

RBWM Rural Forum

25th March 2013

Farming Overview

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Dairy Sector



Dairy Sector

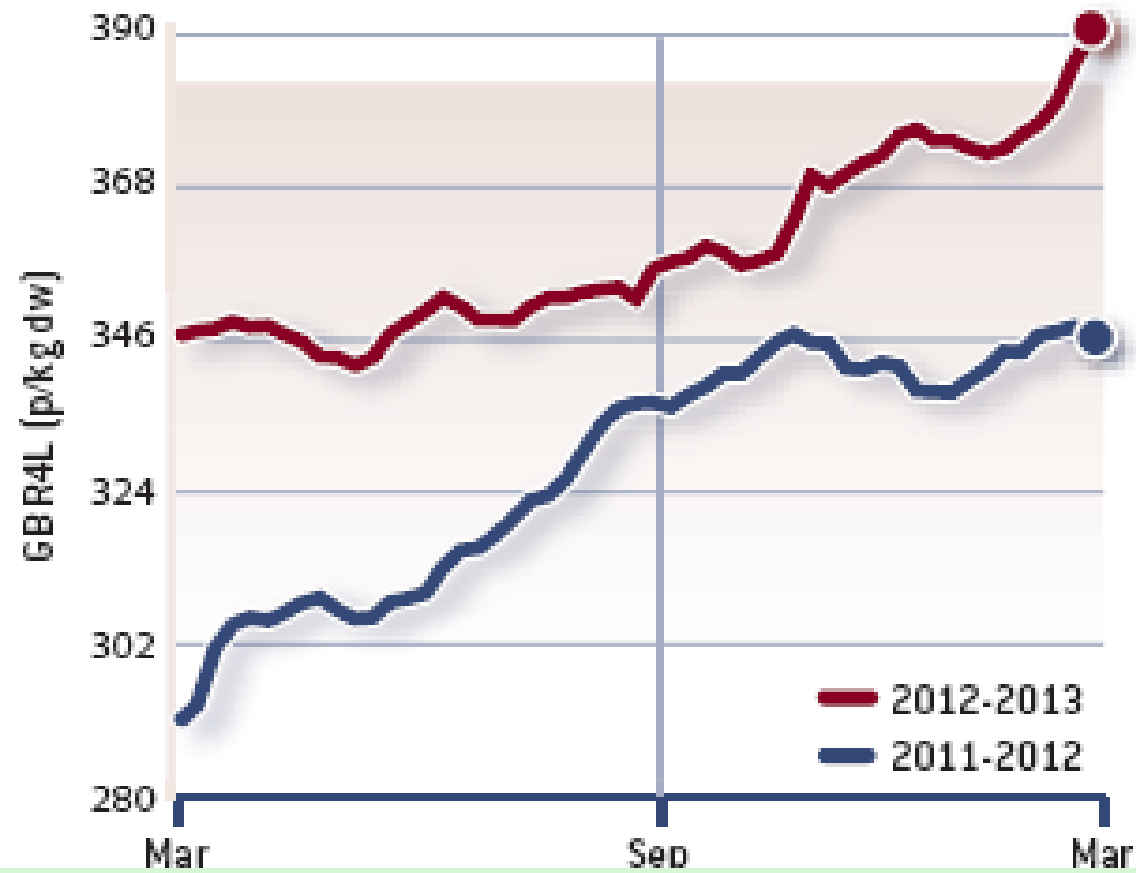
- New Dairy Code of Practice introduced in September 2012
 - To enhance producer's basic rights e.g. more timely notification of price changes
 - Full implementation date: 1st April 2013
- All the major companies are complying with the code but many are going way beyond that.
- “It has moved much further than I would have expected given the scale of what's involved, and much further than any other country in the EU” Jim Begg – Dairy UK Director General

Beef Sector



Beef Sector

FINISHED CATTLE Year-on-year comparison



Source: Farmers Weekly Interactive

Beef Sector

- Beef supplies continued to be tight and there is strong demand for assured beef
- Outlook for the coming weeks looks good too with the weaker value of Sterling against Euro making EU imports less attractive.
- Cow prices have also held well with demand for manufacturing beef still strong.
- In the store markets, prices remained firm too on the back of good finished prices.
- Beef rearing calves for dairy systems are also performing well although Holstein bulls were at their lowest level since April 2011 in February, likely to be due to poor finishing conditions and strong cereal prices.
- Increased interest in Farm Shop / Local Sales on the back of the Horse Meat Scandal.

Sheep Sector



Sheep Sector

FINISHED LAMBS Year-on-year comparison



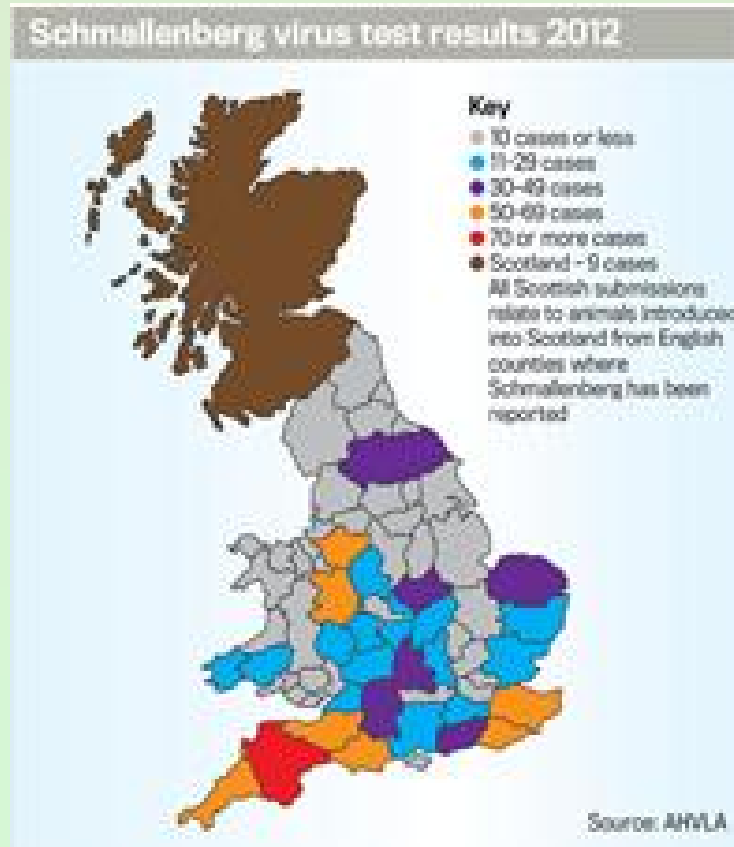
Source: Farmers Weekly Interactive

Sheep Sector

- Sheep prices, just like cattle prices, remain buoyant with live weight trade continuing to achieve strong prices around the country.
- On Wednesday 13th March, the live weight SQQ stood at over 200p/kg, a first since July last year.
 - Yet again, the Euro / Sterling exchange rate is helping the market as demand remains firm.
- Poor weather forecast coupled with Easter prices could continue to respond as processors demand more supplies ahead of the peak procurement period.
 - However, poor weather may mean farmers are quick to sell lambs thus flooding the market and decreasing the price.
- In the deadweight market, prices are rebounding but are certainly down on last year as the SQQ rose over the 400p/kg mark for the first time since September.

Schmallenberg Virus

- Schmallenberg virus continues to be a concern
- Spread by midge from Europe since 2011
- Devastating effects in individual circumstances



Bovine TB

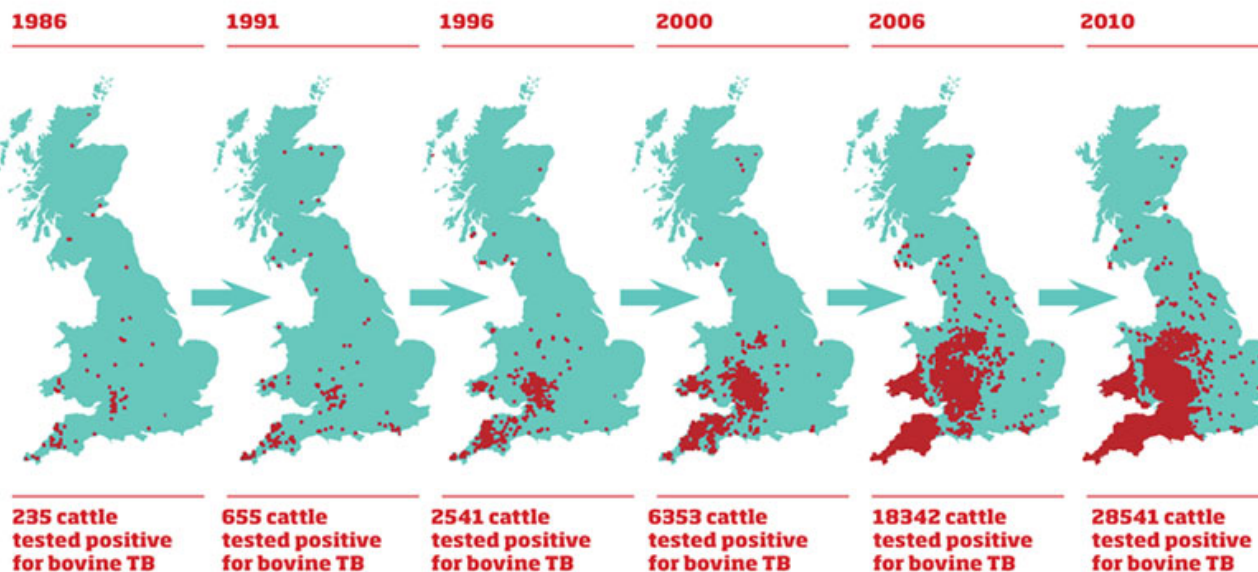
- Pilot cull postponed last autumn
- Potential cost to taxpayer of £1bn over next decade if left unchecked
- 10% increase in compulsory slaughtering of cattle last year – 3rd worst year on record
 - 38,010 cattle were killed in 2012
- 5,171 new herds infected with TB last year: Highest ever amount.
- Tighter cattle controls introduced last July appear not to have had an effect
- All control options have to be considered including reducing the reservoir in wildlife to prevent infection happening.
- Pilot culls in west Gloucestershire and west Somerset going ahead this summer

Bovine TB

Bovine TB

National spread since 1986 Number of cases*

*A case is a reactor in a confirmed (now "OTF Withdrawn") incident or a slaughterhouse case.



Arable Sector

- Wheat plantings down by 500,000ha ~ 25%.
- This situation exacerbated by:
 - Poor establishment, shortage of spring seed, and the coldest March temperatures in 50 years.















Environment Agency

- Huge problem with lack of waterway maintenance exacerbating flooding / drainage problems.
- “In many areas, Environment Agency teams routinely dredge and clear channels to improve their ability to carry increased river flows. We are targeting our investment in flood defence maintenance where it will have the best outcomes.”
- The Chief Executive of the EA has pledged to work more closely with farmers and landowners to address the horrendous problems on farms caused by flooding.
- “Farmers are saying quite clearly that they are prepared to look after rivers and undertake additional drainage on their farm but they are prevented by additional regulations aimed at protecting habitats.
 - Surely we can do both?



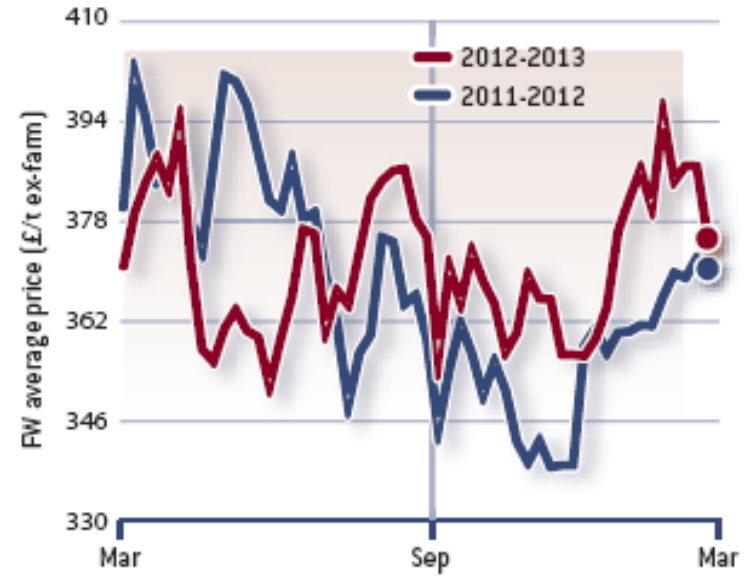


Arable Sector

FEED WHEAT
Year-on-year comparison



OILSEED RAPE
Year-on-year comparison



Source: Farmers Weekly Interactive

Arable Sector

- Continued volatility based on world supply and demand, currency and financial sector activity
- Prices generally down in last few weeks on lack of bullish trading news
- Recent IMF study suggests that:
 - 1/3rd of commodity price movements are caused by market news
 - 2/3rd due to computer based fund trading programs
- Feed grains fairly well supported due to there being similar cold conditions to what we are experiencing, in Europe and North America
 - Late plantings of new crop could impact on yield, delay early harvest supply, and if it continues, the cold could threaten the yield potential of winter plantings
- The benefit of this in the UK has been limited due to the effect of the weakening Euro – much caused by the issues in Cyprus. The 2.5% decrease in the Euro's value equates to about a £5 decrease in the value of UK wheat
- This means that UK wheat is now competitive to export but the relatively poor quality of last year's harvest means it is not as straight forward as that.

CAP Reform

- New CAP likely to run from 2015
- Final agreement intended by end of June
- Final Negotiations re:
 - Greening flexibility
 - Greening Penalties
 - Coupling
 - Move to a flat rate payment by 2019
 - Flexibility between pillars
 - Sugar
 - Double Funding
 - Capping
 - Cross compliance Penalties
 - Young Entrants Scheme

March 2013 Budget

- “New employment allowance to cut national insurance bills by £2,000 for every firm will benefit around 40,000 farm businesses in England and Wales that employ farm workers.
- “The cancellation of the fuel duty rise in September will help businesses across the economy, including food and farming industries that have been struggling to absorb rising fuel costs.
- Abolishing the beer tax escalator is positive given the huge importance of the beer industry to our rural economy; every one job in brewing supports a further job in agriculture.
- News that the government is committing over £1.6bn during the next ten years to its’ Industrial Strategy. This includes £500m for sectors where the UK has a comparative global advantage, including agricultural technology, with the aim of meeting the challenge of harnessing agricultural science to achieve sustainable improvement of agriculture in the UK and overseas.
- "At home, there remains an opportunity to expand our share of domestic markets as we witness unprecedented levels of awareness of food provenance and origin in the wake of the horsemeat scandal.
- The new Annual Investment Allowances of last Autumn’s budget have been welcomed facilitating positive reinvestment in plant and machinery.
 - Equivalent measures for farm buildings and infrastructure would be the next logical step: It is capital investment which is the real trigger for meeting the long term challenge of food security.”

Summary

- 2013 Harvest even more compromised than stated last autumn!
Long term effects even more pertinent.
- Very real effects on overall UK food production: Food prices are rising
- Poor or negative margins in all sectors compounded going forward by the cost of remedying the effects of the wet weather.
- Appropriate diversified income streams even more vital alongside the core agricultural business to bolster farm viability and the rural economy as a whole
 - Maintain the delivery of high standards of stewardship in our famed British countryside



