that the falling price of wheat could lead to an oversupply of cheap soya, thus providing the opportunity to purchase this protein source at a good price.

There have been mixed reactions amongst producers about the impact on them of falling milk prices. The type of contract producers have in place with their milk buyer, as well as the price they have been receiving prior to planned cuts, mean that the impact across the sector will vary greatly. According to Dairy Co, nationally 12% of milk (by volume) is purchased through contracts based on market prices and/or input costs, and 16% are based purely on production costs. However, the vast majority (72%) of milk prices are at the buyers' own discretion.

In the **South West** there is real concern over the recent price drops, with great uncertainty as to how low the price will go (many producers report that below 28 ppl there will be serious financial implications). However, milk production levels since March have been higher than at any time in the last twenty years, which could be a double-edged sword for producers, because although there is more milk to receive revenue for, this is one factor contributing to the lower prices.

Dairy Crest is closing its specialist unit at Chard Junction.

Beef and Sheep

There is currently a good demand for prime cattle, up on just a few months ago in May and June when only quality offerings were attracting interest from buyers. Increased demand has led fat cattle prices to increase marginally of late, much to the relief of producers, many of whom have been struggling to keep their cost of production below recent returns. In the coming months, lower feed prices are expected to help reduce production costs, but steadily increasing fixed costs are a major issue for producers with diminishing returns impacting on the ability of the business to cover overhead charges.

Store cattle prices have remained high throughout the summer despite the lower finished prices. Good stocks of silage have led to continued demand for store cattle, but the squeeze on margins has meant buyers preferring higher quality animals; a preference driven by the uncertainty about the extent of current price improvement.

In the **North West**, fat cattle prices remained weaker during May 2014, with only the best cattle reaching 200p per kg liveweight. Bulls were particularly hard to sell, reaching a peak price of 188p per kg liveweight and an average price of 156p per kg liveweight. In contrast, the steer trade was better, with an average price of £181p per kg liveweight. This led one producer to reconsider leaving his bulls entire. He commented that he would castrate his next batch of calves because there was no premium on selling them as fat bulls.

The store trade in the region remained surprisingly good, despite a fall in the fat price. One farmer, who had sold good quality Limousin fat cattle for £1,180 per head, felt that he could not justify paying over £1,000 per head for store cattle of similar quality to fatten.

The price for fat bulls showed small signs of improvement in the region's markets during July, with the best animals realising up to 198p per kg liveweight, although the average remained at 153p per kg liveweight.

The fat trade continued to firm in September, with quality steer and heifers regularly realising over 200p per kg liveweight and with the best animals achieving up to 250p per kg liveweight. Fat bulls also showed improvement, with the best approaching £1,000 per head. At the other end of the scale there were Holstein bulls selling for below £700 per head.

A similar pattern to that found in the North West has followed in the **North East** region. The month of May saw beef prices start to fall, with young bulls particularly hard to sell. Only the best animals made over 200p per kg liveweight or £1,300 per head. The poorest quality black and white fat cattle fared the worst, with prices of 109p per kg liveweight being achieved. One farmer, whose finished black and white bulls grossed £588 per head, calculated that after the purchase of the calf, milk powder and barley, they had only generated a margin of a disappointing £30 per head.

The downturn in the fat price didn't follow through to the store cattle trade with the best continental heifers (16 months old) selling for over £1,000 per head. The trade amongst store steers was similar, with the very best animals realising in excess of £1,200 per head.

In June, beef prices declined further due to poor consumer demand and a plentiful supply of both domestic and imported beef. The fat bull trade was affected in particular, with average prices around the region falling to 140p per kg liveweight. A number of farmers in the region held on to animals in slaughter condition longer than usual, in the hope that prices would increase.

The poor price for fat young bulls continued into July, with only the best animals in the region realising over 170p per kg liveweight. Exports of UK beef also fell by 7%, contributing to the depressed prices. In response to these lower beef prices, UK farming unions put renewed pressure on the government for a summit on the future of the beef sector.

August saw signs of improvement in the finished cattle trade, with best bulls realising over 200p per kg liveweight, with average prices of 148p per kg liveweight.

A number of farmers in the **West Midlands** (and elsewhere) are pessimistic about the outlook for their beef enterprises, citing the effects of Schmallenberg and bTB as major negative factors. There were some significant losses incurred in 2013 which have led to serious financial implications this year, with Schmallenberg the most prevalent cause. Cash flows on these farms have been challenging due to the lack of cattle available to sell. There have been reports of some producers acquiring extra finance through new or additional loans or from family members undertaking part time employment, to support the farm business. Other farmers are considered reducing cattle numbers to a level that can be sustained solely by forage, in an effort to reduce feed costs by cutting out concentrate feed. Bovine TB has impacted on the economic performance of some businesses, as movement restrictions were imposed after testing positive for the disease and further testing being required.

There are reports from organic producers that the demand for organic beef marketed directly to consumers, through box schemes and farmers markets, remains depressed. A reason suggested for this situation is that organic market consumers are moving towards cheaper meats, such as chicken, with its more convenient small cuts.

Concerns remain for producers in bTB affected areas about their ability to sell stock particularly at the annual store cattle sales if the herd has reactors. A producer in Buckinghamshire expressed concerns that a lack of spare housing will mean that a bTB breakdown will present a significant challenge for keeping unsold cattle on farm.

Fat lamb prices have fallen substantially from the spring lamb price, which had fared better than last year. Falling prices have prompted many farms to withhold lambs from sale in the hope of a price recovery with the onset of autumn. This strategy, however, impacts on cash flow and farms run the risk of the lambs becoming too heavy for buyers to pay best prices.

In the **North East** region, the 2014 lambing season was helped by the excellent weather conditions and flock output (lambs per ewe) was reported to be above average. Unfortunately, falling lamb prices have, and will continue to have a significant negative financial impact on sheep production in the region. However, the autumn breeding sheep sales (£200 per head for mule gimmer lambs) and to a lesser extent, recent store lamb prices, have been surprisingly strong given the low fat lamb price.

The first spring lambs in the region were marketed during April with good prices being realised. Average prices of 274p per kg liveweight or £115 per head were achieved. The hogg trade remained strong in April at 208p per kg liveweight.

In June 2014, increased numbers of fat lambs entered the regions markets, pushing prices down, with an average of 229p per kg liveweight or £90 per head. The cull ewe trade remained strong, with the best continental ewes achieving over £100 per head.

The first store lamb sales in the region took place in July with prices averaging £57 per head; £11 per head lower than the same sale in the previous year. It was thought that the low fat lamb price was affecting the store trade. One farmer voiced his disappointment in the price, with his lambs being £10 per head down on the previous year; a situation made worse due to his lambs being much stronger after good grass growth on his hill farm.

Fat lamb prices in August remained low with averages for standard weights of 164p per kg liveweight or £69 per head.

The annual Hawes mule gimmer sale in September saw prices £3 per head lower than the previous year, at £100 on average for 26,484 animals sold.

There have been several reports of shoulder fly-strike in late summer (resulting in deaths) – which has been unheard of for some time and the reasons are not fully understood.

2014 lambing rates in the **North West** were above average with minimal losses – weather conditions were kind and grass was plentiful. Prime lamb prices have been considerably lower so far this year when compared to 2013, mainly as a result of oversupply in the market, on-going issues in Europe and the strength of sterling. It is still a little early in the season to give an overview of store lamb prices, but they are also likely to be lower year on year, reflecting the prime lamb market. Breeding sheep sales are well underway and breeding ewe lambs have been a very good trade with many LFA producers who breed and sell Mule gimmer lambs seeing a major increase in year on year average prices; quite why this is so when the finished lamb trade is not strong is somewhat harder to judge. Breeding ewe sales appear to be similar to the previous year.

Fat lamb prices in the region remained firm in April, with best continental lambs at over £100 per head.

May saw the ewe with lambs sales get into full swing, with good prices achieved for quality mule gimmers, at around £70 per lamb liveweight.

The end of May saw the sale of old season lambs start to dwindle; however the best lambs in the region were still selling for over £100 per head for 40kg lambs.

Some farmers in the region are reported to have attempted to record sheep movements on the new database with varying success. One producer who struggled with the system resorted to using the paper system again; he commented that he would try again when the glitches in the program had been solved.

The store lamb sales in the region began during July; prices were down on last year, with best continental lambs at around £60 per head.

The warm weather during September resulted in grass continuing to grow which helped increase the demand for and price of store lambs. Best continental stores realised over £65 per head, with many average sized animals at £55-57 per head.

West Midlands sheep producers have commented that 2014 was a good lambing season compared with 2013, but there has been mixed feedback from farmers on the growth rates of lambs this year; some being very happy with how well their lambs have grown due to good grass growth during the year but others are very disappointed having seen lambs grow slowly and take longer to finish. Understanding the cause of this phenomenon is of high importance and, although there were periods of wet weather during May and June, farmers plan to carry out worm egg count tests to find out if unusually slow growth rates are a result of parasitic diseases, in an attempt to achieve better growth rates next year.

Store lambs prices are reported to be down on last year with the best trade very dependent on quantity and quality. The volatility in the sheep market has prompted the recent expansion in the sector to be scaled back due to low returns in summer 2014, although exceptions have included enterprises that rear ewe lambs for sale in the autumn and who have reported a return to profitability with the prices for breeding hoggs and ewes reaching an all-time high in the past couple of years.

It is reported that breeding ewes are generally in good condition going into the autumn after good constant growth over the summer, although there has been a high incidence of blow-fly strike problems on many farms during the main summer months. Going into September, however, upland farms were starting to notice the lack of rainfall with grass unexpectedly beginning to burn off.

The view of **South Western** sheep producers is that breeding ewe prices have been high, despite the falling finished lamb price. It is thought that this is due to the generally strong cull ewe price. Early lamb prices were good, but by September the price was falling sharply possibly due to a good lambing season and growing season resulting in lambs finishing earlier and at heavier weights, bringing the glut of finished lambs forward in the year.

Pigs and Poultry

Lower cereal prices brought welcome reduction in feed costs for pig and poultry producers.

For outdoor producers the mild weather conditions have meant that they have needed less straw and feed. The most significant input cost for pig farmers is feed. Due to high global yields of cereal crops, the cost of pig feed has come down significantly in the past six months. Some producers opted for price fixing with their feed suppliers in 2014 after the experience of short notice, price hikes in 2013.

A challenge for large scale pig producers continues to be the availability and reliability of good quality labour; this is has been an ongoing issue for pig farmers for some years now.

Producers have reported sow prices are down dramatically since Christmas 2013 and that porkers are also starting to see prices slide; weaner prices have remained at a premium level. There has been some concern expressed within the sector that the current Russian ban on imports of pigs, fresh pork and certain pig products from the EU will soon start to affect the UK market. The ban, put in place as a result of incidences of African swine fever in mainland Europe, plus the sanctions imposed on Russia following its involvement in the troubles of Ukraine, has resulted in a fall in pork prices in mainland Europe. Although UK prices remain largely unaffected, a producer expressed concern that this is unlikely to remain the case. However, news that a deal had been struck to export UK pigmeat into the Chinese market has brought a degree of optimism around in the pig sector.

As the UK pricing system switches away from the Deadweight Average Pig Price (DAPP) to Average Pig Price (APP), farmers face more uncertainty about future contracts.

Recent press coverage suggesting that two thirds of fresh retail chicken meat in the UK is contaminated with campylobacter, caused annoyance to producers of poultry meat. With high UK welfare standards and assured production systems in place, poultry keepers are anxious about getting caught up in this bad news story given the high levels of imported poultry meat.

In the west of the **West Midlands** several new broiler enterprises have been starting up or expanding their enterprises as a result of reasonable profitability in recent years.

Following an improvement to egg prices in 2013, there has been a sharp fall in business profitability in 2014. Prices in the spring were down around 5% with some recent reports indicating the continued trend of lower prices being down nearly 10% on a year ago. However, much lower cereal prices post-harvest 2014 are expected to lead to reduced feed costs in the near future, with one producer stating that the reduced feed price is already having a significant impact on his margins for the year.

A free range egg supplier has reported the conservation charity The Woodland Trust is encouraging tree planting as a means to boost income, at the rate of £300 to £400 per 1,000 free range hens. Benefits include the provision of shelter belts, wood fuel and improved biodiversity.

CAP Reform and Environmental Schemes

The new Common Agricultural Policy (CAP) reforms that take effect from January 2015 are producing varied farmer feedback: for some, there are many options open to them for greening measures and it is not predicted to be a problem; for others, the inclusion of temporary grass in the arable area will have a much greater impact, as changes will have to be made to current rotations and land management strategies to ensure that greening measures are complied with.

For other farmers, the smaller changes to the Policy are seen to have greater implications to their farming system: for example, the extension of the no hedge trimming season to the end of August means that winter oilseed rape drilling in August may be affected.

Some tenant farmers have expressed the view that the switch from the Single Payment Scheme (SPS) to the Basic Payment Scheme (BPS) could see landlords creating rental arrangements that could deprive the tenant of the payment.

There seems to be a lot of confusion around the EFA; at the beginning of October a lot of rules still needed clarification, including how hedges will be counted, widths of buffer strips and the exact definition of fallow land.

A major concern in the LFA regions regarding support payments, is the planned re-alignments of environmental stewardship payments, which in some cases will result in businesses missing out on a six-monthly stewardship payment.

There is continued concern that future agri-environmental agreements will favour sub-catchment type areas, favouring agreements with landlords rather than the farmers who actually manage the land. It is understood that this is preferred by Natural England and the Rural Payments Agency as it reduces transaction costs.

Finance

Changes in borrowing arrangements have been observed on some farms, including an increase in farms changing their loan companies midway through the loan period, even at the expense of incurring sizeable costs through penalty clauses. By way of mitigation of these penalties, at least one bank (Barclays) is offering a cash back system to farmers transferring their loans.

There are some concerns amongst farmers surrounding inheritance planning and tax regulations, with next year’s general election possibly signalling a change in policies if there is a change of government.

Concern has been expressed that there seems to be a trend by the major banks to remove dedicated agricultural managers and replace them with general managers with less or no experience of farming. Many farmers view this as a real problem as they are concerned the variation in cash flow, experienced on many farms throughout the year, may not be fully appreciated by managers with limited farming experience.

There has also been huge frustration from owner occupier farmers who have in the past been able to borrow with ease, but who are now experiencing difficulties with entering into new loan arrangements with banks. Many farmers are not aware of the new lending criterion concerning the ability to repay as opposed to asset security.

Cash flow is a real cause for concern for farmers with many businesses not having sold any of their 2014 crops whilst still having to pay out for inputs for the 2015 crops. Farmers have reported there is real pressure on borrowing limits. Whilst appearing to be supportive, banks are requiring far more detailed financial data before agreeing to extend overdrafts.

Rents

There has been feedback from farmers that land agents are increasingly approaching tenants with a view to them changing from Full Agricultural Tenancies (FAT) to Farm Business Tenancies (FBT). Tenant farmers have reported that financial incentives are being offered and particular attention is being focussed on those making late rental payments. There is some anecdotal feedback from the **South East** region's tenant farmers that matters relating to inheritance tax on FAT holdings are the driving force for landlords seeking to change tenure conditions. Another significant factor at play is the number of planned housing developments. Feedback from farmers in the region suggests this is causing long term tenancies to be renegotiated. Compensation is being offered to give up land and change the terms and conditions of tenure prior to sites being granted planning permission.

Some feedback from tenant farmers suggests the adage that 'rent is equivalent to SPS payment' is certainly not always true. To secure a 20 year FBT, one farmer recently had to pay a rental equivalent to the SPS plus the incomes from Higher Level Schemes (HLS) and Entry Level Schemes (ELS).

Increases in levels of rent, due to the rising number of anaerobic digesters (AD) across certain regions, remains a hot topic of discussion. There are reports of between £860 and £1,230 per hectare being paid for land for growing maize, making it increasingly difficult for farmers to rent land to produce traditional crops as the competition with maize (AD) land continues to grow.

Renewable Energy

The ongoing uptake of maize production for anaerobic digestion continues. Some farmers grow maize for use in an AD plant on their own account, others grow and sell standing crops of maize to an AD plant owner, whilst others simply let their land for maize production. More AD plants continue to be developed.

Significant problems remain with grid connection fees and landlord resistance/opportunism.

There are indications from some farmers that lack of local support for large scale solar panel installations is resulting in initial planning applications being refused, although there is a feeling that appeals could be successful. For farms looking to set up large scale installations, difficulties typically focus on the amount of electricity that can be produced and transported to the grid, as new infrastructure is often required before solar panels can be installed.

Retail and Premium

Whilst the recent drop in the selling price of most farm commodities is now well understood and has been well documented in the farming press, we have observed that those producing, and in some cases processing, a premium product have seen improved profitability. A pig producer who cuts and retails his own stock has been able to hold his selling prices despite falling wholesale prices and had a bigger margin on the proportion of product bought in for resale. Two beef producers told a similar story of being able to hold retail prices despite big falls in market prices for cattle and a reasonably buoyant demand for their product. After three very difficult years, two organic farmers both felt things had stabilised for them and that the premium over conventional products would be useful this year and that more would be sold at a premium. One upmarket farm shop reported that after three years of static sales, things were moving in the right direction again.

Diversification

In the **East of England** there is a sense that there has been an increase in the frequency of farms experiencing problems with their commercial lets; with sizable bad debts, doubtful debts and empty properties. However, several farmers made planning applications in the year for conversion of livestock buildings to residential or commercial use.

Water Resources

Government reforms to the abstraction licensing system will be of increasing interest to farmers. While in general there has been a view that the system was due for an overhaul, some measures being considered such as the right to 'claw back' abstraction rights from farmers without compensating them, looks set to rumble on. In future, agricultural and horticultural businesses currently relying on abstraction licences to draw water will consider investing in new reservoirs to secure supply of the most basic need for crop production.

Recent FBS research into water sources has made us aware that on a few holdings rainwater harvesting is not practiced because of the low cost of operating the borehole.