



MI Prospects



What will 2013 deliver?

The last three years have propelled grain and oilseed markets into uncharted territory. 2010 saw the Russian drought and export ban; 2011 delivered a UK drought; and 2012 took a tight feed grain market and made it even tighter.

The terrible UK weather conditions of 2012 are likely to leave a **physical legacy well into 2013**. With noticeably less winter crop area expected, the role of spring cropping becomes more important. However, despite encouraging economics, seed availability and ground conditions could be key influencing factors.

From a grain perspective, 2013 continues the theme of **tight global feed grain supplies** and the need for demand to be rationed. Key US data out at the end of this week will provide the first bulk of fresh fundamental information for some time in the form of final 2012 production estimates, quarterly stocks and winter wheat areas for 2013. Interestingly, release times for USDA data have now changed, meaning that from a European perspective the information won't be available until after markets have closed. As a result there won't be a price response until early next week.

The recent decline in grain prices has been more pronounced in some markets, especially US wheat. This should make the US a more competitive origin, but EU values need to remain at premium levels to minimise exports due to thin availability. However, there is a question mark over how much international demand remains for this season.

From an oilseed perspective, **the focus is on South America** and the growing soyabean crop with no sign of a repeat of last year's drought conditions. The wet conditions in

Argentina must be interpreted carefully as it presents a possible double-edged sword. Soyabeans have a later planting window than maize (into January) so it is likely that land intended for maize may be diverted to soyabeans. If current production forecasts are realised then this could spell downward pressure for oilseed prices.

Policy remains key to the UK arable industry. In the UK, an HGCA-led consortium working with the Department for Transport has reviewed and revised a report that details the ability of UK regions to meet legally-binding **greenhouse gas emissions criteria** under the Renewable Energy Directive (RED). This report is critical to ensure that UK crops are not restricted from entering biofuel supply chains when regulations change on 1 April 2013.

From a European perspective, the European Parliament's agriculture committee has finalised a series of compromise amendments. **The issue of 'greening' is a critical area.**

Jack Watts

Growers can visit mills and maltings as part of Meet the Processor 2013 in a bid to get a commercial and practical insight into what happens to grain beyond the weighbridge. [Click here](#) for more.

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An HGCA-led consortium working with the Department for Transport has reviewed and revised a report that details the ability of UK regions to meet legally-binding greenhouse gas emissions criteria.

European Parliament Takes Next Step in CAP Reform

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Mid-Season Grain Market Review

Despite recent declines, UK grain prices remain historically high. This is in part due to the global market, but also as the UK is a net-importer of wheat this season. Maize continues to underpin global prices, but remains uncertain as South American harvests approach and thoughts turn to whether 2013 will bring more 'normal' weather?

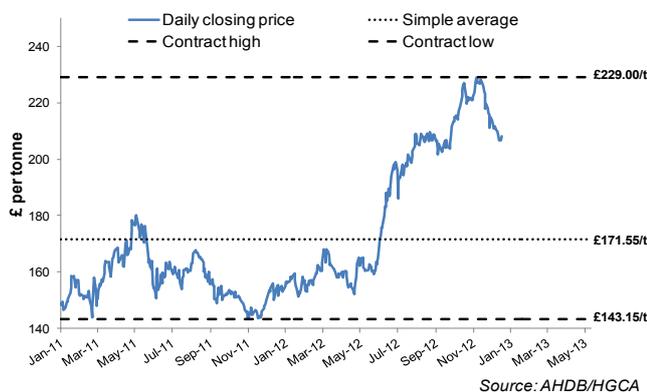
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Introduction

Extreme weather both home and abroad has created one of the most challenging grain marketing seasons in living memory. The first half of the season has been characterised by tight feed grain supplies and high prices needed to ration demand from global animal feed and ethanol producers.

Figure 1 gives an overview of how the May-13 UK feed wheat futures price has developed since the contract opened in January 2011. To date the contract has seen a daily closing price range of over £85/t, with the higher-end values being seen in more recent, post-harvest, times.

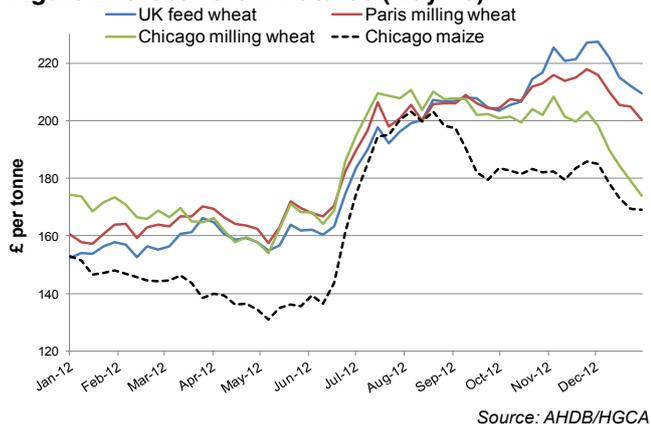
Figure 1 UK LIFFE Feed Wheat Futures for May 13 (as at 8 Jan 2013)



World market situation

As always, key price drivers have been coming from the international stage and it is important to put the UK price in the context of the global grain price complex as shown in Figure 2.

Figure 2 Global Grain Futures (May-13)



World prices

Since late 2010, global wheat values have been highly influenced by maize, mainly because the two commodities are interchangeable into many animal feed rations around the world. If wheat becomes 'cheap' relative to maize then additional feed demand will be seen, which on the global stage is the secondary demand – feeding people is the primary role.

Maize - underpinning global grain prices

Since 2010, the US has seen three successive poor growing seasons for maize with the 2012 drought being the most severe adding large support to global grain prices through the summer. Coming into the early autumn, the US maize harvest came early with yields of course lower – but not as low as some pre-harvest estimates were suggesting. This enabled prices to ease back, but still remain historically high.

For the remainder of this marketing season, maize is expected to remain an underpinning factor in the world grain market, fuelled by tight availability and a need for demand rationing. Key US data out on 11 January will give final 2012 production estimates and quarterly stock levels – a useful insight into the level of demand rationing.

With the backdrop of the US drought, South America is expected to be an increasingly important source of maize for the world feed grain market in 2013. However, with the South American crop yet to be harvested, uncertainty remains but farmers are expected to react to strong prices.

For Brazil, the USDA is forecasting production at 70Mt, down from last season's record 73Mt. In some regions, previously dry weather delayed the planting of soyabeans which is likely to result in delay to the planting of the *Safrina* maize crop. Argentina is even more uncertain due to a prolonged wet period, delaying planting. By 3 January, the Buenos Aires Grain Exchange suggested that 84% of the planned 3.4M ha had been planted, 1.5% points behind a year ago. With the optimum planting window closing, it is likely that Argentine farmers will switch land intended for maize to soyabeans, which have a later planting window.

Once the South American maize harvest has past, the market will switch its attention back to the US to see if more 'normal' conditions prevail or if a fourth consecutive season of weather issues will be seen. This will be one of the biggest driving forces of grain pricing in 2013/14.

Wheat – less of a passenger to maize in 2012/13

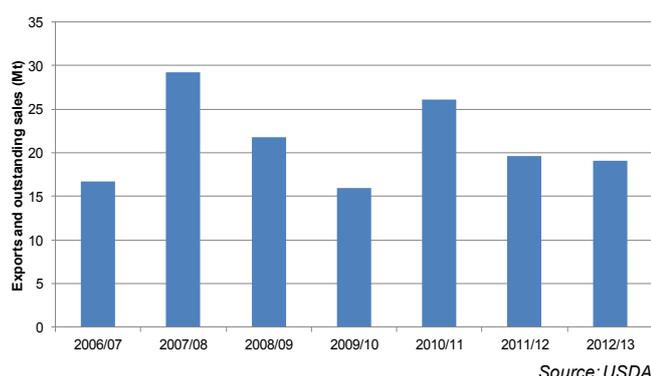
This season, wheat has rebuilt some premium over the maize market, rather than being an absolute passenger of the maize market as it was in 2011/12. In 2011/12, maize was in tight supply, but wheat was abundant. As a result wheat prices needed to fall to maize levels or lower, to stimulate additional feed demand. However in 2012/13,

Mid-Season Grain Market Review

wheat is less abundant than it was in 2011/12 due to noticeably lower availability from Russia and EU-27. USDA currently estimates global wheat production in 2012/13 at 655Mt, down 6% from 696Mt last season.

In the recent grain market decline, US (Chicago) wheat prices have fallen sharper than many other values fuelled by slow export pace. Figure 3 shows the progress of US wheat exports (actual exports plus sales) up to the end of December.

Figure 3 US Wheat Exports plus Outstanding Sales (as at end December)



By the end of December, the US had exported / sold 19Mt of wheat, slightly behind the same point last season, but more interestingly, 7Mt behind the same point in 2010/11 – the season of the Russian drought and export ban. Despite limited Russian export availabilities in 2012/13, US wheat exports don't appear to be seeing much benefit. This is reflected in longer term, total season export forecasts. In its December report, USDA forecasted US wheat exports at 28.58Mt, 4Mt (12%) below the forecast in July.

The fall in US prices relative to other wheat exporters increases competitiveness, which should be supportive of export sales. As a result, the scale of US wheat exports in 2012/13 remains uncertain. The US is of increased importance to the wheat market this season as it is the only major Northern Hemisphere exporter with any meaningful stock levels.

Elsewhere, the production and quality outcome of the Argentine crop; export pace and stock drawdown in Australia and; Indian export volumes will all be key factors for the remainder of the season.

UK situation – relative strength in prices

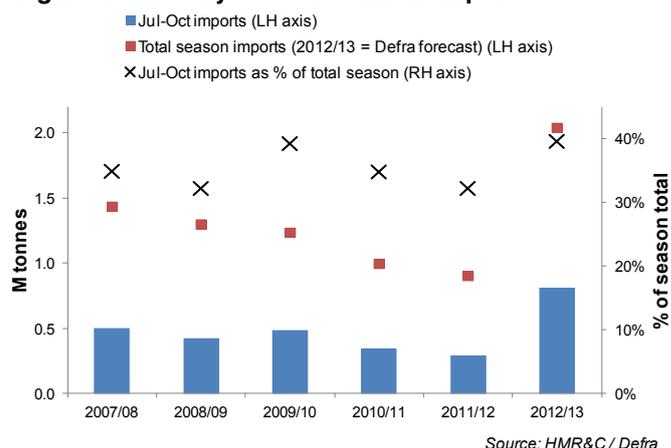
Just like many other parts of the world, 2012/13 is not a 'normal' season for the UK. Poor yields and quality have meant that UK prices have had to increase relative to global / EU values to prevent exports and encourage imports. At futures price level, as shown in Figure 2, UK wheat is at around a £10/t premium to French wheat. In a more typical season, this would be at around a £15/t discount.

For more on the UK supply and demand [click here](#).

The UK market this season will be heavily influenced by the level and pace of imports. Defra currently forecast that around 2Mt of wheat will be imported this season, close to double 'normal' levels.

Figure 4 shows the pace of imports in the first four months of the season, with 40% of Defra's total season forecast already imported. Although this is a quick percentage pace relative to recent seasons, it is similar to that of 2009/10.

Figure 4 UK July - October wheat imports



Closing comments

At the half-way point, the remainder of the 2012/2013 season looks set to be almost as uncertain as the first. A key issue for the market to grapple with is the need for demand rationing, which is very difficult for forecasters to predict accurately. As a result, further volatility should be expected as sentiment is met by reality.

A key concern in the UK is for the state of crops for harvest 2013. However, the price drivers for 2013 will be global and with the experience of the last three seasons, the market has lost insight into what 'normal' growing conditions look like.

Key Points

- Prices remain strong despite recent declines
- Maize underpinning global grain prices as demand needs rationing
- Wheat 'less of a passenger' to maize, but sluggish US exports a cap to prices
- UK has relative price strength to prevent exports and stimulate imports

Mid-Season Oilseed Review

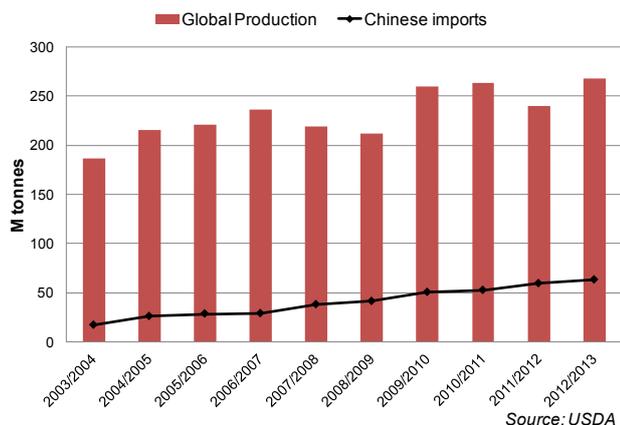
Global oilseeds saw notably lower opening stocks for 2012/13, after significant reductions in soyabean production from South America in early 2012. In addition, the US drought last summer, further stressed supply and prices remained supported. However, markets have recently fallen back with the 2013 South American harvest approaching and no sign of last season's drought being repeated.

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Soyabeans - 2012 Review

In addition to production issues in the Americas in 2012, China's import demand for soyabeans continues to be a price driver. Chinese soyabean imports have continued to grow which drove US soyabean export sales reported at 30.9Mt as at 27 December (24.1Mt same time in 2011). This comes despite strong prices, although China has recently cancelled some US purchases. These cancelled purchases are likely to be replaced by relatively cheaper South American supplies once the new crop is available in the coming weeks.

Figure 1 Global Soyabean Production and Chinese Imports



Domestically, US soybean crushing demand has also supported prices. In November, the US crushed 4.28Mt, the largest monthly crush since January 2010 (NOPA). This strong domestic and export demand is expected to keep US stock levels thin and supportive of prices until the South American new crop arrives in the market.

The closing months of 2012, saw South American plantings commence. Brazil was initially dogged by dry conditions, delaying planting in some areas. Since then rains have arrived, supporting crops. In contrast, much of Argentina has been unseasonably wet for the maize and soyabean planting. However, this may not be to the detriment to the soyabean crop and may even be supportive of production.

Outlook for 2013

With thin US stocks, there is an increasing dependence on the South American crop. Both Argentina and Brazil are estimated to produce record crops with USDA forecasting joint production of 136Mt, against 107.5Mt

last season. If this is realised, then global oilseed supplies will see a boost, putting downward pressure on prices and allowing the region to dominate exports.

A year ago, key growing areas of South America were being impacted by drought. This is not the case so far this season, but weather up until harvest (Feb/Mar) will be critical.

Argentine weather has impacted both maize and soyabean planting progress (behind last year). Unlike maize, soyabean plantings can continue into January. As a result, it is likely that some of the area intended for maize will be switched into soyabeans. Later planting of soyabeans may encourage Argentine farmers, where possible, to choose earlier maturing varieties, which tend to have lower yields. Driven by strong prices and available moisture, double cropping of soyabeans following the wheat harvest may also be influential over production.

Further ahead, US soyabean planting in spring 2013 will become a price driver soon, given the current US stocks levels. In 2012, US maize prices incentivised US farmers to plant more maize at the expense of soyabeans and this trend might continue into 2013 based on the current soyabean/maize price ratio. The ratio is now 2.2 - in maize's favour - so to command an area increase the soyabean price may have to increase relative to maize.

Rapeseed - 2012 Review

Europe produced another underperforming rapeseed crop in 2012, making it the third consecutive season of lower production, currently estimated by Oil World (www.oilworld.biz) at a four year low of 19.07Mt. Due to lower global availability, imports are expected to fall by 15% to 3.2Mt (USDA), but remain historically high. Consequently, the 2012/13 end season stocks are seen down to 1.39Mt from 2.1Mt last season.

Estimates for 2013 harvest

Total EU rapeseed planting for the 2013 harvest is provisionally estimated by Copa-Cogeca at 6.81Mha, 5.2% above the 2012 area. With a very slight increase in yield expected, the 2013/14 crop is currently estimated at 20.96Mt (up 8.8%) and if realised would be the highest since 2010.

The two main areas of concern are France and the UK as Germany is expected to recover from the effect of previous poor growing seasons. The **German** 2013 area is seen at 1.43Mha (1.3Mha for 2012 harvest) on favourable sowing conditions and the price incentive during planting. The **French** rapeseed area is forecast at 1.49Mha (1.61Mha for 2012) due to drought conditions in Aug/Sep discouraging farmers from planting.

The GB Early Bird Survey, carried out by Andersons on behalf of AHDB/HGCA, forecasts the **GB** planted area down 3% to 732Kha. A big unknown is the level of abandonment that will be seen in GB between planting and harvest.

Mid-Season Oilseed Review

Sunflower seed - 2012 Review

Global sunflower seed production for the 2012/13 season is seen at 36Mt, down from the 39.5Mt record in 2011/12 (Oil World, www.oilworld.biz). This has mainly been as a result of poor weather in key growing areas including the Black Sea and EU. Argentina is also expected to produce below expectation following incessant rains and flooding during the growth phase. Sunflower seed planting is now finished in Argentina and harvest will begin this month.

Sunflower seed trade has been particularly high in the first half of 2012/13 due to the general tightness within the oilseeds market. Prices eased in the first half of the season due to the new supplies and significant carryover stocks. However, they have now begun an upward trend as stocks are gradually drawn down and crushers continue to demand the oilseed in order to deliver on contractual obligations. Currently prices stand at \$670/t, a 12% increase over the season.

Outlook

For the second half of 2012/13, there is expected to be a shortage in sunflower seed supplies due to the lower production and brisk export demand-particularly from the Black Sea region earlier in the season. This implies sunflower seed prices will begin to rise relative to other major oilseeds, prompting end users to switch demand away from the oilseed, thus demand rationing will occur and the rate of exports may decline.

Demand is expected to fall particularly as declining crush margins drop further with the higher sunflower seed price. The demand switching is expected to become pronounced once the new South American soyabean supplies arrive. The current discount of soyabean to sunflower seed is \$92/t and is expected to rise notably as the new soyabean supplies enter the market. The relatively higher sunflower seed price may also encourage a higher planted area for the 2013/14 season -especially in Ukraine and Russia. Sunflower seed planting for the 2013/14 season will begin this spring.

Palm Oil - 2012 Review

This season has been characterised by high palm oil inventories, particularly in the second largest producer-Malaysia, and this has acted as a drag on prices. Palm oil inventories reached record levels in November to 2.56Mt (Malaysian Palm Oil Board).

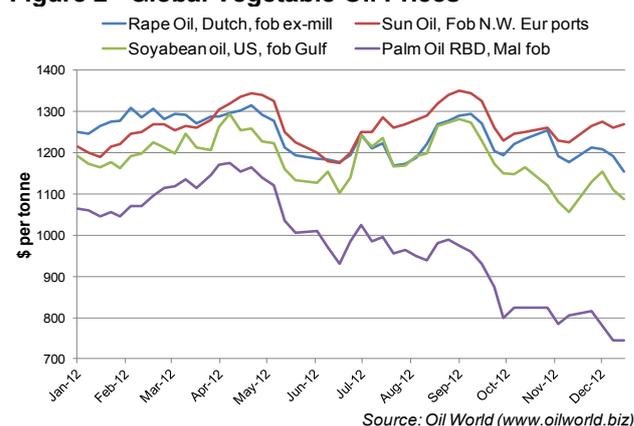
Inventories have steadily climbed as production continues to be strong in both Indonesia and Malaysia. The lack of an El-Nino weather event combined with shorter production cycles, and lacklustre demand, have meant stocks have been increasing. Consequently the benchmark March contract on the Malaysian Exchange has seen its prices fall by 24% this season to MYR 2,346/t.

Outlook

Malaysian palm oil production is expected to seasonally decline until March 2013. However, current forecasts from the Malaysian Meteorological Department point towards neutral/weak El-Nino, meaning the favourable weather will lead to higher production than if a fully-fledged El-Nino materialised.

Palm oil export demand is expected to increase in the first quarter of 2013 as widening price discounts between palm and other oils encourages demand substitution towards palm. As inventories decline this should help keep palm oil prices firm. Currently the discount between palm and soya oil is \$344/t, and between palm and sunflower oil is \$516/t. Also conducive for higher palm oil exports is the Malaysian government's decision to have an effective zero export tax for January which will impact on stock inventories-especially with talk of possible changes to the Indonesian tax structure later in the season.

Figure 2 Global Vegetable Oil Prices



Closing comments

Currently for oilseed markets the main issue is the approaching South American soyabean harvest, which currently looks set to provide some supply relief. The focus will then shift later this spring to US planting when the annual 'fight for acres' with maize will occur.

This season's rise in oilseed prices has been met primarily by a rise in protein meal prices to maintain crush margins. The abundance of palm oil has made it difficult for other oils to rally so crush margins are increasingly dependent on protein meals, which has implications also for pulse values.

With 2012/13 EU rapeseed production seen at a four year low plus lower imports, demand rationing will be required and a bigger 2013 crop needed to avoid further rationing.

Key Points

- Markets await record South American soyabean crop
- Rapeseed prices to remain heavily influenced by soyabeans
- EU rapeseed production disappointed again in 2012, change in fortune in 2013?

Spring Crop Gross Margins

With poor autumn planting conditions in 2012 and relatively strong prices, spring cropping is likely to increase noticeably in 2013. Analysis suggests malting barley is no longer seen as the most competitive spring crop partly on the back of low premiums. However, the availability of spring seed and ground conditions are going to be as influential over the cropping mix as much as economic returns.

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Introduction

Gross margin analysis can be used as an indicator of the relative profitability of different combinable crops and in combination with physical parameters e.g. weather, can give an indication of how crop areas may change for harvest 2013.

As the UK arable industry continues to evolve there remains a wide range of efficiencies and scale. As a result, this analysis is not designed to provide an absolute measure of performance, more to show the relative performance between crops.

In addition to direct financial performance other considerations must be accounted for when informing cropping decisions. These can include: planting and harvest dates; benefits to/from following or preceding crops and; local markets. Where possible these considerations should be given a financial measure to aid the decision making process.

The wet weather of this autumn/winter is likely to push land toward spring cropping, which has increased spring seed demand with availability expected to be a limiting factor. In many areas of the country land remains saturated so a prolonged period of dry weather is required before some land is accessible.

AHDB/HGCA are currently undertaking and compiling the results of the winter planting survey, which measures planting as at 1 December. This will give an indication of how much winter planting disruption has been caused and how much land is likely to enter either late winter or spring planting.

Figure 2 English 2013 Spring Gross Margin Estimates

	Milling wheat	Feed wheat	Feed barley	Malting barley	Milling oats	Oilseed Rape	Spring Linseed	HC** beans
Ex-Farm Base Price (£/t)	185	185	165	165	185	345	380	230
Premium (£/t)	20			15		17.5		20
Selling Price (£/t)	205	185	165	180	185	362.5	380	250
Yield (t/ha)	6.00	6.30	5.70	5.25	5.50	2.35	2.00	3.80
Output (£/ha)	1230	1166	941	945	1018	852	760	950
Variable Costs (£/ha)	402	372	326	311	290	283	307	287
Gross Margin (£/ha)	828	794	615	634	728	569	453	663

Source: Trade, The Agricultural Budgeting and Costing Book (75th Ed), AHDB/HGCA

* - based on 42% oil, 8% moisture and 1% admix.

** - Human Consumption

Methodology

This analysis contains work by AHDB/HGCA, with input from merchants, data from the Agricultural Budgeting and Costing Book and a contribution from Scottish Agronomy. AHDB/HGCA would like to thank all those who have assisted with providing information. Due to the differing methodologies used in the analysis, the English and Scottish gross margin estimates cannot be directly compared.

The prices used in this analysis have been compiled by using futures prices, delivered prices and industry intelligence. Prices of both inputs and outputs were collected in mid-December thus may not reflect current conditions.

Key assumptions (England)

Fertiliser costs

- Ammonium Nitrate (AN) - £300/t
- Muriate of Potash (MOP) - £318/t
- Triple Super Phosphate (TSP) - £360/t

Figure 1 Forward Price Assumptions for Spring Crops

£ per tonne	Forward prices for Nov-12 movement as at Dec-12 (a year ago)	Forward prices for Nov-13 movement as at Dec-12
Feed Wheat	140	185
Milling Premium	20	20
Feed Barley	130	165
Malting Premium	40	15
Oats	140	185
Oilseed Rape**	340	345
Linseed	350	380
HC Beans*	190	260

Source: Trade, AHDB/HGCA

*Human Consumption ** base price before any bonus

Spring Crop Gross Margins

Results

Variable costs have increased since last year, although at a much slower rate than the forward crop prices. Forward prices as of mid December are in the region of £40-£50/t above those of 12 months ago, although oilseed rape and linseed have seen considerably smaller increases. By comparison variable costs have increased in the region of £10/ha. The majority of the increased variable cost has come from higher seed costs. Fertiliser costs are lower than last year and chemical costs are roughly equal.

England

English calculations do not include any income from the sale of straw which could improve gross margin levels, especially for barley, depending on location. The Agricultural Budgeting and Costing book suggests that straw at 3t/ha from a spring barley crop would contribute £135-£240/ha to the gross margin, although the nutrients removed by bailing would require replacing.

Cereals

The analysis suggests, spring milling wheat has become the highest grossing crop, overtaking malting barley's traditional leadership in the spring margins league table. However, in choosing to grow spring milling wheat, growers should consult the local market first to ensure that there is demand.

The relative weakness in the spring barley performance can be attributed to two main areas:

1. A malting premium of £15/t over feed barley has been used (£40/t a year ago). A rebound in European malting barley production in 2012 has been detrimental to premiums. In addition, the sentiment that the UK may see an increased spring barley area in 2013 is also bearish to premiums.
2. In this analysis feed barley is assumed to be a £20/t discount to feed wheat (£10/t a year ago). The widening differential is supported by the expectation of a relatively small wheat crop in 2013 and a larger barley crop. As a result the two commodities may have to price in a way to move some feed demand from wheat to barley.

The gross margin for milling oats shows some relative strength on the back of poor domestic supplies in recent seasons, the need for imports and the need for the crop to compete for land. The pricing relationship with other crops however, is volatile.

Break Crops

Oilseeds have generally performed poorly relative to other crops this year than in recent times as forward prices have not seen the same rise as cereal prices. Linseed can offer diversity in rotations, although contract growing is essential with prices linked to oilseed rape prices and/or a physical European linseed price.

Human consumption beans have benefitted from the general rise in protein prices, and look much more

competitive this year, especially when low growing costs and other agronomic benefits are considered.

Scotland

The Scottish figures were kindly provided by Scottish Agronomy.

Figure 3 Scottish 2013 Spring Gross Margin Estimates

	Malting Barley*	Feed Barley*	Milling Oats	Oilseed Rape
Yield (t/ha)	6.00	6.50	6.50	2.50
Price (£/t)	205	180	215	385
Total Output	1350	1313	1398	963
Variable costs (£/ha)	382	423	349	358
Gross Margin (£/ha)	968	890	1049	605

* includes revenue from straw *Source: Scottish Agronomy*
www.scottishagronomy.co.uk

Scottish gross margins have shown considerable improvement over last year, with spring oats showing a marked improvement. The margins for feed and malting barley include an additional £143/ha and £120/ha respectively for straw. In comparison to last year when the difference between malting and feed barley gross margins was almost £200/ha, this year the difference is just over £75/ha.

Closing comments

The above analysis provides a standalone indication of the relative economic performance of different crops. Every farm will have a different cost structure and considerations for rotation, harvesting capacity and local markets should be taken into account when deciding what to plant this spring.

It is worth noting that the actual gross margin outcomes will be different to these current estimates, not least because of volatile prices. In the case of English spring malting barley, a mere £30/t drop in price would reduce the margin by 33%.

Harvest 2013 is likely to represent the third year out of 12 that there has been widespread disruption to autumn planting and an increase in spring cropping. How this trend develops over the coming years remains to be seen, but is likely to remain a challenge to the UK industry.

Key Points

- Larger spring cropping area expected
- Seed availability and ground conditions likely to be the main limiting factors
- Milling and feed wheats more competitive whilst barley less so
- Oilseed rape is less competitive than in recent years
- Human consumption beans move up the table, due to the rise in protein prices

Biofuel Update

Global biodiesel and bioethanol production are forecast to recover in 2013, according to analysts FO Licht. However, challenges remain for the industry including the calculation of GHG emissions which has been tackled successfully in the UK by an HGCA-led consortium.

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Biodiesel

Global biodiesel production is expected to increase by 2% in 2013, to 21.3 billion litres (BnL), but remain lower than the record level seen in 2011 (22.0BnL) (FO Licht). Increases in **Brazilian** output is key as forecasters expect economic growth resulting in increased fuel demand, as well as a better soyabean harvest. The **EU** remains the largest producer, but growth is limited by the greater use of waste oils (which can be double counted against sustainability targets) and ethanol to meet biofuel inclusion legislation.

US biodiesel output is expected to grow slightly. Last week's announcement that beneficial tax credits will be re-instated also adds support. The \$1-per-gallon biodiesel tax incentive was first implemented in 2005 but was allowed to lapse at the end of 2011. Under the new legislation the incentive will be reinstated retroactively to 1 January 2012 and through the end of 2013.

Bioethanol

Global bioethanol (fuel ethanol) production is forecast to recover to 86.0BnL, 4% higher than 2012 and exceeding the previous highs (85.1BnL in 2010). Record production is anticipated in **Brazil**, which accounts for a quarter of world output. Relatively weak sugar prices make the processing of cane into ethanol a more attractive option.

US ethanol makes up 60% of the global total but output is expected to be lower in 2012 and 2013 compared with the 2011 peak. High maize prices and the loss of some government incentives have pressured margins.

The **EU** is a small global player when it comes to ethanol production making up only 6% of total output. After two years of relatively stable production in 2011 and 2012, FO Licht anticipate growth of 650ML in the EU for 2013 to a total of 5.0BnL.

A large proportion of the EU growth is expected to come from the **UK** which is seen increasing from 170ML to 580ML. The three main bioethanol plants in the UK have a total capacity in the region of 900ML - Ensus (410ML), Vivergo (420ML) and British Sugar (70ML) – which suggests that there would need to be at least some output from all three in 2013 to realise the forecast.

Policy

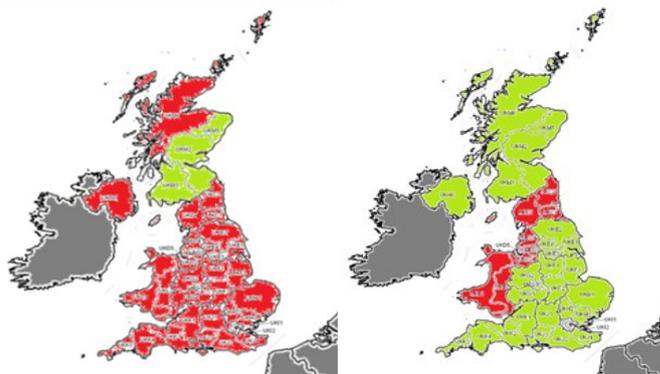
The global political environment is not particularly comfortable for the biofuels industry. The appetite of governments to incentivise biofuels seems to be waning and on-going desires to prove and measure sustainability create challenges for the supply chain.

In the UK, an HGCA-led consortium working with the Department for Transport has reviewed and revised a report that details the ability of UK regions to meet legally-binding greenhouse gas emissions criteria under the Renewable Energy Directive (RED). This report is **critical to ensure that UK crops are not restricted from entering biofuel supply chains** when regulations change on 1 April 2013. GHG emissions calculations were updated using more robust data for average yields, oil content (oilseed rape), fertiliser use, fuel consumption, soil organic matter and nitrogen content of residues returned to soils.

The updated figures show improvements **across all the main biofuel crops with oilseed rape benefiting the most**. Under the previous figures only 5% of UK oilseed rape production met the required GHG criteria – the **revised report increases this to 97%**. The EU Commission still needs to accept this report, but assuming this occurs, the revised figures will come into immediate effect.

Figure 1 shows the 'before and after' picture of GHG compliant regions for oilseed rape production. Growers should not be alarmed if their region fails to meet the criteria and are advised to discuss contracts with buyers to achieve the best outcome. For more information on this work [click here](#).

Figure 1 'Before' (left) and 'after' (right) maps for oilseed rape



European Parliament Takes Next Step in CAP Reform

The Parliament plays an important role in the CAP reform process, with agreement required between the European Commission, Parliament and Council before any changes in legislation can be adopted.

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In the week leading up to Christmas, the European Parliament's (EP) agriculture committee (COMAGRI) finalised a series of compromise amendments on the Commission's CAP legislative proposals, consolidating close to 8,000 amendments after weeks of debate and negotiation.

While some outstanding issues remain, the EP have now informally agreed the content of around 100 compromise CAP reform amendments, broadly seen as taking the reforms in a more manageable direction for farmers. This article examines some of the key changes proposed by the EP, focusing in particular on factors affecting arable farmland.

Greening

The EP has suggested a more flexible approach to new environmental rules for farmers, adapting the Commission's three measures – ecological focus areas, crop diversification and maintenance of permanent grassland and pasture – to different farm sizes.

For farms with arable area covering between 10ha and 30ha, the compromise amendments propose that farmers should cultivate at least two crops, as opposed to the three crop rule proposed by the Commission. The EP also sought more flexibility on the Commission's legislative proposal, increasing the maximum area of land covered by the principal crop from 70% to 80%. On farms with an arable area above 30ha, MEPs indicated that farmers should cultivate at least 3 crops, with the principal crop not covering more than 75% of the arable land and the 2 main crops collectively accounting for less than 95%.

The EP has also proposed that farmers should designate at least 3% (rather than 7%) of eligible farmland to an Ecological Focus Area (EFA) for the first year if their arable farmland covers more than 10ha. The EFA threshold should increase to 5% from 2016, with the possibility to increase the threshold again to 7% from 2018 following the results of a Commission study.

Greening sanctions not to impact on basic payment

In reference to the 'greening' component of direct payments, the compromise amendments argue that farmers' basic payments should not be reduced if they fail to meet the new requirements. With fines set to be limited to the 30% greening payment, the EP 'rapporteur' in charge of compiling amendments on the Single CMO regulations pointed out that this would make greening

provisions optional for farmers. The aim is to ensure that cross compliance adopts a proportionate and risk-based approach, such that farmers who are not in breach of serious rules related to public or animal health are not too heavily penalised.

Transference of funds between Pillars

MEPs agreed that Member States should have the option to shift up to 15% of their direct payments (Pillar 1) to fund rural development programmes (Pillar 2); an additional 5% compared to Commission plans. Member States that receive less than the EU-average for direct aid (which includes the UK) should also be permitted to transfer up to 10% - as opposed to the Commission's proposed 5% - of rural development funds to Pillar 1. Recent proposals tabled by the European Council President pushed for even more flexibility, allowing all countries to shift up to 15% of rural support to direct payments.

The decision to allow transference of funds from Pillar 2 to Pillar 1 could be to the detriment of UK producers. Defra is opposed to allowing Member States to shift funds between Pillars, particularly from rural development programmes to direct payments. As such, it seems unlikely that the UK will voluntarily choose to increase direct payment levels. In comparison, countries such as France and Spain have voiced their support of increased flexibility, which could put UK farmers at a disadvantage.

The next steps

The proposed amendments will be formally voted on at the next COMAGRI meeting on 23/24 January. The Chair has, however, expressed optimism that there would be a "large majority" in favour of the texts. The Agriculture Committee's draft report will then be sent to the plenary of the European Parliament in order to agree the EP's negotiating position ahead of talks with the European Commission and European Council, expected to go ahead from March onwards.