RBR

Rural Business Research

Intelligence from the Regions – April 2015

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

- Many arable farmers in the East of England have expressed concerns about the sustained low combinable crop prices, but as the 2014 harvest is sold, it is apparent that the higher yields almost countered lower prices of combinable crops.
- The ban on neonicotinoid seed dressing for oilseed rape has had greatly varying effects on crop quality both between and within geographical regions.
- It is apparent that there will be reduced potato plantings in 2015 as a consequence of high production levels and low prices for the 2014 crop.
- The trend of smaller potato producers leaving the industry continues as the move towards fewer but larger producers endures.
- Sugar beet (2014) has performed well with generally high yields. However, high carried over stocks will result in a reduction in crop area in 2015.
- Changes in the housing sector, i.e. a move to higher levels of property rental have reduced the market for amenity horticulture products because tenants are less likely to plant a long term garden than home owner occupiers.
- There is concern that prices in the market place are being squeezed through increased supermarket involvement with retailing plants.
- Russian trade sanctions have resulted in a substantial oversupply of fruit within Europe which is awash with fruit and comes with corresponding price reductions.
- Fruit growers are concerned about 'lifestyle' growers with other income sources entering the market and distorting the market and out-pricing them.
- A period of relatively high milk prices led some producers to invest heavily in plant and machinery only to then encounter the current period of significantly lower prices. There are now concerns regarding the servicing of debts associated with recent investments.
- Some organic milk producers have voiced concern that there could be increased conversion to organic production and the subsequent undermining of the organic price.
- Possible changes to Farm Assurance arrangements could pose a challenge to beef producers. Proposals would mean that animals must be in a Farm Assured system from birth, rather than currently where an animal can be brought onto an assured farm and after 90 days be sold as a farm assured animal.
- Russian sanctions are seen as the driver of lower pig prices, especially for the less popular cuts and sow meat, which traditionally has been absorbed by the Russian market.
- Investment in solar panels for new free range chicken sheds seems to be attractive both to add income and to reduce costs on running the shed ventilation etc.
- Farmers have expressed frustration that lack of funds is preventing them from utilising favourable capital allowances for machinery purchase.

Summary

❖ Arable

- To a large extent, higher yields for the 2014 harvest have compensated for lower combinable crop prices. However, arable farmers in the South West have reported that despite reduced costs of production and some excellent yields, low sale prices will result in crop outputs only just covering costs of production.

- The level of grain stocks in store at March 2015 was higher than normal due to farmers retaining crops in the hope that prices will rise.

- High yields and low prices have resulted in a difficult year for potato growers. This appears to have had a negative impact on plantings which are predicted to be lower in 2015. Smaller producers are seeking alternative options such as renting out their potato land to larger growers.

- The 2014 sugar beet crop yielded well and to a fixed price but the 2015 sugar beet area is predicted to be lower due to a large carry-over of stocks. Beet growers are unhappy about the 20% cut in their quota contracts having previously opted voluntarily for a 11% reduction.

- The ban on neonicotinoid seed dressing has, in some areas, created a serious problem of cabbage stem flea beetle infestation, whilst other areas have escaped without any problems. Anecdotal evidence suggests that the worst cases are in areas of high oilseed rape production and in dry seedbeds where germination was slow and allowed the pest to develop quickly. Close proximity to overwintering sites for the flea beetle (such as lucerne crops) is also thought to be a factor in heavy infestations.

- Pack houses in the South West were forced to source cauliflowers from Europe due to the mild autumn weather causing the crop to peak before the important December market.

- The 2015 arable crops have generally been established well. The three crop rule and Ecological Focus Area (EFA) requirement has seen increased plantings of peas and beans, with the PGRO predicting a 33% increase in these crops.

❖ Horticulture

- The impact of Russian trade sanctions on horticultural producers is of concern as some "less loyal" supermarkets buy cheaper mainland EU stocks at the expense of UK growers.

- Increased levels of property rentals have negatively impacted on sales of amenity horticultural products due to tenants being less likely to establish a long term garden than home owners.

- 2015 daffodil prices are lower due to overproduction and the strong pound. Yield and quality are said to be at average levels.

- Higher light levels throughout the 2014/15 season are reported to have increased yields of bedding plants and hardy nursery stock produce.

- Horticultural producers are currently facing price squeezes via increased supermarket involvement in the sector and reduced spending by gardeners following the economic downturn.

- The top fruit harvest in 2014 is described as high yielding and of good to reasonable quality. However, prices are low due to Russian trade sanctions which have resulted in an oversupply in Europe.

- Cider apples were of good size and high sugar content. High tannin apples grown in the West Midlands are the subject of much interest from European cider producers who have been sounding out growers in order to arrange new contracts.

- There are concerns about the influence imported Polish grown apples are having on the UK market, in which small scale producers are reported to be struggling to compete with the prices offered by London wholesale markets.

- Growers are concerned about future legislation and the potential loss of active ingredients in agricultural spray chemicals which are crucial for weed and pest control.

❖ **Dairy**

- There is some concern that low milk prices will cause some milk producers to have problems servicing borrowing debts associated with recent investments on the back of high milk prices that were being received in the not too distant past.

- The range of prices received by dairy farmers is highlighted by reports that a First Milk supplier received 21.5 ppl for his January milk, whilst a Marks and Spencer dedicated supplier received 34.8 ppl.

- Organic milk is being sold at a premium over the price of conventionally produced milk that could be sufficient enough to entice further conversion to organic production which could then undermine the organic price.

- Annual milk yields are expected to be very good with increases of up to 250 litres per cow being anticipated by some.

- Bovine TB (bTB) continues to be a major concern in some regions. New rules for Cheshire, a 'bTB edge area', whereby farmers were put on a six monthly testing programme, have resulted in significant amounts of extra work and cost. The South West has reported several incidences of bTB where farms have tested positive for the first time but farms within badger culling zones have reported significant improvements in their bTB status.

- There is evidence that dairy expansions are generally occurring on units with cost of production contracts.

❖ Beef and sheep

- The possible introduction of a lifetime farm assurance scheme for beef is of concern for breeders of suckler calves and stores, in particular, who fear a two tiered market with premium prices being paid for lifetime assured cattle.
- Fertility rates amongst suckler cows have improved on recent years as a consequence of improved body condition related to the availability of good forage.
- The current balance between supply and demand is supporting high beef prices. A common selling strategy appears to be to sell heavier cattle in order to maximise returns but this may not maximise margins as good quality carcass (smaller) finished cattle usually achieve a higher unit (pence per kilogram) price.
- The strong sterling to euro exchange rate is concerning to producers who worry about the impact this may have on cattle prices in the next few months.
- Regions in the north have reported lower than normal lambing percentages, a problem thought to be associated with ewes being in too good a condition at tupping time.
- Autumn sheep sales were very good with replacement stock reaching high prices; associated to a degree with high cull ewe prices which were typically over £100 per head.

❖ Pigs and poultry

- Russian trade sanctions have caused an excess supply of pigmeat in Europe which has resulted in lower prices for weaners and finished pigs. In particular, the less popular cuts of pigmeat which are traditionally imported by Russia, have suffered price decreases.
- Falling feed prices, although welcomed by producers, are not benefitting all as many are locked into contracts with fixed prices higher than current levels.
- There is concern that supermarkets are reducing their product range. This may lead to consumers moving back to cheaper European pigmeat and as a consequence, the end of some UK premium contracts.

- Herd health, both indoor and outdoor, has benefitted from the mild winter weather.
- Pig producers are very mindful of the threat of Porcine Epidemic Diarrhoea virus and Blue Ear and the high degree of vigilance and biosecurity protocols that are required.
- Haulage costs are becoming a concern as pigs are now often transported long distance to abattoirs.
- An outbreak of avian flu in East Yorkshire, although contained, did result in a ban on UK chicken meat being exported to South Africa.
- A 'managed margins' scheme whereby poultry meat prices are linked to costs of production has aided cash flow management (West Midlands).
- New starter initiatives have been launched to encourage investments in more poultry units designed for contract rearing. These initiatives typically provide 30% of the capital costs, with banks funding the remaining 70%.

❖ **CAP Reform, Basic Payment Scheme and Environmental Schemes**

- As late as October 2014, farmers were expressing frustration and confusion about the lack of information around the requirements for Ecological Focus Areas, most notably, how hedges will be counted, widths of buffer strips and the exact definition of fallow land.
- Many farmers had to resort to professional advice to gain a full understanding of the Greening rules which are intrinsic to the new Basic Payment Scheme (BPS).
- Farmers report much frustration and wasted time associated with the computerised application system for the BPS. The system has now been abandoned in favour of downloaded hard copy versions of the application form.
- Farmers fear a repeat of 2005 when the then Single Payment Scheme payments were delayed, as a result of poor administration by the Rural Payments Agency.

❖ **Renewable energy**

- The area of maize grown in 2015 in the East of England for anaerobic digestion is expected to be lower due to substantial carry-over of stocks from 2014.
- Solar panels are a frequent addition to new free-range chicken sheds, producing both an income in their own right and reductions in running costs.

- In the South East, there was a hastening of investment in large scale solar farms as the March 2015 deadline for reductions in subsidy drew closer. However, the success rate for obtaining planning permission has been varied, leading to clusters of installations in some areas and a complete absence in other areas.

❖ **Rents**

- It has been observed in the East of England that some Farm Business Survey co-operators have relinquished rented land in a bid to improve farm profits and there has been a general reduction in the interest in farm expansion.
- New Permitted Development Rights for redundant farm buildings appear to be of interest to farmers who have been submitting planning applications, with one example being the conversion of recently made redundant pig buildings being converted to commercial use (East of England).

❖ **Finance**

- Funds for investment, particularly for arable farmers, have been reduced due to large tax bills associated with the period of higher crop prices.
- Reduced funds also mean the inability to make use of improved capital allowances for machinery purchases.
- Farmers have provided indications that there has been a slight easing of financial restrictions on lending to the agricultural sector by the major banks. Also, the banks may be ring fencing money to boost overdraft facilities for late in 2015 in anticipation of late payments of the BPS.

Arable

Many arable farmers in the **East of England** have expressed concerns about the sustained low combinable crop prices, but as the 2014 harvest is sold, it is apparent that the higher yields almost countered lower prices of combinable crops. Farmers report that British Sugar have substantial stocks of sugar beet pulp in store due to the low price of wheat and barley which have become more attractive as a livestock feed.

In the **East Midlands** region despite high yields and a favourable harvest in 2014, there has been widespread disappointment and concern over low grain prices. Whilst input prices have fallen somewhat, they have not kept abreast of the reduction in grain prices received by farmers, resulting in lower profit levels this year. In order to combat this, we have seen more crops kept in store in the hope that prices will start to recover.

One **Lancashire** cereal producer thought the price of wheat was too high at £200 per tonne but also too low at £116 per tonne. He thought that if farmers received £150 per tonne they would be happy.

Arable farmers in the **South West** have reported that despite reduced costs of production and some excellent yields for the 2014 harvest, due to the significant decrease in end-prices, many crop outputs only just covered costs of production.

High production levels and very low potato prices have brought a very difficult year for potato growers in the **East of England**. It is apparent that there will be reduced plantings in 2015 and cash flow problems as prices remain low. A similar picture has emerged in the **East Midlands** where there have been examples of smaller producers leaving the industry and finding it more profitable to rent their potato land and stores to larger growers, rather than continuing in an uncertain industry which continues to move towards fewer but larger producers. In the **West Midlands,** ex-farm trade has been extremely poor with potato prices at around £80/tonne, some £60/tonne lower than in 2014. In the **South West**, specialist potato seed growers have contracts to sell seed but are still finding it very slow to move the seed from stores, which isn't surprising as much of last year's main crop still remains in store due to low prices. Some Cornish growers are only planting half the area of 2014.

It is not unusual for farmers to leave brassica crops un-harvested if supply exceeds demand. In the **East of England** instances of apparent oversupply this winter have been observed but we are unsure whether this is a widespread problem. In the **South West**, the mild autumn weather caused cauliflowers planted for the busy December market to peak too soon, resulting in pack houses sourcing the product from Europe in order to meet demand.

Sugar beet (2014) has performed well with high yields and a fixed price. However, high carried over stocks will result in a reduction in crop area in 2015. Most growers plan to continue to produce sugar beet but reduce their area to match quota. Even at an agreed price of £24 per tonne, sugar beet growers were unhappy to find that having voluntarily opted to cut their contracts by 11 per cent, British Sugar extended this to 20 per cent for 2015. The drop in price will be slightly offset by the increase in transport allowance.

The ban on neonicotinoid seed dressing for oilseed rape producers has created a very significant problem of cabbage stem flea beetle (CSFB) infestation. It is apparent that levels of infestation are variable but anecdotal evidence suggests that the problem was greatest:

- In areas known for high proportions of oilseed rape production in the rotation in previous years
- On dry seedbeds when the oilseed rape germinated slowly allowing the pest to develop quickly
- On fields adjacent to overwintering sites for CSFB such as on lucerne crops

Consequently, the greatest problems seem to have been found:

- In Hertfordshire
- In Essex
- On farms with shorter rotations

And the problem has been less apparent:

- Around the Wash and in South Lincolnshire
- In Norfolk
- In Suffolk
- When rain fell early after drilling allowing strong the crop development

Farmers resorted to comprehensive spray programmes in which they made multiple applications of non-selective insecticides. The environmental consequences of replacing a selective seed treatment with multiple non-selective insecticide applications were a concern for some farmers. Of the crops that have successfully survived the winter, we are unsure about the likely level of weevil damage to stems in due course.

Oilseed rape growers are also reporting that because they have been careful with slug pellets near ditches this year they now have lost a fairly uniform strip of about five metres around fields that has been taken off by slugs and snails that have come out of the banks.

2015 Crop Establishment and Development

In the **East of England** the dry autumn and mild winter allowed for particularly good establishment. Due to recent years' experience, a higher seed rate was drilled. However, with good establishment conditions this may not have been necessary this year.

More spring cropping is planned on some farms to counter blackgrass. One farmer in **South Lincolnshire** has introduced a rotation of spring crops, with no winter cropping, in order to reduce the blackgrass population.

An important response of farmers to both the three crop rule and Ecological Focus Area requirement has been to increase production of peas and beans. We understand the Processors and Growers Research Organisation (PGRO) expect that the pulse area will be 33 per cent greater than last year in 2015, but still less than in 2008 /2009. There is divided opinion as to the possible impact on prices of increased pea and bean production, with some farmers concerned that it will be negative.

We have a report of a localised but important problem for farmers in the area near **Brentwood in Essex**. The biggest threat to one farm was the herds of 500 - 1000 wild fallow deer with no control strategy in the area; they have experienced wheat yields being reduced by several tonnes per acre as they ate wheat ears close to harvest.

Due to a relatively dry autumn, conditions in the **East Midlands** were good for drilling and establishment, although some farmers have reported oilseed rape losses due to drought conditions at germination. Farmers have faced the challenge of the neonicotinoid seed dressing ban this year and whilst the full impact remains to be seen, some farmers have reported an increase in spray costs in trying to combat CSFB attacks, particularly in the east and north of the region. The introduction of the greening element of the Basic Payment Scheme (BPS) has this year seen a return to spring cropping, as well as an increase in the growing of peas and beans (as the third crop), which also contribute to the Ecological Focus Area requirements; spring cropping has also given farmers an opportunity to get on top of persistent blackgrass problems.

In contrast to the 2013 harvest, there seems to be a much greater supply of straw in the **East Midlands**, which is helping to bring the price down (from approximately £55/t last year to around £40/t this year), in spite of the market for straw for renewables in the area. This is in part due to more farmers selling rather than chopping their straw, possibly as a result of the earlier harvest and good conditions, meaning that farmers were not so time pressured to get on with autumn cultivations and drilling.

In the **North East** the majority of lowland arable farms had a good autumn sowing period with good crop establishment. The mild weather in late October and early November provided good crop growth, however due to the rainfall in these months there were reduced opportunities for chemical weed control meaning more expensive treatments will be needed in the spring. Due to the new Greening requirements more farmers have decided to increase the area of spring cropping in their rotation for 2015 which is expected to have a negative impact on overall farm profitability. With additional spring cropping, the planting of autumn cover crops to improve soil structure and fertility has been a popular option alongside the more traditional overwintered ploughed land. Lowland arable farmers are particularly worried about the fall in grain prices since harvest and are concerned about the possibility of low prices continuing after the 2015 harvest. There have been concerns over the impact of the neonicotinoid ban on seed dressings for winter oilseed rape with some minor crop losses but with an increased preventative insecticide regime. One **Yorkshire** grower who had drilled 40 hectares of oilseed rape into near perfect ground conditions was very optimistic about the crop but this was short lived after 20 hectares of the crop had to be re-drilled due to cabbage stem flea beetle attack. The mild weather continued into November which caused disease problems in wheat. **One East Riding** grower commented that yellow rust was a real problem but the unsettled wet weather was making spraying very difficult. Some farmers in the region were concerned about the pending ecological focus areas; however one **Yorkshire** grower was taking the opportunity to change his cropping whilst meeting the greening requirements. He has taken the decision to grow cover crops which will benefit the farm by improving the soil structure.

In the **North West** region, the drilling of winter crops into near perfect seed beds was reported around the region with very good establishment of wheat and barley. Wet weather at the end of October and early November stopped drilling with some early drilled crops being waterlogged.

A selection of farmers in the north part of the **West Midlands** reported that their winter oil seed rape was planted in ideal drilling conditions, which has subsequently led to good crop establishment. The crop was planted without the neonicotinoid seed treatment and its absence appears to have had minimal impact on the 2015 crop. The region however, is currently regarded as an area with a relatively low number of cabbage stem flea beetles and the near perfect establishment of the crop also significantly reduced the possible impact of the pest. It has been reported that spring barley drilling has taken place earlier than normal in the northern part of the region.

In the **South East**, cultivations have been completed in a timely manner thanks to favourable weather last autumn and this spring. Most crops have received their first application of Nitrogen. One arable farmer offered the view that the good state of his crops was "unprecedented" across the board going into spring 2015. Early indications of farmers' response to the new 'three crop rule' in the new Basic Payment Scheme taking effect from the 2015 harvest have seen increased areas drilled with spring beans and peas. The anticipated threat from cabbage stem flea beetle in oilseed rape crops, following the ban on neonicotinoids in seed dressing has not materialised to the extent first feared, according to farmers interviewed earlier in the year. Some arable farmers have commented strongly that they no longer think oilseed rape to be economically viable at current prices. There appears to have been a general increase in the use of sprays on winter oilseed rape as a precautionary measure following the neonicotinoid seed dressing ban. Farmers have commented they have been extra vigilant checking emerging oilseed rape crops. Arable farmers have indicated their concern at the loss of certain spray chemicals from the market place which is a major worry to them. Other concerns include worries over low commodity prices and high land rents. There is evidence of higher than normal stocks at this time of year indicating that arable farmers are holding on to grain in the hope that news emerging of poor harvests outside of the UK will push up prices.

In the **South West** region, autumn sown crops generally look well established and have come through the winter period in good order. Winter oilseed rape crops were established before the CSFB could cause problems, so the ban on neonicotinoids will not have had any measurable impact. Given current prices, the value of oilseed rape is now valued by its worth as a break crop rather than its ability to generate direct income. Many farmers are not putting pulses in because of the lack of market for them in the South West.

Horticulture

Among the horticultural industry, characterised by a diverse mix of businesses in terms of crops grown, markets supplied and production methods, we sense reduced optimism among producers. Horticultural co-operators say that this time of the year is always slow ... and "we don't know what the rest of the year will bring".

A recurring concern of producers is the impact of Russian sanctions and concern about some of the "less loyal" supermarkets buying up cheaper mainland EU stocks at the expense of British growers.

Changes in the housing sector, i.e. a move to higher levels of property rental have reduced the market for amenity horticulture products because tenants are less likely to plant a long term garden than home owner occupiers. As demand rises to build more houses, horticultural businesses are considering how best to deal with options offered by developers to purchase land.

But it is unhelpful to generalise about the horticultural industry when other producers continue to innovate and expand their businesses. One former tomato grower has saved his business by producing lettuce for high value sandwich fillings for a premium supermarket.

Reports from bedding plant and hardy nursery stock producers refer to higher light levels during the 2014/15 period and the subsequent increase to yields. Concerns expressed include the view that prices in the market place are being squeezed through increased supermarket involvement with retailing plants. Another view suggests there has been a general reduction in expenditure on gardening as consumers look to make savings following the economic downturn.

Winter salad crops have suffered little from severe frosts and spring planting of these crops is on schedule. The winter vegetable harvest looks to be on a par with last year. Organic veg' box sales were reported by one producer to be up 10% on a year ago.

The 2015 daffodil season is being rated as average by growers in the **South West**, in terms of both yield and quality but prices are down due to overproduction and the strong pound.

Top Fruit

In the **East of England** the top fruit harvest was characterised by high yields, good to reasonable quality and oversupply of fruit juice. Growers experienced greatly reduced demand for Bramley apples. The Russian sanctions have resulted in substantial oversupply of fruit within Europe which is awash with fruit and corresponding price reductions. The greatest concern has been the reduction in price for premium quality fruit as this price reduction is passed directly to the grower or grower cooperative. Farmers are concerned by the absence of compensation in this situation.

In the **West Midlands**, cider apples harvested in 2014 were of a good size with reports of high levels of sugar content. However, good yields coupled with Russia imposing a ban on EU food put downward pressure on prices. Apple trees are currently looking well, with no reports of serious frosts to date although the main risk period is not until May. High tannin apples grown in the region are being sought by continental cider producers and there are reports of a major continental cider manufacturer sounding out growers to arrange new contracts.

Top fruit producers have expressed concern over the continued influence Polish grown apples are having on the UK market following the ban on exports to Russia. According to reports, smaller scale producers are struggling the most to cope and compete with the prices being offered by imports to the London wholesale markets. Recent intelligence is suggesting significant areas of Bramley were grubbed up over winter 2014/15.

Other concerns expressed by growers include worries about lifestyle growers with other income sources entering the market and distorting the market and out-pricing them. Another view being voiced increasingly is that fruit sold by the road side is marketed as being local, which may not be true.

Concern has been expressed about the evaluation of sprays used in agriculture, especially with regard to those affecting endocrine glands in humans. Growers are concerned about future legislation and the potential loss of active ingredients crucial for pest and weed control.

Dairy

The milk price continued to fall in the later part of 2014 and First Milk suppliers were left in a vulnerable position after January's milk cheque was delayed and was followed by the introduction of a new milk pricing system. However, some milk processors have increased their price slightly for March 2015, showing signs of what will hopefully be a recovery of sorts for the milk price offered by all processors.

Some larger, expanding, dairy farms have suffered with the drop in milk price – eighteen months to two years ago the milk price was considerably higher and this gave them the confidence to invest in new milking parlours and other equipment using borrowed money. As a result of the lower milk price, some producers will struggle to service their debt. Dairy cow prices fell following the milk price crisis but while hitting a low point in November, now seem to have recovered somewhat to a level above that of a year ago.

Marks and Spencer announced it would hold its producer price for March 2015 which was good news for their dedicated suppliers but did highlight the gap in the prices paid by various buyers. One **Cheshire** First Milk member commented that he was receiving 21.5 pence per litre for his January milk whilst a Marks and Spencer dedicated supplier would be receiving 34.8 pence per litre for their milk, the difference being 13.3 pence per litre or £130,000 on one million litres.

The farm gate price of organic milk is being sold at a premium over the price of conventionally produced milk at present. Some organic producers have voiced concern that there could be further conversion to organic production and the subsequent undermining of the organic price. One of the major dairy and food processor companies increased the premium paid for organic milk in February, following increased demand through increased consumer expenditure on organic milk in the past 12 months.

The mild climatic conditions that were experienced during the winter have resulted in increased incidences of pneumonia in younger cattle, meaning farmers have incurred extra vet and medicine costs.

North Western dairy farms have been feeding extra protein in their rations to compensate for lower quality silage from their first cuts made last year – the second and subsequent cuts were better quality. The quantity of conserved forage has not been an issue this winter (2014/15).

One **North West** producer whose cows had milked well during the summer and continued to do so into the autumn, predicted yields to be 250 litres per cow higher when compared to the previous year.

Bovine TB (bTB) continued to be a problem in **Cheshire** with many farms under movement restrictions. One dairy producer who had two reactors on consecutive tests explained how upsetting and costly the process was. The farm which traditionally sold calves at two weeks old was prevented from doing so for a six month period, leaving them with a large number of bull calves on farm. The cost of rearing these animals until the farm was bTB clear resulted in low profit margins for these calves. The farmer also took the decision to shoot any Jersey bull calves and poor confirmation Holstein calves to save the costs of rearing them. The additional work load and lack of buildings associated with movement restrictions caused the farmer serious problems. New bTB rules for **Cheshire** were introduced in the New Year. Farmers in the 'bTB edge area' were put on a six monthly testing programme. One farmer with 500 head of stock appreciated the need to stop the spread of bTB but on his size of farm, the testing involves nearly a full week's work. He also had to hire casual help, costing £480 for each six-monthly test.

The continued decrease in the price of milk contributed to the decisions of eleven **Cheshire** dairy farmers to cease milk production between October 2014 and March 2015.

North Eastern dairy farmers fared similarly to all other regions, suffering falls in their milk prices which began to filter into the region's markets with dairy heifers making less money than in the recent past. One farmer was not prepared to pay £2,000 for a heifer when his milk cheque had been reduced by £2,500 per month. Fourteen **North Yorkshire** dairy producers left the industry during October 2014 to March 2015, a fact seemingly aligned with milk price decreases of up to 6 pence per litre. One producer said that he had been thinking about retiring and now couldn't let his overdraft get any bigger; cows were a decent trade and so he sold up. In common with other regions, the lower milk prices did not affect production levels which were significantly higher than in 2013.

The **West Midlands** is a high risk bTB hot spot, with a great many farmers managing their business under movement restrictions. There is real concern about the increased rate at which the number of farms becoming subject to additional testing appears to be increasing. Although cash flow is under pressure as the current cost:price squeeze takes hold, there is evidence of significant investment taking place in the **West Midlands** region among producers who are committed to taking a long term view, usually due to succession planning for the next generation. Anaerobic digesters are believed to be hindering the industry in the northern part of this region, as farmers are finding it increasingly difficult to access additional land to rent at economic levels for growing forage for feeding to the dairy herd.

The Tenant Farmers' Association (TFA) reported in December 2014, that although the **South East** region has fewer dairy farms than other parts of England, it is experiencing a proportionally higher rate of herd dispersals than anywhere else; citing that there were 22 fewer dairy farms (8% less) in the region in November 2014 than the 251 farms at the same point in the previous year.

Dairy farmers in the **South West** have reported milk yields were generally up on previous years due to favourable summer conditions and plentiful stocks of good quality forage. The region has reported a number of large on-farm developments being either cancelled or put on hold due to the prevailing low milk price. However, there are still new expansions and new technologies going ahead, generally for farms that are on a cost of production milk contract.

The **South West** is experiencing an increase in the incidences of bTB with many previously "clear" farms testing positive for the first time. However, farms within the badger cull zones have reported significant improvements in their TB status.

Beef and Sheep

Current industry discussions for lifetime assurance for beef are being hotly debated and would be likely to alter the market. A number of breeders of suckler calves and stores are very resistant to joining the scheme (particularly of the older generation), potentially leading to a divide in the market- with premium prices for life time assured cattle. This potential change to Farm Assurance arrangements could pose a challenge to producers in the future, with proposals that would mean that animals must be in a Farm Assured system from birth, rather than the current situation where an animal can be brought onto an assured farm and after 90 days be sold as a farm assured animal.

Store cattle prices have remained strong throughout the period and fat cattle prices have continued to improve from the lows of last summer. Cereal based finishers continue to enjoy lower input prices on the back of weak cereal prices. In general, suckler cows have wintered well and many are now heading into the calving period in good body condition and farms across the board appear to have fewer barren cows this year.

Good quality cattle continue to sell at high prices thanks to a reasonable balance between supply and demand. Observation on the selling strategy of farmers' show that bigger and heavier cattle are being marketed at livestock markets to maximise returns. Although it has been reported in one particular trade journal earlier in the year that this practice did not necessarily maximise margins, as good carcass finishing quality achieved a higher unit price. Other feedback expressed concern at the current strong sterling to euro exchange rate, which has potential to impact negatively on cattle prices in the next couple of months.

Sheep farmers have reported difficulties with the Animal Reporting and Movement Service (ARAMS) regulations that were launched in April 2014. Its purpose being to note the ear tag numbers of older sheep, although it appears that the uptake of this electronic service has been patchy.

In the **North East** sheep scanning results have once again been good in many flocks with the autumn tupping conditions being almost perfect. However, as reported in the North West (see below) this may not herald a good lambing outcome. Cull and breeding sheep prices held strong through the period but fat and store lamb prices have been somewhat lower than of late and much more variable. One **Yorkshire** producer who sold lambs deadweight struggled with over fat lambs due to a plentiful supply of grass. The farmer was penalised at the abattoir at a rate of between £4 to £5 per head.

North Western sheep producers are reporting many farms with lower than normal lambing percentages being recorded; more so in the lowlands but upland sheep have also been affected. Farmers and vets are putting the lower percentages down to ewes being too fit at tupping, a problem that is usually rare in the uplands. This situation, of low lambing rates due to ewes being "over-condition" at tupping, is thought to be more pronounced in the south of **Cumbria** (than in the north). A mild and wet October and November enabled worm larvae to survive later into the year. One producer who purchased store lambs in September commented that the worm burden was high and he had to drench the lambs twice. Whilst this was time consuming it was also eating into the margin on the lambs.

Autumn sheep sales saw replacement stock hitting some very high prices that do not seem justifiable – possibly a result of high forage stocks, low cereal prices (therefore low feed costs) and some spare funds. The autumn breeding ewe trade was also helped by a good cull ewe trade. One **Lancashire** producer had purchased good Texel cross shearlings at a local breeding sale for £140 but had averaged £101 per head for his cull ewes. He was more than happy to only have to put £39 per head to cull ewes to get a young replacement.

West Midlands' sheep producers have reported that fat lambs are in demand, although some reports suggest that prices may not be as strong as predicted before Christmas, due to the sterling to euro exchange rate negatively affecting the export market. The quality of lambs put forward has also been quite variable, with some being sold before reaching optimum carcass quality. Store lambs have been selling well above £60 per head, with many buyers remaining optimistic that the prime lamb trade will hold firm, while others are more cautious about future prospects. Cull ewe trade is exceptionally strong at present, with prices in excess of £150 being achieved for best quality animals.

Early lambing results have been mainly good with lambs in excellent condition and growing well, though there is little grass to feed them on to date. Trade for this year's lamb crop is strong, with prices exceeding £100 per head for new season lambs.

In the **South East,** feedback on scanning results has been mixed with some reports of low predicted lamb numbers. Reasons for below average ewe scanning results are being mainly attributed to ewes being over fat at tupping last autumn, as a result of a strong flush of grass growth last summer. Early reports on 2015 lambing indicate good progress is being made with fewer losses than in the previous year due to the benevolent early spring weather. The demand for cull ewes and rams is strong with **Ashford Market** reporting that its best ewes were sold in excess of £100 per head. Reports from farmers in **Oxfordshire and Buckinghamshire** have shown even higher prices for cull ewes in the range of £140-150, compared to around £90 per head the previous year. Although there have been reports of fat lambs selling at £4-£5 per head less than had been budgeted for, there is evidence of a good market for store lambs.

In the **South West** it has been reported that early lambing flocks have had good lambing percentages but have little grass to feed them on. The lack of grass has resulted in a greater number of hogs coming to market at a lower price than last year, and fewer new season lambs being marketed (at a higher price than last year). Sheep scanners have reported that spring lambing percentages might be lower than average.

Pigs and Poultry

After a generally profitable period for **pig** farmers, they have been hit by Russian sanctions with an excess of pigmeat in Europe and prices falling since July 2014, both for weaners and finished pigs. As the UK pricing system switches away from the DAPP, farmers face more uncertainty about future contracts. Despite falling feed prices, many pig farmers are locked into contracts fixed at higher prices so as yet aren't feeling the benefit.

Sanctions in Russia are seen as the driver of lower prices, especially for the less popular cuts and sow meat, which traditionally has been absorbed by the Russian market. This has been further exacerbated by currency exchange rates with the strong pound extending the price difference between UK and EU pork which seems unsustainable. However, as supplies tighten in Europe worries in this regard seem to be subsiding.

We sense apprehension about supermarkets, especially Tesco, reducing their product range. Farmers are concerned that with less choice the consumer may move back to cheaper European supplies and the end of certain premium contracts. We understand that Tulip, who supplies most of the supermarkets, is cutting a significant number of products across their ranges as part of ongoing restructuring.

The mild winter has benefitted indoor and outdoor producers alike. For one indoor producer it has meant emptying slurry stores and spreading slurry has been a straightforward task compared with recent years, especially 2012/13 and 2013/14. Another benefit of the better weather conditions is the general improvement in herd health both for indoor and outdoor pig enterprises, especially those of a respiratory nature. However, some farmers were more cautious about how the more variable spring weather may lead to increased incidences of pneumonia.

The threats from Porcine Epidemic Diarrhoea virus (PEDv) and Blue Ear (PRRS – Porcine Reproductive and Respiratory Syndrome) are uppermost in farmer's minds and the need for a high degree of vigilance required to aid biosecurity protocols. The outbreak of African Swine Fever (ASF) in Eastern Europe was also a potential major threat to pig health in England.

Feed costs have continued to fall over the last six months, with farmers reporting an estimated fall of around 5% in their cereal feed prices. These falling costs, however, appear to be slowing down compared with the previous six month period. Soya prices remain high and remain a cause of present and future concern for pig producers, who are responding by favouring cereal feeds. The feed purchasing behaviour of producers sees them watching the market closely and buying on an as required basis at present. Their aim appears to be to buy forward when conditions allow and so take them up to the 2015 harvest.

The fat pig trade in October 2014 remained similar to the previous month with cutters averaging 110p per kg liveweight. Store pigs remained a good trade with 18kg animals making £36 per head. January 2015 saw liveweight pig prices fall further due to the import of cheap pigmeat. Only the best cutting pigs made over £1 per kg liveweight. Stores and weaners followed this trend with 18kg weaners realising £29 per head.
The cull sow trade continued to fall during the period, witnessing an average price of 50p per kg liveweight in March 2015.

Producers have reported problems with haulage to abattoirs over long distances, which are increasing the burden on costs.

The squeeze on margins has led one pig farmer in the **West Midlands** to sourcing his pig semen from Denmark, so as to improve the genetics of the herd and hopefully, its subsequent profitability.

Concern has been raised about the dangers of the porcine epidemic diarrhoea virus reaching the UK. The virus has been prevalent in North America, having spread west from Asia and has been detected at a low level in Eastern Europe.

An outbreak of avian flu was confirmed on an **East Yorkshire poultry** unit in November 2014 with 6000 ducks being slaughtered and a 3km protection zone set up. Fortunately the outbreak was contained and all restrictions in the county were lifted a month later. However, the outbreak had a big impact on exports due to a ban imposed on UK chicken by South Africa. It has also become noticeable since October 2014 that the UK market is being affected by cheaper imports as a result of the pound sterling: euro exchange rate movements.

One producer in the **West Midlands** reported that a 'managed margins scheme' being operated in the region has been very beneficial in managing the cash flow of the business with its formula of linking price and the cost of production. There are also new starter initiatives being launched to encourage the building of more poultry units for the purposes of contract rearing systems. A typical investment into a broiler unit costs approximately £10 per bird, of which the banks will finance 70% and the starter initiative will contribute towards the remaining 30%.

In the **South West**, new biomass boilers continue to be installed on poultry units. However, the cost of wood is greater than gas and thus these ventures are solely dependent on the Renewable Heat Incentive (RHI). However, the RHI payments have been slow to be paid and may (in some cases) be more than a year behind with resultant negative impacts on cash flows.

Egg prices have remained fairly constant over the past 12 months. Lower feed prices following the harvest of 2014 have helped reduce a significant variable cost.

CAP Reform and Environmental Schemes

In early October farmers expressed considerable frustration and confusion about the lack of information regarding the requirements for Environmental Focus Areas, including - how hedges will be counted, widths of buffer strips and the exact definition of fallow land.

The limitations of the new computer system for making applications for the Basic Payment Scheme, has been a concern for large farms. They are faced with a substantial data entry process in order to capture field data information, when they already hold much of the data in electronic format. Farmer frustrations with the new system were exacerbated when in mid-March the computer system was abandoned for 2015 and farmers were told to download hard copy versions of the application form. The announcement that the digital 'mapping tool' to measure farm boundaries is to be replaced with paper based maps and forms has aroused confusion for farmers regarding the BPS. There is great concern that farm businesses could face delays in receiving their payments or being paid the wrong amount, as was the case in 2005, causing severe cash flow problems and a lack of confidence in the Rural Payments Agency.

Numerous farmers throughout England have voiced their concerns and have struggled with the registration process for the BPS. Problems centre on communication issues, in particular poor rural broadband availability.

Farmers who had joined the ELS scheme post 2012 were disappointed that they wouldn't be able to use some of the green options due to double funding. One farmer who had very few spare points was changing his cropping to incorporate a protein crop to meet greening requirements.

Some farmers are concerned over the impact of the new Countryside Stewardship Scheme rules and its move away from being available to all farmers towards a 'bidding' system.

Renewable Energy

In the **East of England** it has been reported that 2014 yields of maize for anaerobic digestion were higher than expected, due to mild sunny autumn weather. Farmers expect carry-over stocks and intend to plant a reduced area with this crop in 2015.

Investment in solar panels for new free range chicken sheds seems to be attractive both to add income and to reduce costs on running the shed ventilation etc.

Leading horticultural businesses continue to innovate and are showing considerable interest in new cold store technologies and solar panels.

In the **South East,** large field scale solar farms have become an increasingly familiar sight as the reduction in subsidy received at the end of March 2015 gets closer and which has accelerated the completion of installations. However, success in obtaining planning permission for large solar parks has been reported as very variable within the region. The result of which has seen the clustering of installations in some areas and a complete absence of them in other areas. There continues to be concern among some farmers over renewable energy projects taking land out of food production

Rents

In the **East of England** it has been observed that some FBS co-operators have given up rented land in a bid to improve farm profitability and there has been a general reduced interest in farm expansion.

Rent reviews being undertaken on tenanted farms continue to see demands for significant hikes to current rent levels.

Farmers hoping to utilise the new Permitted Development Rights for redundant farm buildings have been active in submitting planning applications. Arguably, most of the buildings in question would be better described as under-used rather than redundant. We are aware of a farm in the **East of England** that is ceasing pig production in order to free up buildings to convert to commercial use.

Finance

Following a sustained period of capital investment, farmers in the **East of England** now have less money to invest, mainly because of lower commodity prices but also because large tax bills are looming for some from the period of higher crop prices.

Farmers have expressed frustration in that capital allowances for machinery purchase are now very good but they have little money available to utilise the allowances (despite some excellent yields from 2014 harvest).

The continued strengthening of the pound against Euro trading partners continues to be of concern as it not only reduces export competitiveness but also goes to reduce the effective value of exchange rate determined CAP payments. In the light of Eurozone quantitative easing this situation is likely to continue the strengthening of the pound.

In contrast to six months ago there are indications from farmers that there has been a slight easing of the financial restrictions on lending to the agricultural sector by the major banks. There is also evidence of banks ring fencing money for overdraft facilities for later this year in anticipation of late payments of the BPS.