East of England Region Commentary 2010/2011

This report includes data collected from the Farm Business Survey for the 2010 to 2011 financial year, relating to the 2010 crop harvest.

Please note that the classification of farms has been revised this year meaning that these results are not directly comparable with those published in earlier statistical notices. Please see the explanatory document at http://www.defra.gov.uk/statistics/foodfarm/farmmanage/fbs/ for further details of these changes. Commentary in this report therefore draws upon the appropriate table from http://www.farmbusinesssurvey.co.uk/regional/ for 2010/11 plus Farm Accounts in England for 2009/10 where applicable
http://www.defra.gov.uk/statistics/foodfarm/farmmanage/fbs/publications/farmaccounts/farm-accounts-2011/

The Farm Business Survey is conducted on behalf of, and financed by the Department for Environment, Food and Rural Affairs, and the data collected in it are Crown Copyright.

Nature of Farming in the region

The majority of the farmed area of the East of England is focussed on combinable crop production, due to its climate, landscape and suitability of soils. In the northern part of the region, fenland and silt soils permit production of sugar beet, potatoes and field scale vegetables. Pig and poultry production is important in rural East Anglia, due to the proximity of production of grain for feed. Horticultural production is concentrated in the proximity of London, Colchester, and to the north of the region. Grazing livestock utilise grassland throughout the East of England, with higher numbers in the area of the Norfolk Broads and in Hertfordshire.

The Norfolk Broads are the East of England's National Park. This designation covers two per cent of the East of England. Areas of Outstanding Natural Beauty (AONBs) account for six per cent of the region (15 per cent across England).

Contribution of farming to the regions economy

The gross output, calculated for agriculture in the East of England in 2010, was £2,969 million, and six per cent higher than in 2009. After deduction of intermediate consumption (effectively annual cash costs), the gross value added (GVA) was £1,016 million[1].

Some 39,903 people were employed in agriculture in the East of England in 2010, this represents a 22 per cent reduction in comparison with 2004[2]. As a share of the total workforce, the agricultural workforce represented about 1.43 per cent of the total. This is a declining share, due to increased productivity in agriculture as well as an increase in economic activity in the region. The population of the East of England was 5.8 million in mid 2009, 4.8 per cent higher than in 2004[3]. At 6.6 per cent, unemployment in the East of England was below the national average of 7.9 per cent.

Contribution of region's farming to farming in England

In 2010, the cropped area of the East of England (excluding bare fallow) was 987,275 hectares, representing a 26 per cent share of the national crop area.

A total of 224 organic producers farmed 19,000 hectares of land in the East of England in 2010. They accounted for just under five per cent of the organic land area and a total of 1.4 per cent of the region was farmed organically. These statistics arguably understate the importance of organic production in the East of England because the high value of organic arable and horticultural crops produced in comparison to extensive grazing livestock systems found elsewhere in England.

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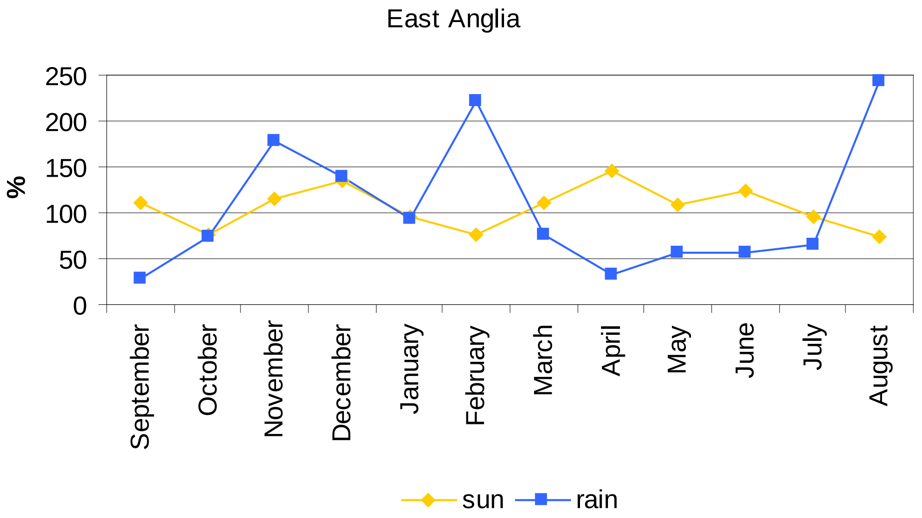
[1] Summary Regional stats Defra York
[2] Defra June Survey
[3] Office for National Statistics, www.ons.gov.uk

2010/2011 FBS year

Weather

Weather statistics, summarised as percentage of usual rainfall and sunshine, are set out in Figure 1 below.

Figure 1

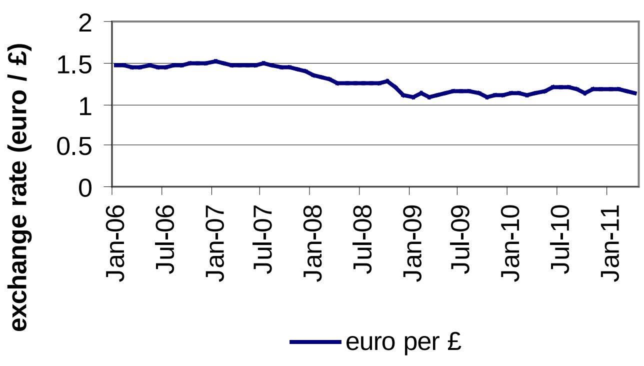


In the East of England, the autumn of 2009 was characterised by favourable drilling conditions. December 2009 and January 2010 were cold. The spring drilling season and growing period proved to be very dry and warm with above sunshine. The dry weather broke abruptly with more than twice the average July rainfall in most regions at the onset of harvest. Damaging frosts in December 2010 and January 2011 resulted in the loss of sugar beet crops and provided difficult conditions for crop harvesting.

Economic Background

Figure 2 shows that the euro to sterling exchange rate was relatively stable in 2010 /2011.

Figure 2 Euro /Sterling Exchange Rate, 2006 to 2010



Single Payment

In the 2010 Single Payment year, the flat rate element of the payment had risen to 75 per cent and the historic element correspondingly reduced to 25 per cent. Combined EU and UK modulation amounted to 19 per cent. The exchange rate used for converting single payment from euros to sterling at 30 September 2010 was one euro to £0.85995 and about five per cent less favourable than in 2009.

The resulting flat rate payment was £167.97 after modulation. The protein premium was £38.71 after modulation.

For the first time, growers were eligible to apply for allocations of Single Payment Scheme (SPS) entitlements for permanent fruit and vegetable crops, nursery crops and vines for use in the 2010 scheme year. They were valued at the flat rate applicable in the year.

Business

Koch Fertiliser Ltd completed its acquisition of long established fertiliser blender and distributer J & H Bunn Ltd in March 2011.

And the year saw further consolidation in crop protection and wider supply chain. Origin Enterprises plc, the owner of Masstock acquired United Agri Products Ltd in March 2011, subject to approval of the deal by the Office of Fair Trade.

The machinery business, Agco, which is the holder of the Massey Ferguson, Fendt, Challenger and Valtra businesses, took full ownership of the Italian Laverda combine business in November 2010 . This followed the closure of Agco's Dronningborg combine plant in mid 2010.

And, in October 2010, Standen purchased the Salad and Vegetable marketing business, Deptford Marketing.

In October 2010, the Office of Fair Trading cleared the merger of Bernard Matthews and Lincolnshire Turkeys following its acquisition in May[4].

Structural Change in Sugar Beet Production

In the summer of 2010, the Sugar Beet Outgoers Scheme 2011 attracted considerable demand from buyers. Early sales of Contract Tonneage Entitlement were made at prices in excess of £30 per tonne, but these fell to under £20 per tonne in later trading. However, under the terms of the scheme, buyers received an additional 50 per cent of entitlement from British Sugar, so at £30 per tonne, the effective purchase price was £20 per tonne.

In 2010, British Sugar rented 3,300 hectares of land with the aim of producing 200,000 tonnes of sugar beet.

4 Farmers Weekly Interactive, www.fwi.co.uk 7 October 2010

Key events and Issues

Grain and Produce Infrastructure

As well as grain storage, investment was made in export shipping infrastructure. Gleadell Agriculture opened their two hectare, £5 million grain terminal at Great Yarmouth in July 2010. The facility has a ship loader with the capacity to load a 25,000 tonne cargo in a day, as well as an 18,000 tonne flat store.

The Gleadell Agriculture Facility at Great Yarmouth Source: Gleadell Agriculture

Glencore established a strategic alliance with Fengrain to provide a grain facility to handle wheat from the area around Ely, Cambridgeshire, for use at the Ensus bioethanol plant on Teesside.

The year also saw the development of a supply chain initiative as Muntons, the Stowmarket based maltster set up a supply arrangement with farmers, Openfield and Dewing Grain[5].

Following its 2010 investment in the new state of the art cold storage facility at Wisbech with Partner Logistics, Pinguin Lutosa Food Group invested in a new frozen bean production line at Kings Lynn and announced the development of a 10.000 pallet space cold store, a high speed freezing production line and a new development centre.

In September 2010, the British Potato Council opened its renamed Sutton Bridge Research Centre following investment in a £600,000 research facility.

Drainage

In April 2011, Middle Level Commissioners opened the £38 million St Germans Pumping Station, the largest flood defence pumping station in the UK[6]. It is located at Wiggenhall St Germans at the intersection of the Middle Level Main Drain and the River Nene. This facility, which replaces the original station that had been built in 1934 has a maximum capacity of 7,110 tonnes per minute (although efficient control software in place should ensure that the station will not have to run at maximum capacity), in layman's terms this is the equivalent to emptying an Olympic swimming pool in 25 seconds.

[5] Eastern Daily Press, www.edp24.co.uk 12 June 2010
[6] Middle Level Commissioners, www.middlelevel.gov.uk

St Germans Pumping Station Source: Middle Level Commissioners

The 70,000 hectare Middle Level catchment, which includes the towns of Chatteris, March, Ramsey and Whittlesey, is the largest pumped drainage catchment in the UK. It comprised of 27 Internal Drainage Boards and seven private water districts.

Livestock

In September 2010, C & K Meats opened the revamped Lamberts abattoir at Eye[7]. The project received grant aid from EEDA. This multi-species abattoir has the capacity to slaughter 221,000 pigs, cattle and sheep in a year[8]. The opening of a new abattoir was especially welcome as some eight abattoirs had been lost in the Eastern Counties in the last ten years.

Earlier in the year, an abattoir at Purleigh, Essex closed following the loss of a major German customer[9].

The Prepared Food Division of 2 Sisters Food Group commissioned a £30 million breaded chicken facility at Thetford in Norfolk in February 2011[10].

Renewable Energy

Anaerobic digestion (AD) created an opportunity for individual farm businesses and processors during the year. Future Biogas is a Norfolk based business that that rents land from 23 farmers for maize production . Cropping of 730 hectares of the crop, grown within 10 miles of the business's base at Felthorpe, was ensiled in 2010 for use in the AD plant.

[7] Meat Trade News Daily, www.meattradenewsdaily.co.uk 25 September 2010
[8] Eastern Daily Press, www.edp24.co.uk 20 September 2010
[9] FoodEast, www.foodeast.co August 2010
[10] Farmers Weekly, 18 February 2011

In 2011, Cambridgeshire based Fenmarc Produce invested in AD plant that will have full operational capacity of 1.2 MW, and use 30,000 tonnes per year of potato waste as its feedstock .

Policy developments

Local Enterprise Partnerships (LEPs) were announced by the Government in November 2010. They will replace the Regional Development Agencies, including the East of England Development (EEDA) when they close in March 2012. The mission for the LEPs is set out in Box 1 below.

Box 1 Local Enterprise Partnerships[11]

> Government is offering local areas the opportunity to take control of their future economic development. Local Enterprise Partnerships are locally-owned partnerships between local authorities and businesses and play a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. They are also a key vehicle in delivering Government objectives for economic growth and decentralisation, whilst also providing a means for local authorities to work together with business in order to quicken the economic recovery.

In the East of England, the LEPs will include 'Greater Cambridge and Greater Peterborough' and 'New Anglia' as well as the Northern part of an LEP for 'East Sussex, Essex, Kent, Medway, Southend, Thurrock'.

Defra Structural Reform Plan

In July 2010, and ahead of the autumn Spending Review, Defra set out its draft Structural Reform Plan describing its policy priorities. These were later incorporated into its 2011 to 2015 Business Plan and its key elements are set out in Box 2 below.

Box 2 Defra Structural Reform Priorities, 2010

> 1 Support and develop British farming and encourage sustainable food production
>
> Help to enhance the competitiveness and resilience of the whole food chain, including farms and the fish industry, to help ensure a secure, environmentally sustainable and healthy supply of food with improved standards of animal welfare
>
> 2 Help to enhance the environment and biodiversity to improve quality of life
>
> Enhance and protect the natural environment, including biodiversity and the marine environment, by reducing pollution, mitigating greenhouse gas emissions, and preventing habitat loss and degradation
>
> 3 Support a strong and sustainable green economy, resilient to climate change
>
> Help to create the conditions in which businesses can innovate, invest and grow; encourage businesses, people and communities to manage and use natural resources sustainably and to reduce waste; work to ensure that the UK economy is resilient to climate change; and enhance rural communities
>
> Other major responsibilities
>
> Prepare for and manage risk from animal and plant disease

[11] Communities and Local Government, www.communities.gov.uk

Protect the environment, society and the economy from the risks of animal and plant disease through a range of controls, surveillance and horizon-scanning activities that help us understand the risks and maintain proportionate management responses

Prepare for and manage risk from flood and other environmental emergencies

Maintain an effective, resilient and robust capability to respond to the full range of environmental emergencies, including by reducing the threat of flooding and coastal erosion by understanding and managing the risks

Spending Review

The HM Treasury Spending Review of October 2010 described the Coalition Government's plan to 'carry out Britain's unavoidable deficit reduction plan'. The plan was introduced after Britain's deficit reached its greatest level in its peacetime history and 'the state borrowed one pound for every four it spent'. All government were faced with cuts and Defra was required to reduce its running costs by £174 million over the Spending Review period.

Under the terms of the review, Defra were required to make better use of available European Union funding to save £66 million on the Rural Development Programme for England whilst ensuring that the scheme remains open to all farmers. Defra also sought to increase the proportion of the programme spent through schemes which have the most beneficial impact on the environment.

Defra cut the number of Arms Length Bodies, commonly known as quangos, that it funds from 92 to 39 and reformed others. The Environment Agency and Natural England were required to drastically reduce their back office costs. The fate of some of the bodies is summarised in Table 1.

Table 1 Fate of Selected Defra Arms Length Bodies under the Spending Review

Arms Length Body	Proposed reform
Advisory Committee on Organic Standards	Abolish body and functions
Advisory Committee on Packaging	Reconstitute as a committee of experts
Advisory Committee on Pesticides	Reconstitute as a committee of experts
Advisory Committee on Releases to the Environment	Retain on grounds of performing a technical function which should remain independent of Government
Agriculture and Horticulture Development Board	Under consideration. Initiate debate with industry about future of body, including non-public sector options
Agricultural Dwelling House Advisory Committees (x16)	Abolish bodies and functions, as previously announced
Agricultural Land Tribunal.	Under consideration
Agricultural Wages Board for England and Wales	Abolish and bring agricultural workers under national minimum wages legislation, as previously announced
Agricultural Wages Committees (x15)	Abolish bodies and functions, as previously announced
Animal Health and Welfare Strategy England Implementation Group	Abolish body and functions
British Wool Marketing Board	Retain on grounds of performing a technical function which should remain independent of Government
Broads Authority Retain	
Commission for Rural Communities	Abolish and reinforce Government's capacity to reflect rural interests in policies and programmes, as previously announced
Committee on Agricultural Valuation	Abolish body and functions, as previously announced
Commons Commissioners	Abolish body and functions, as previously announced
Environment Agency	Retain and substantially reform
Farm Animal Welfare Council	Reconstitute as a committee of experts
Food from Britain	Abolish body and functions
Forestry Commission	Retain and substantially reform
Gangmasters Licensing Authority	Retain on grounds of impartiality
Independent Agricultural Appeals Panel	Retain on grounds of impartiality
Internal Drainage Boards (x 160)	Retain and substantially reform
Joint Nature Conservation Committee	Retain on grounds of impartiality
National Forest Company	Retain
National Parks Authorities (x9)	Retain but review governance and increase accountability
National Standing Committee on Farm Animal Genetic	Reconstitute as a committee of experts
Natural England	Retain and substantially reform
Pesticide Residues Committee	Reconstitute as a committee of experts
Plant Varieties and Seeds Tribunal	Under consideration
Science Advisory Council	Retain on grounds of independence, and broaden remit to strengthen co-ordination of all Defra science advice
Spongiform Encephalopathy Advisory Committee	Abolish body and transfer functions to Department of Health
Veterinary Products Committee	Retain
Veterinary Residues Committee	Reconstitute as a committee of experts

Environmental Stewardship

Five years after the implantation of Entry Level Stewardship (ELS), some 12,600 agreements were due for renewal from the start of August 2010. The threshold for participation was raised because crop protection, nutrient, manure and soil management plans were no longer options, so growers were required to take up in-field options. In April 2010, Natural England reported that 89 per cent of participants intended to renew their agreements.

New applications to Higher Level Stewardship (HLS) were suspended in October 2010 following the Spending Review. Budget restrictions determined that some applications were given a deferred start date of April 2011.

Sustainable Intensification

The year brought widespread political recognition that agriculture in the UK and elsewhere in the world would need to change to meet the demands of a rising world population. The Foresight report 'The Future of Food and Farming: Challenges and Choices of Global Sustainability' aimed to explore the pressures on the global food system between now and 2050 and identify the decisions that policy makers need to make' 'to ensure that a global population rising to nine billion or more can be fed sustainably and equitably'. The report indicated that, depending on prevailing conditions, a 50 to 100 per cent increase in food production will be needed worldwide by 2050. In response to the report, Caroline Spelman stated that Defra will "work in partnership with our whole food chain including consumers to ensure the UK leads the way on sustainable intensification of agriculture".

At the very start of 2011, Caroline Spelman had introduced the concept of sustainable intensification in her speech at the Oxford Farming Conference describing the approach in which "fewer agricultural inputs results in less cost to you and the environment".

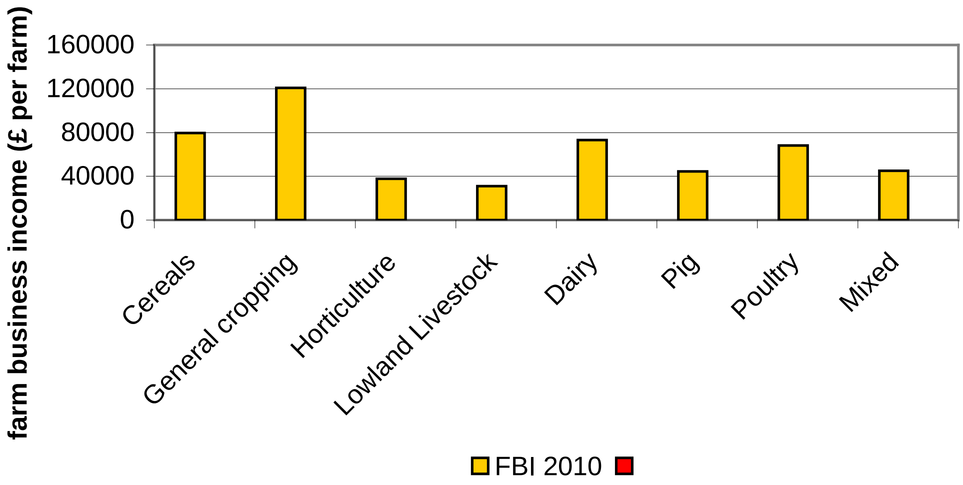
FBS Results by Farm Type 2010/2011

All Farm Analysis

Overview

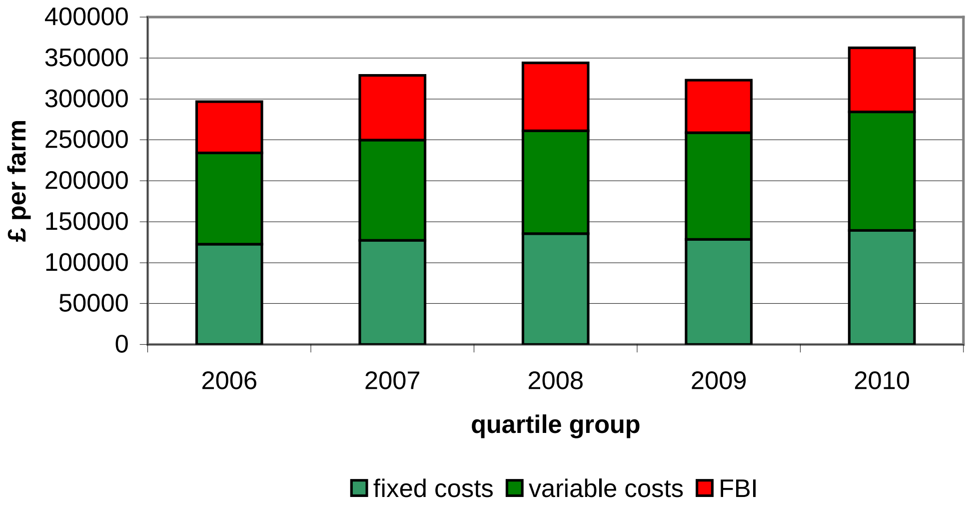
As an index of agricultural performance, the results at Region reports Table 5 shows performance trends from 2004 to 2010. The average farm or horticultural unit attained a Farm Business Income (FBI) of £78,190 in 2010, this is 22 per cent higher than the 2009 FBI of £64,050 per farm. The FBI by farm type is summarised in Figure 3.

Figure 3 FBI by Farm Type 2010 /2011



Because many farms in the East of England are inherently profitable, the average FBI of farms in the East of England was higher than any other region and 43 per cent higher than the average for England. Figure 4 shows the turnover of the average farm business as the total height of the column. Costs are shown within the column and shaded green. The remaining section of the column, shaded in red, is the FBI. It can be seen that both turnover and costs were higher in 2010 than in previous years.

Figure 4 Output, Fixed Costs, Variable Costs and FBI, All Farms 2006 /2007 to 2010 /2011



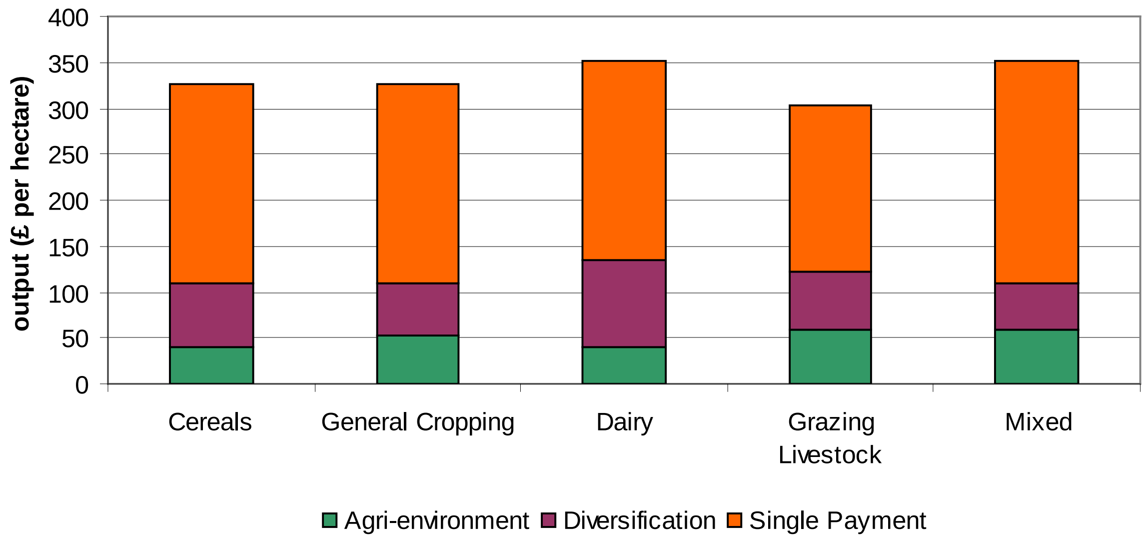
Because of a change from Standard Labour Requirement to the use of Standard Output in the classification of farm type, the groupings of farms differ between 2010 and 2009. For this reason, it is not feasible to make comparisons across years within farm type groupings.

Diversification

The year saw continued growth in total output from enterprises diversified out of agriculture, with output from all farms rising to £13,984 per farm, an increase of 3.9 per cent on the previous year. The rate of growth in output slowed in comparison to recent years (6.7 per cent in 2009/10), perhaps reflecting recessionary pressures in the general economy. Analysis of the component parts of diversification does however reveal differing fortunes. While rental income rose 8.5 per cent and output from tourism and recreation by 1.6 per cent, there was a fall in output from food processing and retailing of 1.4 per cent. For the second year running there was also an apparent drop in income from both agricultural and non agricultural contracting. This may reflect a situation where some farmers, who have been unable to raise contract charges in line with rising mechanisation costs, view the sector as unrewarding.

As revealed in Figure 5, the significance of output from diversification in 2010/11 varies greatly across farm types, while being least significant on specialist pig and specialist poultry farms. Proportionally, dairy farms had the highest level of output from food processing and retailing. Cereal and Grazing Livestock farms the highest level of rental income. Grazing Livestock farms proportionally also had the highest level of output from tourism and recreation.

Figure 5 Output From Agri-environment, Diversification and Single Payment by Farm Type



Cost allocation to enterprises diversified out of agriculture allows the margin on these activities to be examined. In 2010/11 the margin on all farms rose to £8,048 an increase of 7.6 per cent on the previous year and equated to 10.3 per cent of farm business income. However, the significance of this margin varies greatly across farm types, accounting for 40 per cent of FBI on Horticulture units, 18 per cent on both Dairy and Grazing Livestock farms but only 6 per cent of FBI on Specialist Pig farms.

Cereals

The 2010 harvest was characterised by high commodity prices. From a price of around £155 per tonne at harvest, the wheat price reached about £195 per tonne in January 2011. Scarcity of straw for bedding across England buoyed prices and wheat straw traded at around £43 to £70 per tonne in July 2010; these prices were typically ten per cent higher than in 2009.

A significant tonnage of the malting barley crop was sold before harvest at £90 to £100 per tonne. Wet harvest conditions and concern for the malting barley ensured higher prices for the malting barley crop which reached £200 per tonne in January.

Oilseeds

At 2.23 million tonnes, the 2010 oilseed rape harvest was the largest on record. The price reached £343 per tonne, the highest value for two years, in November 2010. Then, in the context of strong global demand for oilseeds, and concerns about the South American crop, the oilseed rape crop reached £400 per tonne in mid December and peaked at £480 per tonne for forward sales made in January. By February 2011, values fell to around £383 per tonne on news of increased worldwide crop availability.

Peas and Beans

Dry cold conditions in the early spring prevented strong early growth of the pea crop in 2010. At harvest, feed pea prices were typically around £170 per tonne. Marrowfats traded for about £220 per tonne (closer to £300 per tonne in 2009). For reasons of quality, pea values in the winter of 2010/2011 were lower than those of beans.

Dry summer conditions favoured bean production, with a reduction in incidence of rust disease, and consequential improvement in bean quality. Bean prices at harvest were around £165 per tonne, rising to £180 per tonne in September, when beans for human consumption averaged around £200 per tonne. The feed price reached £240 per tonne in January in response to increased demand and concerns that farm stocks might be low.

Sugar Beet

The 2010 sugar beet price for 2010 was a fixed price of £26 per tonne with early delivery bonus and transport allowance of £5.11 per tonne; this was unchanged on the previous year. Some 800,000 tonnes of additional temporary entitlement were paid at £26 per tonne with transport allowance of £3.97 per tonne. Early harvested beet showed typical sugar levels of 16.6 per cent, but these rose to 17 per cent in late October. Levels later peaked at 18.45 per cent at the Newark factory. But the onset of frost then reduced sugar content.

For the first time, the majority of the crop was drilled with Rhizomania resistant varieties. Cold wet seedbeds provided crops with a poor start and drilling was later than usual, by an average of five days at the Wissington factory. The developing crop then faced dry conditions in April, May and June with the crop at Brooms Barn receiving only 40 per cent of the usual rainfall.

The first frosts reached -12ºC in some beet growing areas in the second week of December. British Sugar advised growers to keep beet in the ground and harvest in time to deliver beet to factories, the roots can be damaged at temperatures below -3ºC. Some crops benefitted from an insulating layer of snow that protected the crop from damage. The frosts returned in January and at 15 January, up to 25 per cent of the crop remained unharvested. On 19 January, British Sugar changed their delivery strategy to secure the best quality crops first. The crops that were in better condition were located in coastal areas, benefitted from good foliage cover before the frosts or from snow cover. Then on 24 January, the company ceased processing of crops grown in the Newark factory area, the factory was then used to process beet from other areas. In late January, effective processing of good quality beet from the Wissington and Bury St Edmunds factory areas allowed the resumption of processing of good quality beet from the Newark area.

Growers in all beet growing areas were faced with the problem of how to dispose of the unharvested crop. The main options were destruction in the field or to harvest the crop for stockfeed.

Potatoes

Wet weather conditions determined that the potato harvest was slow and only 40 per cent of the crop lifted by 1 October 2010. In September potatoes traded at around £151 per tonne. Through the autumn of 2010, packing and processing potato prices were typically £50 per tonne higher than in 2009 in response to reduced supply and increased demand. Disruption to transport of potatoes in the wintery weather of December 2010 resulted in prices as high as £170 per tonne. Prices were buoyed by a 4.4 per cent reduction in production by the five largest EU producers, Belgium, Germany, France, Holland and the UK. Total UK production was reported at 5.8 million tonnes (6.2 million in 2009).

Vegetables

Among vegetable producers, the year proved to be difficult for brassica producers, despite a small rise in consumption. Periods of oversupply proved to be costly, and growers were faced with dry conditions for crop establishment. Further difficulties have arisen from the withdrawal of the commonly used herbicide trifluralin. Then in early 2011, the freeze resulted in the losses of crops estimated at £7 million for cauliflowers and £5 million for Brussels sprouts. Despite all of these challenges, there was favourable news of an increase in cabbage sales of 500,000 in the three months to December 2010, partly due to the wider choice of cabbage varieties available to consumers.

Rents

Because only a proportion of farm rents are reviewed each year, changes in rents only become apparent in FBS profit and loss reports over time. Those rents reviewed in 2010 typically increased by around 20 per cent[12].

Balance Sheets

The trend of rising land prices continued during the year. In early 2010, grade 3 arable land was priced at around £12,350 and rising[13]. The land market was most active in the Eastern counties of England where 43 per cent of the land was marketed. By the spring of 2010, grade 3 land prices had reached £12,900 per hectare. Arable land led the increased price with prime arable land selling for around £14,450 per hectare and farmers remained the predominant buyers. By the autumn of 2010, grade 3 land prices reached £12,800 per hectare. Reduced land prices in Denmark created an opportunity for some of the Danish investors resident in the UK to return and reinvest in Denmark. At the end of 2010, grade 3 arable land in England had reached £13,800 per hectare and in early 2011, the price reached £14,100 per hectare. The residential farmland sector was less buoyant in 2011, reflecting the situation in the broader national housing market[14].

Good quality land in Eastern England continued to command a premium price with land sale values reaching in excess of £20,000 per hectare for land of the highest quality.

There was a strong market for the purchase of Single Payment Entitlements in the spring of 2011 with buyers exceeding sellers[15]. As a result, commercially traded normal Single Payment Entitlement was valued at around £285 per hectare in the spring of 2011[16]. In recent years, FBS calculations had provided a very close indication of actual trade. In 2011, the calculated closing values of Single Payment Entitlement on Cereals farms and General Cropping farms in the East of England were £258 and £268 per hectare respectively and therefore slightly below market levels.

Investment in machinery continued in the year with the result that the closing value was greater than the opening value on all types of farm except Dairy, for which values decreased, and Grazing Livestock, for which values increased. Although UK tractor sales in the year to March 2011 declined by about eight per cent sales in arable regions declined less than those in livestock areas.

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[12] Farmers Weekly, 5 November 2010
[13] Savills Research
[14] RICS Rural Land Market Survey, H1 2011
[15] Farmers Weekly Interactive, www.fwi.co.uk , 13 January 2011
[16] DCFM Quotas Ltd, www.dcfm.com

Nationally, net lending to agriculture, forestry and hunting industries peaked at £12,340 million in November 2010; this was four per cent greater than in November 2009[17]. The implication of this is that the industry as a whole was still able to access credit, although we are aware that this was less easy for farmers without land as security. In the East of England, Cereals, Dairy and Grazing Livestock farms maintained borrowing at similar levels whilst General Cropping and Mixed farms increased their borrowing by 14 and 21 per cent respectively.

Cereals

The average Cereals farm size in the FBS, in the East of England was 176 hectares, of which 51 per cent was cropped with winter wheat and 17 per cent with oilseed rape. The workforce amounted to 1.4 full time equivalents. Livestock activity was negligible on these farms, contributing an average of £25 per hectare. Many farms in the classification would have had no livestock enterprise.

The FBI, for the whole farm, averaged £452 per hectare. Of the total farm output of £1,372 per hectare, £1,045 was derived from agriculture, £218 from the single payment scheme and the balance from agri-environment and diversification activity.

Increased land values were the main contributor to the nine per cent increase in net worth to £9,754 per hectare.

General Cropping

The average farm size in the FBS was 265 hectares. The main crops produced were wheat, at 32 per cent of farm area, and sugar beet, at 16 per cent of farm area. The average General Cropping farm provided employment for 2.7 people including the farmer.

The General Cropping farms generated an FBI of £452 per hectare from an output of £1,766 per hectare. Headline results of the FBI and single payment (£217 per hectare), were very similar to those of the Cereals farms. However, the more intensive General Cropping had an agricultural output of £1,439 but correspondingly higher costs. The General Cropping farms were more engaged with agri-environment activity than Cereals farms, and hence a relatively high output of £52 per hectare. However, diversification output of £57 per hectare was lower on these farms than on Cereals businesses. As seen with the Cereals farms, livestock production was relatively insignificant on general Cropping farms, accounting for output of only £15 per hectare.

The balance sheet of the General Cropping farms was characterised by higher asset values and increased commitment to bank term loans. Overall, net worth increased by seven per cent to £8,863 per hectare.

Horticulture (England)

This commentary is based on the national sample data. Any comparison of horticultural businesses should be made with caution due to the heterogeneity of businesses of this type. The average horticultural business in the survey was 38 hectares. In terms of area, outdoor vegetables, top fruit, outdoor ornamentals, soft fruit and protected crops were grown, some horticultural businesses also produced arable crops.

Horticultural businesses generated an average FBI of £37,681 from an output of £431, 856. At £400,734, horticultural and agricultural output was clearly the predominant business activity. Average output from diversification was £24,000, but this was from a range of sources rather than one generic type of diversification.

The FBS sample in England includes vineyards; the English wine industry continued to expand in 2010/2011. There are currently around 400 vineyards in England and about 100 wineries[18]. National production amounts to around 3 million bottles per year, representing around 0.02 per

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[17] Bank of England Statistics
[18] Horticulture Week, www.hortweek.com 9 July 2010

cent of world production. English wine production is expanding with production doubling every five years.

In common with other businesses, horticultural businesses saw improved asset values at the year end. Net worth increased by three per cent to £613,904 per business.

Lowland Dairy

This year has seen a further six per cent reduction in the number of commercial dairy farms in the East of England (119 farms). This reduction was two per cent greater than the national rate and leaves the region with 1.8 per cent of the total national dairy livestock number (Defra). Despite the continued decline, cumulative UK milk production increased by four per cent in 2010 (Defra).

Data from the Farm Business Survey show that the average East of England dairy farm had a FBI of £73,204. This figure was the highest recorded in any region and 10.5 per cent higher than the national average (Figure 6). Figure 7 shows that the region's average herd size of 141 was very close to the average for England.

The annual average UK farmgate price for milk in the 2010/11 period was 25.14 pence per litre up 5.7per cent on the same period last year (Defra). This increase was partially offset by rising variable and fixed costs.

However, FBS figures show that East of England dairy farms remained competitive with average variable costs at £1,170 per hectare. This was 16 per cent lower than the national average. The biggest contributors were fertilizers at -28per cent, feed and fodder at -13 per cent and contract costs at -33 per cent. Fixed costs, at £1,013 per hectare, were four per cent above the national average.

Figure 6

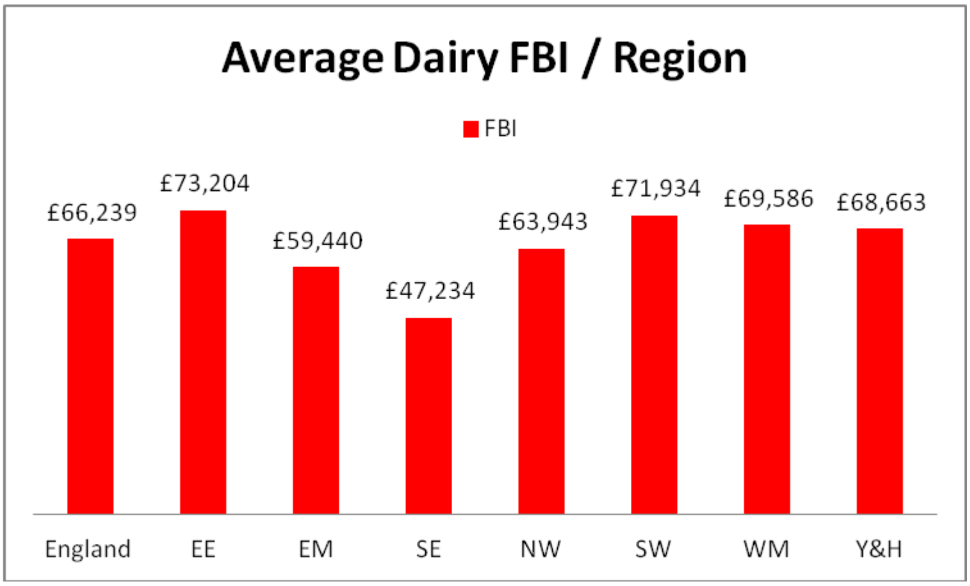


Figure 7

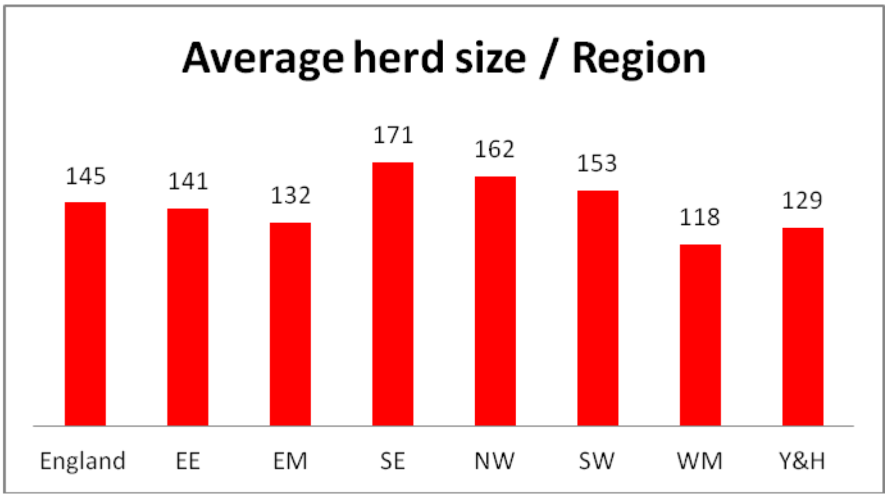
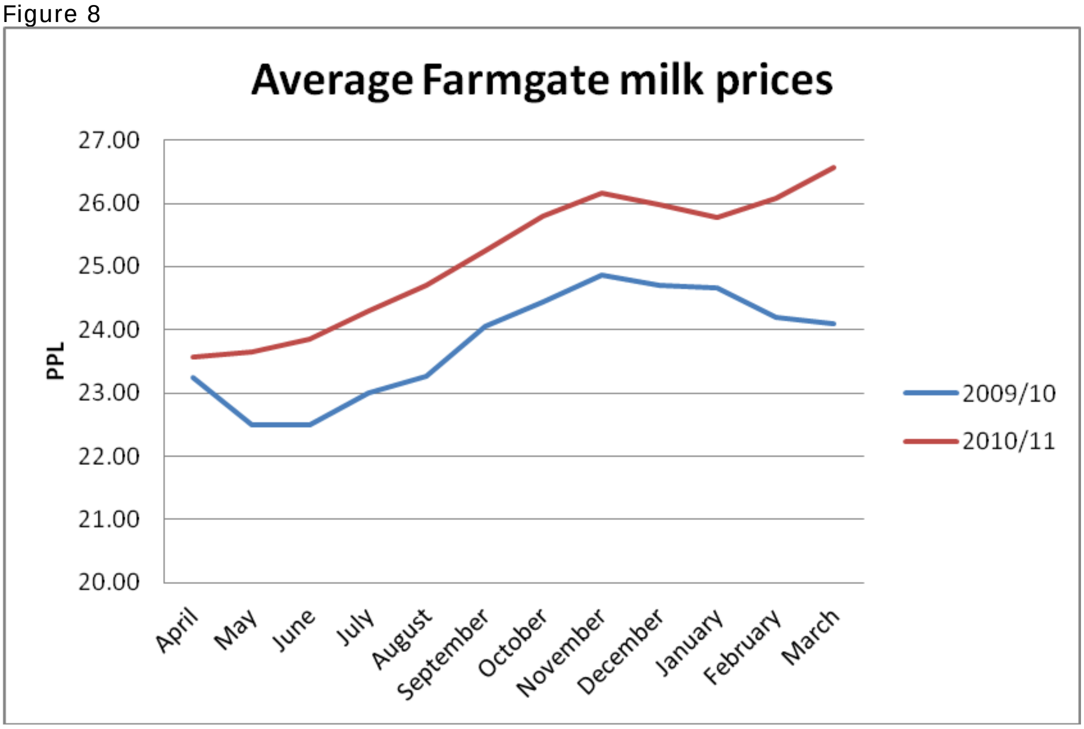


Figure 8



Source: Defra

Average milk prices increased between March and September 2010, averaging 25.14 pence per litre at September 2010[19]. Following the failure of Dairy Farmers of Britain, the company's supplier received a meagre 17 pence per litre for their milk for a period until new contracts were found.

The EU Dairy Fund was intended to help farmers who have been severely affected by changes in demand and prices during 2009/2010[20]. The payment of 0.2 pence per litre of the milk produced between October 2008 and September 2009, was made to producers of over 50,000 litres.

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[19] Farmers Weekly Interactive, www.fwi.co.uk 3 November 2010
[20] Defra News Release 48/10, www.defra.gov.uk 4 March 2010

Lowland Grazing Livestock

The 21 farms in the sample of East of England Lowland Grazing Livestock farms achieved an FBI of £201 per hectare. The average farm size increased by 10.1 per cent from 138.21 hectares to 152.16 hectares.

The single payment receipt of was £181 per hectare. The pure agricultural activity of these farms achieved an output of £396/ha as against costs of £427 per hectare. Agri-environment, diversification and single payment receipts once again were the main contributors to FBI. With an output of £58 per hectare, the Grazing Livestock farms were more involved in agri-environment activity than most other farm types in the region.

The average closing net worth of these farms was £4,744 per hectare, an increase of £279/ha on the opening net worth.

Sheep

East of England sheep and lamb numbers were 309,657, which was 2.2 per cent of the population in England.

Wool averaged £1.40 pence per kilogram (66 pence 2009). This was a build on the signs of price recovery shown in spring 2010. The supply of wool remained much the same as for 2009[21].

Sheep supplies were significantly lower than at the start of 2009 and demand from the export trade helped to keep lamb prices historically high so far this year[22]. The smaller number of breeding ewes together with an unfavourable winter resulted in fewer lambs, taking longer to reach slaughter weights. At beginning of April 2010 prices were at 415 pence per kilogram and rose to 443 pence per kilogram by middle of the month. This was 29 pence per kilogram higher than at the same point in 2009. In early May new season lamb was at 484 pence per kilogram, nearly 10 per cent higher than at same time last year. However by the end of May this price had fallen to 429 pence per kilogram which was 7 pence lower than the same time in 2009. Cull ewes averages ranged from £60 to £87 per head.

Beef

The 15 months to end March 2011 proved a challenging time for this sector, 2010 started with harsh weather conditions followed by a spring drought putting pressure on conserved forage, which was followed by late and poor early grass yields[23]. The June census however revealed a 2.8 per cent increase in the national beef breeding herd[24].

The second half of the year was characterised by a fall in finished cattle prices of 7 per cent whilst feed barley almost doubled in price to £160 per tonne[25]. The start of 2011 again saw farmers battling with frost and snow with consequent shortages of good quality straw and fodder. Increasing commodity prices, particularly concentrates, grain, fuel and fertiliser caused continuing concern[26].

Beef production reached 925,200 tonnes in 2010 (832,800 t in 2009) with the first quarter of 2011 showing production of 243,700t an increase of nearly 11 per cent on the comparable quarter of 2010.

Prices started and ended the year at similar levels (£2.88 per kilogram deadweight) but fell to a low of £2.70 per kilogram deadweight in the summer[27].

[21] Wool Marketing Board
[22] GBSmall Ruminant Diseases Vol 14 No 2 (Aug 2010).and Vol 15 No 1
[23] GB Surveillance Reports (Cattle)
[24] Defra, June Census
[25] Farmers Weekly
[26] GB Surveillance Reports (Cattle)
[27] Eblex

Producers continue to be challenged by costs increasing at a greater rate than market prices putting inevitable pressure on profitability

Pigs (England)

This commentary is based on the national sample of 75 pig farms across England. The change of FBS farm classification to the Standard Output basis resulted in a change in the farm type label for a large number of farms to Specialist Pig, and this in turn resulted in a 23 per cent increase in sample size in comparison with last year. Our report includes all types of pig production system, and both independent and contract producing units. The average pig farm was stocked with 2,408 pigs, this is 5.5 per cent higher than those in last year's report, but the increase is likely to be from larger farms within the grouping.

The FBI of Specialist Pig farms averaged £44,439 in 2010/2011. Pig output, at £424,270 was lower than in 2009/2010. An increase in the size of the breeding herd in Europe was the main driver of reduced prices; the Deadweight Average Pigs Price (DAPP) of 141.62 pence per kilogram at the end of April 2011 was two pence per kilogram below the price at the same time in the previous year[28]. The lower price may have contributed to improved UK demand for pigmeat, this increased by 6 per cent in February 2011 compared with February 2010 and the upward price trend was expected to continue[29]. Seasonal events can also determine market opportunities; at Cranswick plc, which had acquired Bowes of Norfolk in 2009, sales of fresh pork were 27 per cent higher in the six months to September 2010 than in the previous year, boosted by a good barbeque season and the World Cup[30].

Overall, producers faced higher production costs. Between June and December 2010, British weaner prices dropped by 24 per cent[31]. This development favoured those with finishing units but correspondingly reduced revenue to breeders. Higher grain prices had an impact on feed which accounted for 55 to 60 per cent of production costs[32].

Outdoor pig production was especially challenging in the winter of 2010 and early spring of 2011. Extreme cold weather created challenging conditions for stock survival and mortality increased. Staff also faced difficult working conditions, and the challenge of maintaining supplies of drinking water to stock when freezing of water in pipes was difficult to avoid. Some units were compelled to make early unscheduled moves following rain and the creation of wet conditions.

The capital position of Specialist Pig Farms was reasonably stable but with only a three per cent fall in stock values. However, there was an eight per cent rise in the value of land and buildings. Overall, the closing net worth of £592,337 per farm compared favourably to the opening figure of £555,440.

Poultry (England)

This commentary is based on national sample data which can be found at http://www.defra.gov.uk/statistics/files/defra-stats-foodfarm-farmmanage-fbs-published-farmacc-2011-table6_1to6_20-111215.xls. In 2010/11, the average specialist poultry farm size was 26% larger, and the average bird numbers per farm were just under 15 per cent higher for hens and pullets, and 32.6 per cent higher for broilers and other poultry. The average FBI for this group was £68,219 per farm; 6 percent lower than the previous year. In the expanded sample, the average farm size was larger and the average bird numbers per farm were 20 per cent higher for hens and pullets and a 40.6 per cent higher for broilers and other poultry. The average FBI for this group was £68,219 per farm; this was significantly lower than the 5yr average.

Disease threats to poultry flocks were mainly restricted to continental Europe. The first European H5N1 detections in 2010 in March/April were found in backyard poultry in Romania[33]. In July 2010

[28] Farmers Weekly 28 April 2011
[29] Farmers Weekly 6 April 2011
[30] FoodEast, www.foodeast.com November 2010
[31] Farmers Weekly 1 December 2010
[32] Farmers Weekly 24 August 2010
[33] AHVLA GB Emerging Threats Report, Avian Diseases, Vol15, No1, Jan – Mar 2011

infectious coryza (respiratory disease) were confirmed in two separate hobby flocks in Southern England adding to health and hygiene concerns. The threat from Avian flu remains constant but cases seem to have steadied. In Europe, Germany in particular suffered from dioxin contamination originating from feed products.

Poultry output averaged £679,611 per farm.

Feed costs comprised 60 per cent of costs in 2010 mainly due to the impact of higher wheat prices. The long cold winter again impacted on heating and feed in December 2010 and January 2011. Producers experienced increases in the costs of labour, partly due to maintaining buildings and water systems over a hard winter, contract and fuel. Increasing feed prices eventually forced an increase in the price of chicks and pullets to egg producers[34].

Some 27.4 million cases of eggs were packed in 2010 compared to 24.6 million in 2009, an 11 per cent increase. The average price per dozen fell by 3.5 per cent to 70p compounding the pressure from rising input cost[35].

The impending January 2012 EU conventional cage ban, has been driver of structural change in UK egg production bringing investment in free range production facilities and forcing a decision on producers committed to conventional cage production. During 2010/2011, there were indications from other EU member states that some continental producers might seek a postponement to the introduction of the European legislation. Jim Paice, the UK Agriculture Minister, made it clear that it would not be acceptable for non-compliant continental producers to export their production[36]. The scale of this problem was quantified by Euro MP and Norfolk farmer Stuart Agnew, who calculated that 83 million eggs a day could be produced from intensive cage or battery systems from January 2012[37]. Proposals to delay the cage ban were eventually overturned in Brussels in March 2011[38].

Furthermore, concerns over imports of cage eggs through processed products still remain[39]. With regard to the cage ban postponement looks unlikely as the EU reiterates its commitment to this legislation and to act against non-compliance. Concerns are rising over an illegal trade in caged bird eggs after the ban and considering it is estimated to have cost the UK £400 million to upgrade to enriched colony cages. There are also concerns over the possibility that the UK will be put at a disadvantage for leading the way in animal welfare issues[40].

However, during 2010, oversupply was a significant problem for the industry as cage production continued as the free range units, established to replace them, were brought into production. Production outstripped market demand leading to lower prices as the layer population hit 34 million birds[41]. This was further compounded by organic producers and cage bird producers switching to free range as the lack of demand for premium products in an economic recession coincided with the impending cage ban.

Challenges remain for egg producers as feed, pullet and fuel prices continue to increase whilst packers are able to continue to put pressure on purchase price in an oversupplied market. Whilst there is pressure for a price increase especially in the egg market the current economic climate means it is difficult to pass on increased costs to the consumer. One answer may be to include feed price conditions into production contracts[42]. Egg producers, also facing higher feed costs, similarly raised egg prices[43].

Poor weather and the recession were the likely reasons for a reduction in demand for Christmas turkeys in 2010 according to the Anglian Turkey Association[44].

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[34] Farmers Weekly Interactive, www.fwi.co.uk 23 November 2010
[35] The poultry site, www.thepoultrysite.com, UK egg statistics, 1st, 2nd, 3rd and 4th quarter 2010
[36] Farmers Weekly Interactive, www.fwi.co.uk 8 November 2010
[37] Eastern Daily Press, www.edp24.co.uk 2 October 2010
[38] FoodEast, www.foodeast.com March 2011
[39] Farmers Weekly Interactive, www.fwi.co.uk, 30th November 2011
[40] The poultry site, www.thepoultrysite.com, 17th November 2011
[41] GB Emerging Threats Report, avian diseases, Vol 14, No 3, Jul-Sept 2010
[42] Farmers Weekly Interactive, www.fwi.co.uk, 23rd November 2011
[43] Farmers Weekly Interactive, www.fwi.co.uk 3 November 2010
[44] Farmers Weekly Interactive, www.fwi.co.uk 5 January 2011

The year saw considerable investment in poultry buildings[45]. These included enriched cage units and free range laying units, but most were for table chicken production. The requirement to insulate buildings and improve infrastructure to meet IPPC regulations were considered to be important drivers of change. This development was reflected by FBS findings as the value of poultry farm land and buildings increased by 12 per cent.

Mixed

The group of Mixed farms includes businesses with both crop and livestock production activity. These farms averaged 146 hectares of which 35 hectares were grazing. The main crop grown was winter wheat accounting for 35 per cent of farm area, other crops, including winter barley, oilseed rape, peas and beans, all occupied less than nine per cent of area.

FBI averaged £308 per hectare. Output of the farms averaged £2,108 per hectare of which £1,757 per hectare related to the agricultural activity. This in turn was evenly split between crop and livestock sales, but there is likely to have been considerable variation between individual farms. Across all of the Mixed farms, pig production was of the greatest economic importance, followed by cattle and poultry production.

The Mixed farms were committed to agri-environment activity, with schemes accounting for output of £58 per hectare. This performance was equalled only by the Grazing Livestock farms in the region.

The balance sheet of the Mixed farms was characterised by increased asset values but greater commitment to loans. Net worth increased during the year by six per cent to £8,944 per hectare.

[45] Farmers Weekly Interactive, www.fwi.co.uk 13 January 2011