

# Agribusiness NEWS



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## News in brief

May 2020

### Global economic threats

The dramatic fall in crude oil prices to negative values at one point in April signifies the scale of the economic threat the world is facing. Whilst this instance of negative prices was more an anomaly of local contract and storage constraints nonetheless crude oil price for the month as a whole is 70% down on a year ago.

A crude oil collapse of this magnitude is likely to foretell a global economic depression. What does this mean for agriculture? Given that food is an essential purchase the food sector and agriculture are likely to be more resilient than some other industries. However, there will be shifts in demand towards lower priced staples and a softening demand for higher value foods. We are already seeing this as sales of mince, flour and pasta rocket and higher value steaks and other products suffer as markets adapt.

### Innovation and opportunities

Across agriculture and the food supply chain we have seen innovative players move quickly to work round the restrictions and loss of market access. Livestock markets have set up effective social distancing measures to keep vital trade going. While it may feel that the big supermarkets have benefited the most from the restrictions equally some restaurants, cafes and agricultural producers have moved quickly to set up on-line delivery or click and collect services to reach the customer directly. Consumers can see before their very eyes how vulnerable our economies, our food systems and our very health are to global issues. This raises the value for the segment of consumers who can afford it of being able to buy safe, sustainable and locally produced foods. And this has benefited direct marketing of veg, meat and other produce. Probably more importantly it raises the UK political pressure in any forthcoming trade talks not to trade away what measure of self-sufficiency we currently have for the more ephemeral benefits of global trade.

**Next month** - Alternative crops, soil carbon sequestration

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### This month's editor:

Julian Bell



The European Agricultural Fund  
for Rural Development  
Europe investing in rural areas



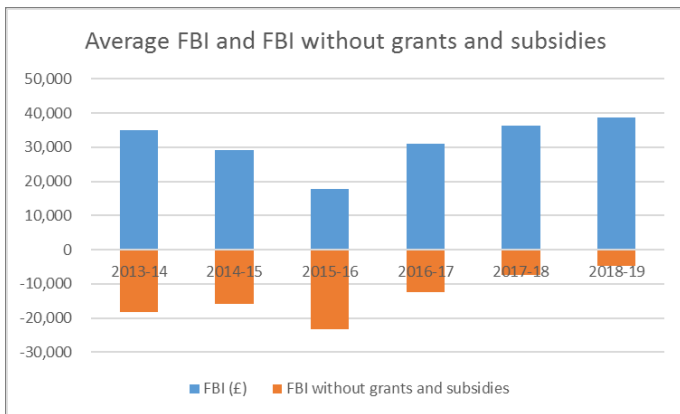
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# Policy Briefs

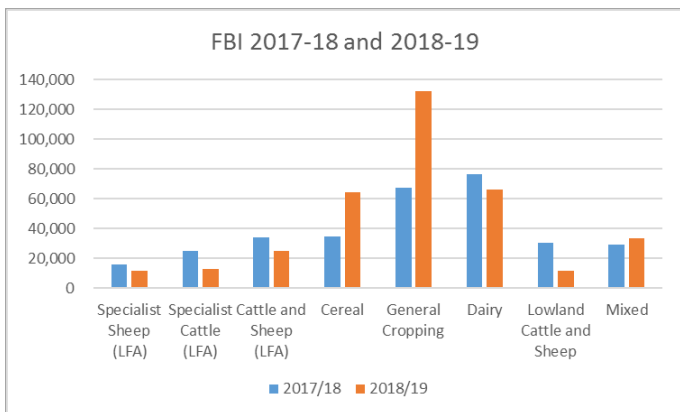
## Scottish Farm Business Income

The Scottish Government has published Farm business level estimates of average incomes for 2018-2019. The published data is available at: <https://www.gov.scot/publications/scottish-farm-business-income-annual-estimates-2018-19/>, and a summary is included below.

According to the latest Farm Business Income (FBI) figures, at 2018-2019 prices, the average farm income has risen from £36,283 in 2017-18 to £38,683 in 2018-19, which is also a seven-year high. The increase in FBI between 2017-18 and 2018-19 is due to an increase in income from cereal, general cropping and mixed farms; livestock farms generated less income.



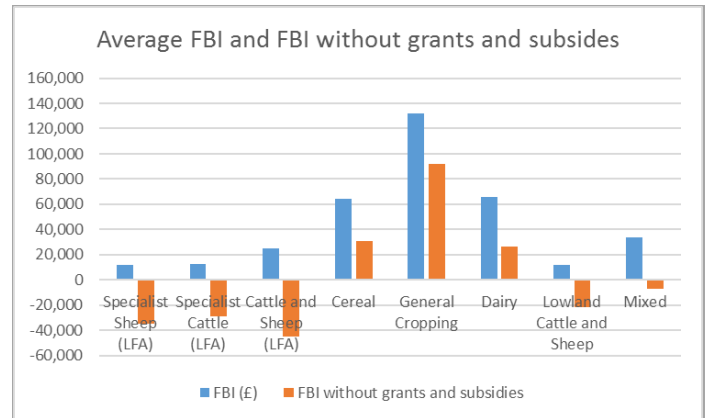
Source: Scottish Government



Source: Scottish Government

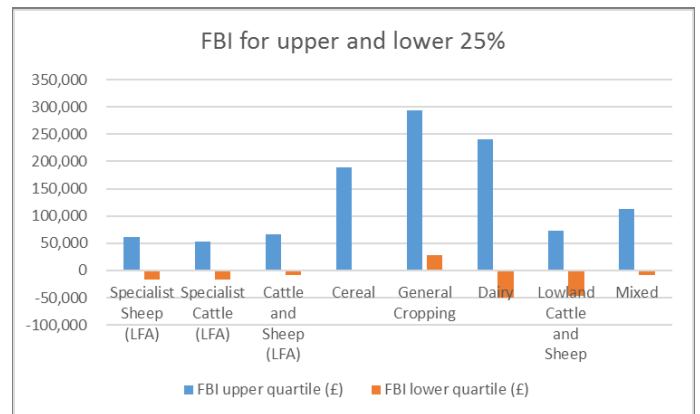
As the first chart also shows, on average, businesses are still making a loss without subsidies (average loss of -£4,693). Albeit it is less of a loss than in previous years, these findings still highlight the importance of farm subsidies.

A review of each farm type showed that cereal, general cropping and dairy farms, on average, generated a positive FBI without grants and subsidies, see chart opposite.



Source: Scottish Government

The data also showed that there were significant differences between high (top 25%) and low (bottom 25%) performing farms. As the chart below shows, it is only general cropping farm types, where the lowest performing farms generated a positive FBI, the rest all generated negative FBIs, including cereal farms at an average FBI of -£802.



Source: Scottish Government

## BPS 2020 Exchange rate

The exchange rate to convert euro values to sterling for 2020 will be the same rate as last year which was €1 = £0.89092.

## Single Application Form

At the time of writing, farmers and crofters in Scotland must still submit their 2020 Single Application Form (SAF) by 15<sup>th</sup> May 2020.

Although due to Covid-19, extensions until 15<sup>th</sup> June have been permitted in Wales and England, this does not currently apply in Scotland. It is therefore important that farmers and crofters in Scotland continue to work towards the 15<sup>th</sup> May deadline to ensure their SAFs are submitted on time and to avoid financial penalties for late submissions.

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# Cereals and Oilseeds

## World food use grows, ethanol down

Normally the main driver of uncertainty in global grain supply and demand is the weather; and that remains. But right now it has been joined by the massive global economic shock resulting from Covid-19.

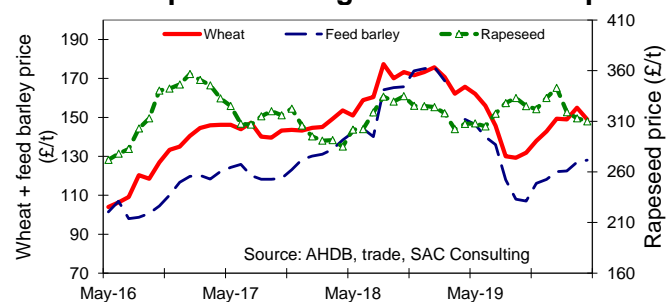
So far demand for the staples of human consumption such as flour, pasta and rice have been strong supporting global wheat prices. On the other-hand; energy and industrial uses; namely ethanol from US maize have seen falling demand.

In their first 2020/21 estimate of global grain supply and demand International Grains Council expect world grain production to rise 51mt (2%) to a record 2,223mt, use to rise 33mt to 2,226mt but overall stocks to fall slightly down 3mt to 605mt.

In 2020 world grain stocks to use are expected to fall to the lowest level in 6 years at 99 days (of supply) (101 in 2019).

A strong rebound in US grain and oilseeds production is expected given the very late planting season in 2019. The US is also expected to see a sharp fall in ethanol demand for maize and rising stocks. In other regions, including the EU and China, the situation is expected to be tighter as cereal crops may be down on 2019 and demand remains stronger. There are not serious weather or crop concerns at present though time remains for any upsets.

### Scottish spot ex-farm grain and oilseed prices



- World expected to see larger grain harvest in 2020 – yet stocks still set to decline.
- Hard to assess impact on total demand from Covid-19 but human use expected strong.

## Malting barley Covid-19 uncertainty

Heineken report a 14% fall in beer sales on a global basis with a 15.3% fall in European sales. Heineken expect beer sales to decline even more in the second half of 2020 even when movement restrictions start to lift. The weak economic outlook is expected to hit disposable income and beer consumption.

The loss of pub and restaurant trade has been moderated to varying degrees by a rise in retail beer sales as people drink more at home. In the UK, Kantar data indicates that retail sales of alcohol rose 22% in March, ahead of the 20% rise in food sales. The larger brewers appear to be faring better while craft brewers have suffered the most as they are heavily dependent on the pub and restaurant trade which has ceased.

In Scotland a significant number of whisky distilleries have closed due to social distancing restrictions. While some have switched to making alcohol for hand sanitisers. The Scotch Whisky Association acknowledge that demand for grain in distilling has fallen but that this should recover when restrictions lift and distilleries resume. Whisky stocks are relatively low and whisky production is not directly linked to current sales given the large time lag (years!) between production and sale.

In terms of supply a sharp rise in spring barley sowings in England may bring more brewing barley to market but is unlikely to provide distilling grade barley. Sowing on heavier land and the dry spring to date does not favour low nitrogen barley samples. In Scotland, conditions are dry, but so far this has enabled rapid sowing under good conditions and crops have emerged in generally good condition.

- A rise in English brewing barley production and weak brewing demand are a threat to brewing malting barley prices.
- But distilling barley prices remain more dependent on the yield and quality of the Scottish spring crop and how quickly distilleries re-open.

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Indicative grain prices week ending 17 April 2020 (Source: SACC/AHDB/trade)

\* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Apr 20	May 20	Jul 20	Hvst 20	Nov 20	Mar 21
Wheat	Ex-farm Scotland	148.00	149.00	151.00	158.00	161.00	166.00
Feed barley	Ex-farm Scotland	128.00	129.00	131.00	130.00		
Malt. barley- distil	Ex-farm Scotland						
Malt. barley- brew	Ex-farm England#					138.00	143.00
Oilseed rape*~	Delivered Scotland		310.00		310.00	320.00	

# Beef

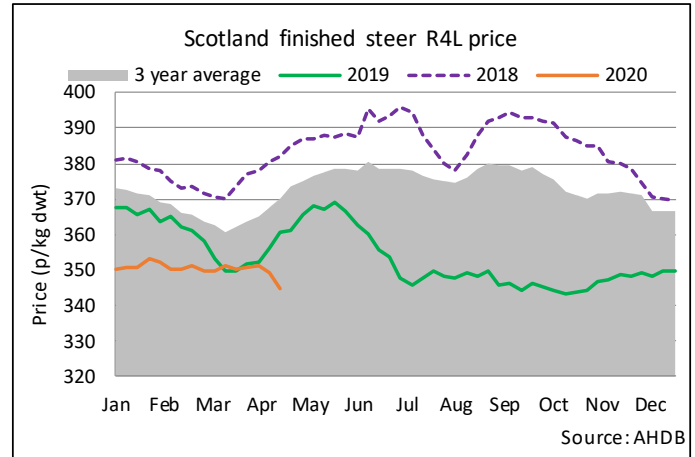
## Covid-19

Covid-19 has had a massive impact on all businesses across the world. Some businesses will see a benefit, take Netflix for example who have welcomed over 15 million new subscribers since lockdown commenced. However, the fact that a significant proportion of the country's workforce is currently at home watching television, paints a very bleak picture for the economic output of the country. Crude oil price bombing to the point you would be paid to take a barrel of oil, highlights the challenges that other industries face.

Agriculture is in a better place than many other industries, but farmers are not entirely insulated from the impact of Coronavirus restrictions. The beef price had been quietly improving, up until lockdown but in a few short weeks has lost all the ground it had made up. The reason for this is relatively simple, while demand for beef is good, we now have a major issue with regards to carcass balance. While demand for mince and burgers is high for household consumption, higher value cuts are not wanted. With the catering sector now entirely furloughed (and likely to be for some time) demand for high value cuts is very limited. Evidence of this can be seen in the difference between cull cow and prime beef price, cull cows remain a reasonable trade while prime price is sluggish.

## Markets are open for business

As the country went into lockdown, there was a lot of concern among farmers that markets would be closed and cattle movements would be stopped. However, over the last few weeks the markets have worked very hard to create workable, safe models for livestock to be sold. Store and prime sales go on, obeying all social distancing rules, with systems



in place to trade breeding stock, including online sales for bulls. While these arrangements are not ideal, the markets should be applauded for their

timely and practical approach to a very challenging situation. It is in everyone's interests to keep communication up, make sure you keep in touch with your mart, agent or dealer to ensure stock are sold at the right time and to your benefit.

## Don't throw a shrimp on the barbie!

At the time of writing, the countryside is basked in beautiful spring sunshine, seldom have we had better opportunities to get on with spring work and get cattle turned out. However, the main reason we should be thankful for this spell of weather is what it will do to demand for beef. With very few opportunities to get out the house, the general public are turning to their barbecues. Assuming they can tear themselves away from Tiger King on Netflix, this warm weather will see thousands of people BBQing in their gardens, perhaps if we are lucky, extensive supermarket promotions will see people throwing another STEAK on the barbie.

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Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
4 Apr 20	351.4	0.6	-5.4	348.1	0.4	0.0	342.8	6.9	264.4	234.2
11 Apr 20	349.4	-2.0	1.2	344.3	-3.8	2.7	339.4	10.4	261.1	234.1
18 Apr 20	344.6	-4.8	1.2	339.6	-4.7	4.2	332.0	10.8	259.7	236.9

The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.



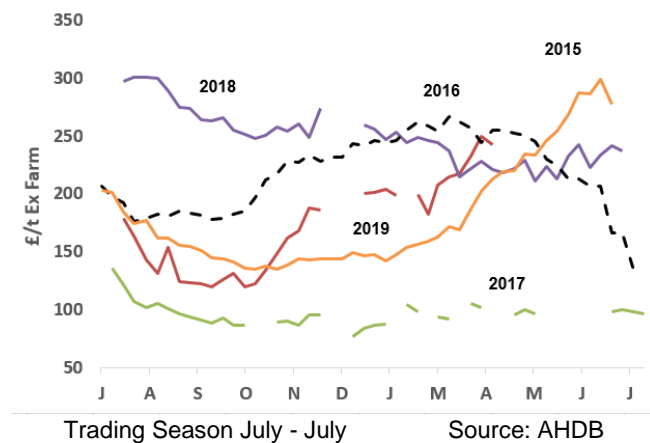
# Potatoes

## Market price update

- The GB Weekly Average Prices for the week ending 4th April was £213.03/t for free-buy and contract purchases, and £242.08/t for free-buy purchases.
- Compared to the previous reported figures on 28th March, contract and free-buy purchases were up by £1.49/t and free-buy purchases were down by £7.64/t.

Crop Year 2018/19	4 Apr	28 Mar	21 Mar
Average Price (£/t)	213.03	211.54	204.36
AVP change on week (£/t)	+1.49	+7.18	+6.42
Free-Buy Price (£/t)	242.08	249.72	232.77
FBP change on week (£/t)	-7.64	+16.95	+15.15

### GB Weekly Average Free-Buy Price (2015-2019 crop years)



## Market Overview

Free-buy trade across all market sectors has remained subdued in recent weeks with the majority of movement in the packing market reported to be on contract. Planting is reported to be going very well with good weather conditions allowing growers to make quick progress on the ground.

In Scotland, grade 1 Piper is trading around £220/t ex farm with a high of £265/t ex farm. Grade 1 Whites are trading around £230/t ex farm, with a high of £250/t ex farm (latest prices for Scottish packing material reported on 9<sup>th</sup> April). In England, grade 1 Piper is trading around £260/t ex farm with a high of £365/t ex farm for particularly good quality stocks. Grade 1 Whites are trading around £270/t ex farm with a high of £360/t ex farm reported. Reds are trading around £280/t ex farm with a high of £300/t ex farm (latest prices for English packing material reported on 17<sup>th</sup> April).

Due to an insufficient number of quotes recorded for the bagging, processing, and export markets in recent weeks, there are no prices available to report.

## Fresh potato market faces increased competition from processors

The past two months have been quite a rollercoaster for the majority of us as we adapt to new ways of living and working. For many growers it has been “business as usual” as they focus on spring work and planting. The Scottish potato sector has continued to thrive despite the challenges of the current crisis, but with the collapse in the food service sector – with nearly all schools, universities, cafes, hotels, restaurants, and large events being forced to close or be cancelled – high volumes of processing material may become available to packers at lower free-buy prices. A surplus of processing material, particularly in England, vying for a place in the fresh market may dampen free-buy prices in the coming months. With many frozen potato products imported from the EU the UK market may be less impacted. It is fully anticipated that packers will honour contracts and agreed free-buy tonnage, but growers with unallocated free-buy volume /\* may be affected by increased competition from the processing market.

During the first few weeks in March, packers experienced a surge in demand as consumers turned to “panic-buying” in anticipation of lockdown. Local reports described the surge as a “second Christmas”, where packhouses were operating at maximum capacity creating logistical and operational challenges. Human resources also very quickly became an issue when the Government enforced movement restrictions and guidance on social distancing, which impacted on labour availability due to some employees having to self-isolate due to personal or family circumstances. Free-buy prices for packing material rose in March and some contracts were brought forward to help with the supply of material into packhouses.

More recent reports suggest that orders have crashed as consumers have become suitably stocked and less inclined to visit supermarkets and retail outlets amid the crisis. It is anticipated that consumer shopping behaviours will change throughout the weeks and months ahead, with many moving to online ordering through click & collect and/or delivery services, with the frequency of ordering reducing and basket sizes increasing. The full effects of Covid-19 on the fresh and processing markets are still to be felt, but there is confidence that the potato industry will stay strong, and there are sufficient supplies of potatoes in the GB market to meet demand.

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# Sheep

## The market place post Easter

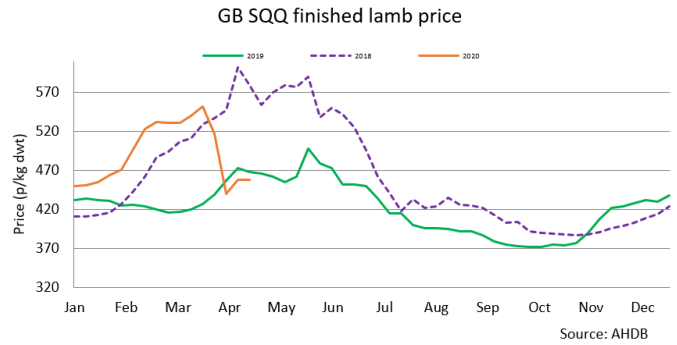
The market for produce has been disrupted since the pandemic was announced. Lamb reached a premium and then overnight, lambs were being turned away from livestock markets. Usually the price falls after Easter, but we currently have an unusual post-Easter price rise, driven by lower throughputs nationally and preparations in the lead up to Ramadan (started 23<sup>rd</sup> April). The value is now closely aligned with this time last year. Skins are almost worthless, with the manufacturing industry at standstill. The same story can be said for cull ewes, where the price was exceptional, again overnight this collapsed, cull ewes have now returned to typical values. New season lambs have started being marketed now, these are making a premium of ~40p/kg above that of old season lamb, which is behind the usual price.

France, along with the UK are our two largest markets for lamb. Both countries being in lockdown is affecting restaurant and supermarket trade, the latter due to impacted household budgets. Ramadan which started on April 23<sup>rd</sup> usually involves evening feasts with friends and family, ending with the feasting festival (Eid al-Fitr) on May 23/24. These festivals normally boost late old season lamb sales, but these might be depressed marginally due to lockdown restrictions.

## Always an optimist

The hope is that the French export market will return, as trade friction eases and demand increases. We can look to the experiences of China, where their economy is restarting. New Zealand lamb exports to China have risen following the extreme shortages of pig meat due to African Swine Fever (ASF). It is reported this has now wiped out 40% of the pig herd in China and has now been reported closer to home in Poland.

If ASF reaches Germany, a major pork exporter to China, this could divert pork exports into the EU market. How could this affect lamb trade?



Higher lamb consumption in China and less New Zealand lamb reaching Europe, in preference to a higher value in China.

Hopefully, the UK lockdown will be eased in June or July in time for the main crop of lambs reaching the market. So far, lamb hasn't taken the hit other red meats have, so long as French trade resumes, we will probably see lower prices than last year, but it is unlikely to bottom out below £3.50/kg dwt.

## Eating habits

It is estimated that 15% of lamb sales are generated through food services (restaurants and take away). Some have adapted to delivery services, which has compensated for some of the loss. Consumer shopping habits have changed: a return to cheaper, non-perishables and home cooking has seen a resurgence, benefiting cheaper more adaptable cuts such as beef mince.

On the other hand, box schemes and farm shops providing premium local meat have also seen trade 'like Christmas!'. To the middle class, supporting our local economy is a must. Some of these changes will certainly be short-term but, with crisis, there is opportunity. Food supply disruption will leave us with alternative routes to market: more online shops, meal kits, delivery services, etc. It is up to the innovative amongst us to understand how to collaborate and capitalise on these new opportunities.

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd)	
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	Scottish All	Eng&Wal All
4-Apr-20	440.9	-77.9	-6.3	1.2	200.70	19.2	15.0	5.5	53.14	72.26
11-Apr-20	458.2	17.3	-10.9	-0.8	208.50	7.8	8.5	11.9	89.91	89.95
18-Apr-20	460.0	1.8	-6.7	3.3	216.40	7.9	5.3	18.7	87.36	85.44

Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB and IAAS

Standard weight 32.1 - 39.0kg; Medium weight 39.1 - 45.5kg; Heavy 45.6 - 52.0kg

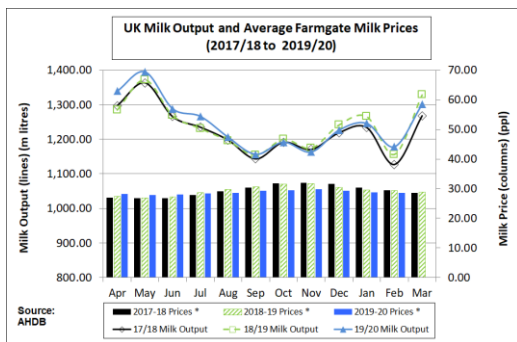
## COVID-19 hits prices and production

- Annual production for the 2019/20 milk year is 14.958bn litres (up 87.32m on last year), despite lower milk output during March 2020.

The latest milk production figures from AHDB show that UK monthly milk output for March 2020 is estimated at 1,300.86m litres (before butterfat adjustment). This is 27.46m litres lower than March 2019 output. Cumulative UK production for the 2019/20 milk year (1<sup>st</sup> April 2019 – 31<sup>st</sup> March 2020) is estimated at 14.958bn litres. This is 87.32m litres higher than last year.

The UK average milk price for February 2020 is estimated at 28.62ppl (down 0.15ppl from January). The average milk price for February 2020 is 0.72ppl lower than the average price one year earlier, in February 2019.

With the UK now in its second month of lockdown, several milk buyers are urging farmers to restrict production if at all possible as consumer demand continues to contract. Given the onset of the spring production peak, this is a big ask of farmers. Milk buyers supplying the food service sector have been particularly affected, with some buyers losing supply contracts and being forced to sell milk on the spot market at discounted prices.



## Milk prices for May 2020

Price announcements for May 2020 include:

- Arla Foods amba – Arla is to reduce its member milk price by one euro cent for May 2020. The liquid standard litre price will reduce by 0.87ppl from 29.61ppl to 28.74ppl, whilst the manufacturing standard litre will reduce by 0.90ppl from 30.79ppl to 29.89ppl.
- Yew Tree Dairy – will reduce its a litre standard price by 2ppl from 1<sup>st</sup> May 2020. This takes the standard litre price down from 25.50ppl to 23.50ppl.
- First Milk – FM has confirmed a hold on April 2020 prices for May. This means that the liquid standard litre prices remains at 26.75ppl and the manufacturing standard litre remains at 27.63ppl.

- Müller – After announcing a 1.00ppl increase for May 2020 at the end of March, Müller then rescinded the May 2020 price increase following a collapse in the returns from bulk cream and butter. Instead, Müller has confirmed that the April price will be held in May and June 2020.
- Müller CDG – The Co-operative Dairy Group (CDG) milk price is to increase by 0.43ppl from May 2020. This takes the liquid standard litre price up from 29.39ppl to 29.82ppl.
- Tesco – Members of the TSDG will receive a 0.33ppl price increase from 1st May 2020. The price increase takes the liquid standard litre up from 31.18ppl to 31.51ppl for Müller Milk Group suppliers, whilst the price moves up from 30.93ppl to 31.26ppl for Arla Direct suppliers.
- Grahams Dairy – Reduced its milk price by 1.00ppl from 10th April 2020. The reduction has taken the liquid standard litre down from 25.50ppl to 24.50ppl. The food service sector is a significant customer for Grahams Dairy and as such COVID-19 restrictions will have a considerable impact on the company.

Annual Average milk price estimates for May 2020 (ppl)	
Milk Buyers – Scotland	Standard Ltr*
Lactalis (No profile or seasonality) <sup>1</sup>	26.50
First Milk Liquid <sup>1,2</sup>	26.75
First Milk Manufacturing (4.2% Butterfat & 3.4% Protein) <sup>2</sup>	27.63
Müller - Müller Direct - Scotland <sup>1,3</sup>	26.00

<sup>1</sup> Liquid standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.  
<sup>2</sup> FM prices include 0.25ppl Member Premium. The member premium increases to 0.50ppl from April 2020.  
<sup>3</sup> No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.

## Dairy markets in turmoil

With orders from the food service sector now just a fraction of what they were prior to the lockdown, milk processors are facing challenging times. Demand has dropped off a cliff edge for some processors, milk is in excess supply, and prices are still to find their equilibrium. What is apparent is that some milk processors are more exposed than others, depending upon the markets they sell into. As always, there are winners and losers when there is so much uncertainty in the market.

UK dairy commodity prices (£/tonne)	Apr 2020	Mar 2020	Oct 2019
Butter	2,390	2,920	3,170
SMP	1,730	1,990	2,040
Bulk Cream	900	1,280	1,490
Mild Cheddar	2,880	2,910	2,830
UK milk price equivalents (ppl)	Apr 2020	Mar 2020	Oct 2019
AMPE (2014)	23.33	28.49	30.21
MCVE (2014)	30.11	30.98	30.09

Source: AHDB

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# Impact of Covid-19 on Food Supply Chains

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**Protecting key workers** - In recognising that the fluidity of the food supply chain relies on the health and availability of people involved in food production, processing, distribution, sale and delivery; these key workers (and members of their households) are now eligible for Priority Testing for Covid-19.

**Labour & logistics** - As with each crisis faced by the agricultural sector, farmers and growers are deploying their usual strategy of working even harder and hoping that their business will be able to ride out the storm. However, despite responses by the UK public, the availability of seasonal workers for the fruit and vegetable sector continues to cause concern; with [The Grocer](#) reporting some producers chartering flights to bring experienced seasonal pickers from Romania.

**Food service sector** - While inability to comply with the more stringent social distancing regulations (minimum 2m) introduced on the 21<sup>st</sup> April has resulted in the closure of more food service businesses; invention being the mother of necessity, has seen some restaurants reopening on a food collection/delivery basis only.

Given that the food service sector is likely to be one of the last business sectors to be allowed to re-open; survival in this sector will not simply be linked to a financial ability to ride out the crisis but in each business's ability to adapt to the need for social distancing, and potentially long lasting changes in consumer behaviour. AHDB are [tracking GB retail sales](#) of pork, beef, lamb, dairy and potatoes on a weekly basis to help the industry understand how shopping behaviour is changing. New data is published every Friday.

**Milk** - Whilst total UK milk production in March was up 1,297 million litres (10%) on February's production figure, it was 2.4% lower than March 2019, and 3.2% lower than March 2018.

Although buyers supplying supermarkets continue to see strong demand for liquid milk and increasing demand for dairy products; the closure of food outlets is having a calamitous effect both technically and financially on the dairy farms supplying this sector. In response, the [UK Government](#) announced that it will temporarily relax elements of the UK competition law to support the dairy industry through the coronavirus outbreak. The intention is

that the industry will work together to address current market challenges in order to avoid surplus milk going to waste and harming the environment.

Globally, lack of demand from Asian markets has caused downward pressure on prices, with [Global Dairy Trade](#) reporting a further downturn in price for whole (-3.9%) and skimmed milk powder (-4.9%), plus a fall in the butter price (-3.6%). However, cheddar prices have continued to rise (+1.9%).

**Livestock** - From a food supply perspective, whilst self-isolating and more stringent social distancing regulations have led to lower productivity in the slaughter and processing sector; now that the initial panic buying of food appears to have eased, availability of all meats in the supermarket has improved. However, demand is still strongest for the cheaper cuts of meat, especially beef, which continues to impact on the overall carcass value, and hence the recent falls in beef prices.

The impact of social distancing on sheep meat consumption during Ramadan is difficult to predict and could be significantly influenced by the use of social conferencing Apps like Zoom and Houseparty, and, if and when, social 'bubbles' are introduced.

**EU Private Storage Aid** - In order to support the European agricultural industry, the Commission has proposed to grant [Private Storage Aid](#) (PSA) for dairy (skimmed milk powder, butter and cheese) and meat (beef, sheep and goat meat) products. This PSA [Scheme](#) will allow the temporary withdrawal of products from the market for a minimum of 2 to 3 months, and a maximum period of 5 to 6 months. This measure will lead to a decrease of available supply on the market and rebalance the market on the long-term.

**Fuel** - Covid-19 has had a catastrophic effect on the global oil industry resulting in the benchmark for oil prices with West Texas Intermediate (WTI) reporting unprecedented negative oil prices. With plunging demand, oversupply and dwindling storage space, refiners are looking to store gasoline and jet fuel at sea and/or in pipelines. While [Brent Crude](#) has dipped below \$20 per barrel, to allow for fuel duty @ 57.95 ppl, suppliers margins (taking into account reduced volume sales due to the lockdown) and VAT (20%), pump prices are not expected to fall below £1/litre despite plentiful supplies.

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# Management Matters

## New Opportunities

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When this article was initially scheduled for Agribusiness News, “Covid-19” was not in our vocabularies. The ‘New Opportunities’ envisaged were based on customers being able to travel to the countryside for retail, leisure and tourism purposes. While we could still write about these opportunities, giving ample time to plan ahead; the world after national and international ‘lockdown’ restrictions are lifted is likely to be very different to the one we knew before the 26<sup>th</sup> March 2020, and some may not be feasible within the next 12 months, if lockdowns are extended for group gatherings, national and international travel, and the need to factor in social distancing.

According to a Swedish Strategy Company [Inquentia](#) who define ‘Opportunity’ as meaning “a chance to:

- Do things better than before
- Change
- Grow, and
- Learn New Things

### Do things better

“Easier said than done”, might be the first thing that springs to mind. Doing things better can also mean doing things more efficiently. With spring work coming to an end, take some time as you go about your day to think about all the little things that use up precious time e.g. gates that don’t swing or have to be tied open, leaking water troughs, escaping lambs etc. Get family members and staff to do the same. Then set time aside to fix these problems once and for all by sorting hinges, buying auto gate catches, and rylocking over escape routes etc. You will then have more time to look at the stock/crops or will reduce your input into the expletives jar!

### Change

“Even in times of turbulence and accelerating change, the world presents infinite possibilities to be identified and unlocked”. ([Inquentia.com](#)).

There is no doubt that due to the recent travel restrictions and the need for social distancing, consumer behaviour has changed significantly. While, for many, ‘normal’ consumer behaviour will be restored, once retail shops are allowed to re-open; many people, once set up, are seeing the

time benefits of online food shopping and/or shopping locally where possible. This change in consumer behaviour can be turned into an opportunity for many farm businesses especially with regards to selling local produce. Opportunities include:

- Box Schemes – meat, fruit/veg & baking
- Ready-made Meals/[Recipe Boxes](#)
- Milk & Dairy deliveries
- [‘Lock Blox’](#) style vending machines

### Grow

In thinking about new opportunities to grow your business; many farmers instantly think of putting on more livestock/taking on more arable land or diversifying. However, while to a certain extent, size does matter, at the end of the day, business efficiency and net profit are more important to the long-term survival of a business.

Business growth can be achieved by:

- Expanding a profitable enterprise at the expense of a less profitable one
- Adding value to existing produce e.g. changing breeds/varieties, better carcass composition
- Selling retail rather than wholesale

### Learn new things

The old adage “you can’t teach an old dog new tricks’ will spring to mind for many. The advantage of no longer being in the educational system, is that you can choose to learn about things that you actually find interesting or useful in your day to day life. Online learning has been evolving in recent years to include short as well as long-term courses.

[Lantra](#) currently offers 22 online courses including:

- [Mental Health in Agriculture](#)
- [Making Tax Digital](#)
- [Food Health and Hygiene](#), and intriguingly
- [Professional Bed Bug Control](#)

[SRUC](#) also offers a range of agricultural, environmental and food safety courses online.

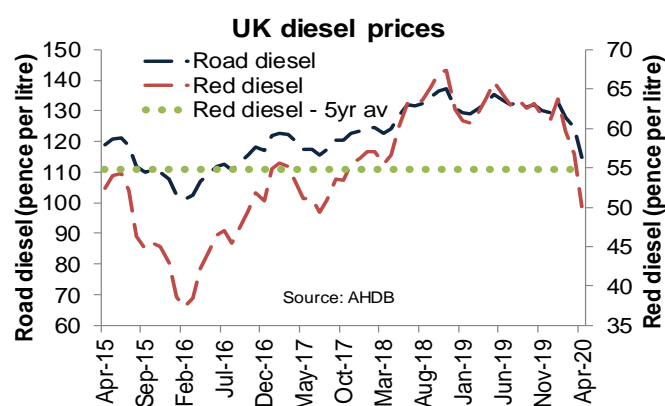
*If somebody offers you an amazing opportunity but you are not sure you can do it, say yes – then learn how to do it later”. Richard Branson.*

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# Input Costs - Oil Prices

**Crude oil prices reach 21 year low** - US oil prices briefly went negative, the first recorded instance in recent history, this was due in part to a technicality of futures trading and a lack of storage. On a monthly average basis US oil prices have reached the lowest level in 21 years since 1999.

In the last year, Brent crude oil prices in dollars have fallen 69% to \$16.62/barrel at the end of April 2020 (\$54.28/barrel in April 2019). This is driven primarily by a collapse in world crude oil demand due to Covid-19 curtailing transport and industrial oil demand. This has been compounded by a price war between Saudi Arabia and Russia and the rapid filling of available storage.



**UK red diesel prices down 14ppl** - Red diesel prices in the UK have fallen 22% or 14ppl to 50ppl in the year to April 2020 due largely to global factors noted above. Road diesel prices have fallen 17.7ppl to 115ppl at the end of April 2020 compared to 132.8pp in April 2019.

Assuming average red diesel usage of 150l/ha on cereal farms the 14ppl price fall in the last year has cut costs by £21.00/ha or £2.80/t of grain at 7.5t/ha average yields. On intensive potato and vegetable

units where diesel use per ha can be 3 to 4 times higher, these price cuts will be more like a £60/ha to £80/ha decrease. Whilst welcome these changes are small compared to swings in commodity prices.

**Agricultural market impact** - Falling oil prices quickly feed through to the cost of producing and transporting bulky global commodities such as feed and grain. They also lower the value of related markets; particularly energy. The collapse in fuel consumption has hit demand for biofuels typically blended into mineral road fuels. US maize demand for ethanol is expected to fall sharply in 2020. So far weaker demand for vegetable oil in biofuel has not had a major price impact. Probably more important is that oil prices are a barometer of world economic outlook. The dramatic fall in oil prices indicate the world is going to enter an economic depression with profound impacts on demand and prices for food; especially non essentials. These examples illustrate how future oil price direction matters to more than the cost of fuel.

If oil prices remain this weak for an extended period, world production is likely to fall sharply; particularly in high cost producers such as the heavily indebted US shale oil producers. Already the US is expected to see a sharp fall in oil production in 2020. Essentially the lower prices go now and the longer they stay there, the higher that future price peaks will be. The main caveats are that the expected severity of the world economic depression is likely to subdue demand for months or years. Also the falling cost of renewable energy and electric vehicles will steadily erode the market for crude oil in the years ahead. So seek to benefit from low prices now but be aware that prices will rebound at some point and that oil markets volatility will only increase.

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## Key economic data

General Indicators		Price indices for February 2020 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.1% (0.75% Mar '20)	Wheat	127.06	Seeds (all)	103.7
ECB interest rate	0.00% (0.00% Sep '18)	Barley	116.25	Energy	119.8
UK (CPI) inflation rate	1.5% (target 2%)	Oats	109.64	Fertiliser	91.5
UK GDP growth rate	0.0% (Q4 '19)	Potatoes	132.38	Agro-chemicals (all)	128.3
FTSE 100	5,959 (28 Apr '20)	Cattle and Calves	101.16	Feedstuffs	111.3
		Pigs	125.13	Machinery R&M	110.8
		Sheep and Lambs	136.10	Building R&M	110.7
		Milk	117.00	Veterinary services	114.2

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