

"Harvest 2004 Quality Report & Outlook post Cap Reform"

Peter Kendall

- Bedfordshire farmer growing 8000 tons of wheat of which is 30% Nabim Class I
- Typically cut early to maximise quality
- Valuable opportunity to speak as a farmer to my ultimate customers, both to learn of your business requirements, and inform you of how farming is evolving
- Firstly I will cover this years harvest and secondly how I see the industry changing in the light of CAP Reform

- Bedfordshire 328% of average August rainfall
- Incredibly local and ferocious
- Significant press coverage wanting to paint a picture of winging farmers
- We have tried hard to put a "professional, self help image" not calling for handouts and compensation
- UK harvest review is in the context of a provisionally good harvest worldwide, with only a few concerns over quality in Northern Europe and Canada
- Significant yield increases in Europe, Ukraine, Russia and India has seen the USDA raise global wheat harvest estimates to 608 mt's for 2004 from 550 mt's in 2003
- The IGC suggests 614 mt's is possible
- A challenging UK harvest that splits the UK from The Wash to the Bristol channel
- The South - early enough to benefit from the sunshine in early August
- The North - quality lost before the crop was ready to harvest
- By the time the Midlands and Northern areas were able to harvest milling wheat its quality was already lost
- Surprisingly initial estimates

show full spec milling wheat to be down only 2% from 29% to 27% of drilled Class I wheat's

- Key issues:
 - i) Very little full spec wheat in the North
 - ii) Shortage of transport to Northern destinations

iii) Farmers increasingly want to track their product to its destination

iv) Aiming to meet customers needs

- Slide depicts big drop in quality of Class II wheat's that were put to the "back of the queue" as the rain continued

- Hagbergs not proteins have been the stumbling block for all grades of wheat

- HGCA provided this provisional analysis
- An organisation that is more than ever targeting the needs of its levy payers

- Key decision was to "decouple" production from support
- A sound principle that has been implemented poorly
- No longer will farmers have to produce a single grain of wheat to receive support
- Farmers instinctively want to produce, but the current price is at £55 ex farm is not sustainable
- This winter farmers planning

major review of operations

- Moth balling, downsizing or exit strategy is widely discussed
- Nitrates directive, reappearing as a key concern
- Denmark 170 kg/ha limits for nitrogen
- 50% more sometimes applied to feed high yielding milling wheat's
- We must, as a supply chain examine all options, in showing responsible use of nitrogen
- Input taxes remain a treat, and are promoted by NGO's and Government agencies
- We must make every collective effort to preserve a competitive, environmentally responsible, and fully traceable cereals industry
- Working time directive will exacerbate haulage pressures

- For my business I want to secure longer term profitable prices
- I am already locking in prices, and protecting my business from large fluctuations
- We continue to explore all technologies to drive cut cost, and remain globally competitive

Question - Laurie Pearson, Northampton

Q1 Why did your merchants sell your wheat at 13% protein and not 12.5%?

Q2 Does your mid term review kick in next October and what sort of percentage kicks in to begin with?

Answer - Q1 I'd love to see an industry that had much more wide ranging specific contracts. I would like to sell my wheat on a 12.5% or 12% and some of those contracts do exist but, there is quite a trend to pigeon hole grain trading into 13% protein wheats. Sometimes I get an opportunity to sell at 14% but they are very few and far between. I knew the specification was a 13% less a full back of £1 a point and I was happy to take it. I had a good yield on my Einstein, it yielded over four tonne to the acre and I was happy if the sample averaged 12.5% as I expected I would be receiving £70 a tonne. I was content with that. I think the problem is that the merchants again was probably relaying exactly the right message to the end user saying this parcel of 300 tonnes or whatever it was would average about 12.5%. What was slightly annoying was that the previous four loads had all come out at about 12.9% and I was actually expecting my average to be higher when I came in and lost it out at the end, so it was a frustration. I think the merchants are really just filling the pigeon holes that are out there and I do believe that if we are going to look at 'horses for courses', meeting right markets, we probably have to start thinking out of the box and if people want a 12.5%, lets sell at 12.5%. Let's sell a 14% protein wheat. As I say we want the messages as farmers, there is going to be a really tight concentration of farmers, I think there are probably less than 10,000 key decision makers out there in the arable world now, there could be half that in ten years time. Lets make sure we

relay the message to farmers what you require because farmers as business men do want to meet your requirements.

Answer - Q2 The single farm payment is up and running now. What I'm planting now, I could let my whole farm completely uncropped this year and I would still have received a support payment, which is quite significant, in the following payment window which would have been 2006. Decoupling in the UK, we are full decoupled, it's a complicated system in the UK that's moving from a historical basis to a land basis over a period of time is up and running. The reason I touched on that being a big focus on how farmers move forward over the next few months is farmers, I do believe, haven't had time to pick up the message that's out there on decoupling. They will spend the winter months, once they've put the drill away once

they felt they are on top of things, I'm hearing it quite widely throughout the county, and farmers are going to rethink how they focus on the future.

Question Paul Heygate, Bugbrooke

You mentioned about the variation of your Claire from your two farms, you've also mentioned about your farms getting bigger, the ideal time when perhaps you started in farming for planting wheat was actually now. Your members are now planting wheat from something like the 1 September to the end of October, surely that's one of the reasons that you do get the variation and what are you doing about it?

Answer - On my own personal farm, it's the only way I can talk

about it, is that I think farmers are becoming more professional and there is a big change. I took on a farm of 1000 acres, we contract farm about twelve miles away but the beauty of it is it's so much higher it makes it a week later. It's a real advantage for us in splitting the workload. I would plant 30% of my farm into quality Group 1 wheats because I believe I can charge, for want of a better word, into that and make sure I get the quality at the right time. Equally I grow 30% of my wheat as bog standard Group 4 feed wheat. This year I was cutting it on about 6/7 September, it didn't matter if the quality had gone; it was going into spring beans in the rotation. What I'm choosing to do is make sure I have a mix of varieties and spread the workload because it is still as profitable to go with the Group 4 wheat if I sell them at the right time and make sure I use the risk management tools I talked about. But yes as farms get larger they are going to have to make more commercial decisions and I think as Paul highlighted, quite rightly, one of the reasons for the variation we had this year, farms are getting bigger, fewer resources, less staff. I have a gang of five students who come in at harvesttime. It makes life pretty stressful when you get Australians who would rather write, I had one this year read poetry than drive a tractor. Next year my advert will be for a normal Australian who drinks beer and wants to wage war on all the girls in Bedfordshire. Never again an Australian poet. But it's a challenge, as farms get bigger we have to be more targeted on how we move forward.

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Peter Kendall
Deputy President NFU
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Bedfordshire arable farmer growing 800 ha of wheat



Weather

- August 2004 wettest since records began
- Met Office August average was 152 mm
- 200% of 1961 - 1999 average

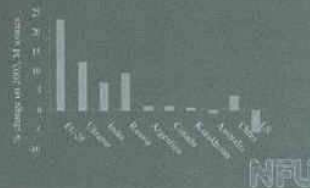


Rest of the World

- Conditions good to excellent
- Crop yields good
- Quality good



USDA Wheat Production Figures

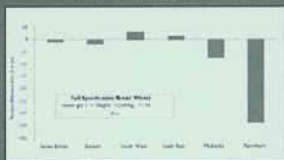


2004 Wheat Crop Quality Market Overview

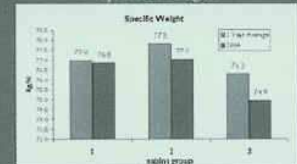
- EU - harvest generally fine & prompt
- UK - harvest split in 2 - by time & region
- Bread premiums risen to import parity
- 3.0Mt - 3.5Mt exports still required



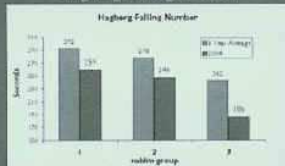
2004 Wheat Crop Quality - in perspective Full Specification Bread Wheat



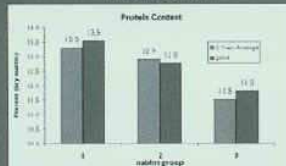
2004 Wheat Crop Quality Specific Weight



2004 Wheat Crop Quality Hagberg falling number



2004 Wheat Crop Quality Protein content



CAP Reform Implementation Varies

- UK / Germany 2005 regional approach
- France / Spain / Netherlands 2006 start
- France 25% coupled approach



Continued Production Faces Pressures

- Environmental agenda
- Soils Water Waste Voluntary Initiative
- Working Time Directive



What could help my business?

- More innovative supply contracts and terms
- Affordable risk management products
- Access to best R&D



Conclusions

- Most variable harvest for many years
- Revolution in support systems
- More environmental constraints
- Farmers to adjust for profit

