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April 2019

News in brief

UK to slash tariffs in a No Deal Brexit

With no sign of the UK parliament approving the EU withdrawal agreement as Brexit day approaches the risk of a "No-Deal" exit remains high. The EU has only granted a short extension to Article 50 from 29th March to either 22nd May if the EU withdrawal deal is agreed, or 12th April if not.

In response the UK government finally published its proposed import tariffs for the first year of trading under a no-deal scenario. In this situation the UK will cut most agricultural tariffs; many to zero, primarily to keep a lid on food prices for UK consumers. However, it would also represent for UK farmers a drastically reduced level of protection from cheaper global imports. These tariff cuts will not be reciprocated by the EU making this a one-sided trade liberalisation against the interests of UK agriculture. Previously it was thought that some sectors such as dairy and pigs where the UK is import dependent would gain from a no-deal Brexit from the imposition of EU WTO tariffs and accompanying higher prices. This now appears unlikely; removing a potential Brexit dividend for some producers. For more details see this month's Management Matters Section on page 8.

Time to diversify?

With the future for agricultural commodity production in the UK never more uncertain, now is a good time to consider the potential for diversifying enterprises within the farm business.

Some of the most popular new enterprises include; farm vending machines led by milk and vegetables, glamping, wedding venues for those who want something different and even farm fitness ……whatever next?

See this month's Sector Focus article on page 9, for the latest developments in on-farm diversification.

Next month …..

- Carbon credits
- Legume crops

Contents

Policy Briefs 2
- BPS payment £ or €?

Cereals and Oilseeds 3
- Zero import tariffs on cereals in a No Deal

Beef 4
- Prices remain under downward pressure

Potatoes 5
- Prices off the boil, GB farm stocks down 25%

Sheep 6
- Prices rise in run up to Easter

Milk 7
- Prices flat as UK volumes rise

Management Matters 8
- UK Government reveal No Deal import tariffs

Sector Focus 9
- Diversification

Input Costs 10
- Feeds

This month's editor:
Julian Bell

BPS payment option - £ or €?

When completing their Single Application Form (SAF), Basic Payment Scheme (BPS) applicants are once again faced with the question of whether to take their payment in sterling or euros. What option should applicants select?

Basically, there is no right or wrong answer, with the decision usually falling to what has been done in the past, but below is a reminder about both options.

Opting to receive the BPS payment in sterling means that the payment amount is dictated by the average euro – sterling exchange rate set throughout September. Whereas electing to take the payment in euros gives more control over the rate either by entering into a forward contract or converting it into sterling at a later date.

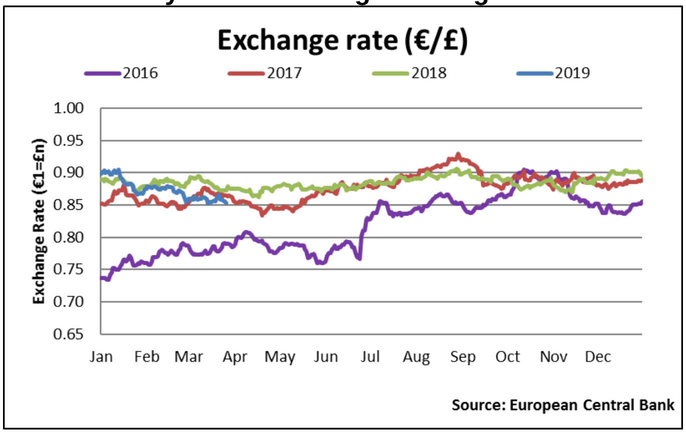
Although electing to take the payment in Sterling leaves the payment rate to chance, it has historically been the most popular choice and as the table below shows, for the past two years, has resulted in a favourable rate.

BPS exchange rate

Year	BPS exchange rate
2016	€1 = £0.85228
2017	€1 = £0.89470
2018	€1 = £0.89281
2019	€1 = £??

Taking the payment in euros and either locking into a rate or converting the payment to sterling at a later date does provide certainty over the payment amount, aiding budgeting. If entering into a forward contract it is important to understand what the arrangement is, if the rate includes all costs and fees and ensure there is an adequate exchange window.

Daily Euro - Sterling Exchange Rate



What the pound and euro will do over the next 6 to 12 months is difficult to predict but as the chart opposite shows, the sterling has gained strength over the euro since the middle of January, not a favourable movement as far as sterling converted payments or exports are concerned.

As Brexit negotiations rumble on, further fluctuations are inevitable. In the event of a no-deal Brexit it is expected that the sterling will weaken, but on the other hand, if there is a deal, it is expected that the pound will strengthen further against the euro.

CAP payments and scheme key dates

BPS 2018 and National LFASS

The first tranche of BPS 2018 payments have begun, which for many will be the remainder of the balance (10%) following payment of the loan last autumn. LFASS Loan payments have also commenced, with eligible farmers and crofters receiving up to 90% of their 2018 payments.

Changes to 2015, 2016 and 2017 CAP payments

Following a data cleansing exercise carried out by RPID, the 2015, 2016 and 2017 payment rates for Basic Payment, Greening and Young Farmer schemes have been reviewed. This has resulted in marginal changes to some applicants payment rates. Where the amount is a top-up, payments have commenced, if there is a marginal debt, it will be factored into the calculations of the 2018 payments. Notification of changes will appear in the communication log on Rural Payments and Services.

Transfer of BPS Entitlements

The final date for submitting a 2019 entitlement transfer application and associated paperwork to local RPID offices is 2nd April 2019.

AECS

Agri-Environment Climate Scheme (AECS) deadline for applications is 12th April 2019. For collaborative applications involving five or more RPID registered businesses, the application closing date is 31st May 2019.

SAF

The Single Application Form (SAF) 2019 must be submitted by 15th May 2019.

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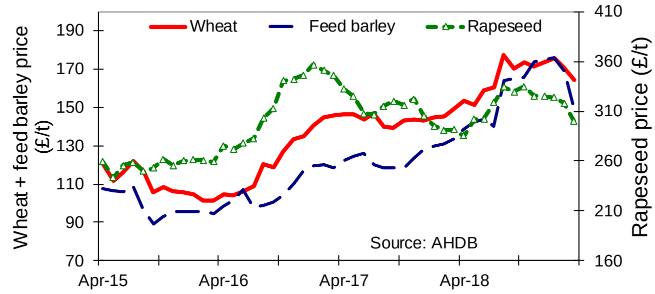
Global markets lift on US floods

World crop conditions remain generally good though the US has suffered rapid snow melt and severe flooding. Stored crop has been lost and fields are waterlogged, however it is still early and time remains for fields to dry out in good time. Winter crops in most of the EU are in excellent condition with Germany now expecting a 20% rise in cereal output this harvest though dry conditions are seen in Iberia. EU grain exports have picked up pace and look on track to match expectation.

The resumption of trade talks between the US and China boosted soya and maize prices in the US and the US is expecting record soyabean plantings driven by better prices relative to maize.

In the UK, cereal prices have risen due to a weaker pound as Brexit uncertainty intensifies. Since last month's edition, Scottish ex-farm wheat prices have risen £3/t to £165/t and barley prices are unchanged at £155/t. Rapeseed prices fell -£5/t to £300/t delivered central Scotland for harvest 2019.

Scottish spot ex-farm grain and oilseed prices



Zero UK import tariffs in a No-Deal

With no sign of the UK parliament approving the EU withdrawal agreement and only a short extension to Article 50, the risk of a "No-Deal" exit remains high.

The UK government finally published its proposed import tariffs under a no-deal scenario. The UK proposes setting import tariffs at zero for 12 months on exit for all cereals, potatoes, fruit and vegetables (apart from green beans!).

These will not be reciprocated by the EU meaning our exports face tariffs in to EU markets. This removes all existing protection from imports of grains from all global origins (Ukrainian wheat, Danish malting barley) and so deprives Scottish and UK producers of any potential domestic price lift from higher import costs when short.

UK and Scotland winter sowings

Scottish Government estimates reveal a 23kha rise in winter sowings by 1st December in Scotland due to higher wheat and winter barley plantings.

AHDB estimates for expected crop areas in June 2018 estimate a rise in UK wheat (+74k ha) and winter barley (+55k ha) and spring barley (-26k ha). AHDB forecast a 12kha fall in Scottish Spring Barley.

Based on 5 year average crop yields these two surveys suggest a large rise in UK (+614kt) and Scottish (+90kt) wheat production. Though the Scottish estimates exclude any wheat planted after 1st December (typically ~5k ha). Barley production overall could be around 250kt higher for the UK.

In terms of livestock feed demand in Scotland; cattle numbers were seen falling -2.0%, breeding pigs were up 15% and poultry were up 3.0%.

Crop areas at 1st December Scotland 2018 & June 2019 estimates for UK

000'a ha	Wheat	Barley W.	Oats	OSR	W. Tot	Spring Barley
UK						
2018 Jun	1,797	394	173	601		763
2019 Jun	1,871	449	190	585		737
Chng. (kha)	*74*	*55*	*17*	-16		*-26*
Chng. (kt)	614	385	102	-58		-147
Scotland						
2017 Dec	93	42	9	31	174	250
2018 Dec	104	52	10	30	197	238
Chng. (kha)	11	11	2	-1	23	-12
Chng. (kt)	90	79	11	-2		-70

Source: AHDB, Scottish Government

- Higher winter wheat plantings – making UK net wheat exporter, possible surplus in Scotland
- UK likely to see rise in feed barley export surplus
- Both above as UK faces threat of tariffs into EU

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Indicative grain prices week ending 22 March 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Mar 2019	May 2019	Hvst 2019	Nov 2019	Mar 2020
Wheat	Ex-farm Scotland	165.00	167.00	144.00	146.00	152.00
Feed barley	Ex-farm Scotland	155.00		124.00		
Malt. barley - distil	Ex-farm Scotland			168.00		
Malt. barley - brew	Ex-farm England#				152.00	160.00
Oilseed rape*~	Delivered Scotland			300.00		

Prime beef price remains under pressure

The price remains soft on the year despite two consecutive weeks of similar prices. It is the first time since the turn of the year that the prime beef price has not been in steady decline.

However, the difference on the year is getting wider since, by this time last year, prices were on the rise. This means Scottish R-grade steers are averaging around 342p/kg dwt, which is back 20p/kg on the year or over £70 for a 350kg carcase.

There remains an over-supply of beef. Processor chills are full and deliberately well stocked, in contingency for uncertainties surrounding Brexit. Meanwhile, demand from consumers' remains low for premium cuts that otherwise underwrite the producer price.

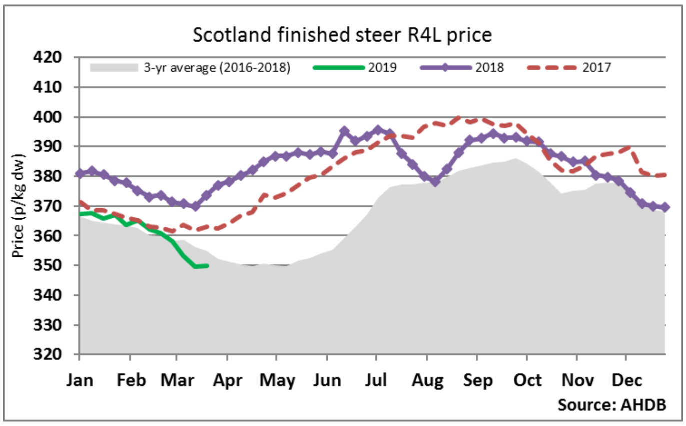
- Irish imports have been the major factor by lifting available supply

Despite the media profile of Veganuary and ongoing campaigns surrounding healthy eating the impact on the beef market was likely to be relatively low. Ongoing supermarket price wars are causing shoppers to be more conscious of their spending. Uncertainty coupled with this typically being the time of year when consumer spend is less has seen greater selection of cheaper cuts of beef, in turn supporting the cull cow trade.

Cull cow price continues to rise with cows averaging 265p/kg dwt. Supply is looking tighter with high culling rates recorded in the backend. Cull cows could gross around £950/hd at 360kg dwt. It is still £40 lower on the year but supply is tightening with high culling rates recorded in the backend.

Restrained store trade

Struggling finished beef prices have led to a mixed store cattle trade so far, as spring sales got underway. Heavier, short keep cattle are taking the biggest knock which mirrors the current price.



Caution was notable around the ring at a number of the major store sales in March. With increased feed costs for finished cattle and cattle being worth less.

- Finishers are receiving around £90 less per head than last year meaning it is understandably affecting the store cattle trade

On a positive note

There was some optimism within the industry as four major beef breeds achieved a clearance rate averaging 74% at the annual Stirling bull sales in February. Although less than the previous year's clearance average there were less bulls sold.

It may come as a surprise that a clearance rate over 70% was achieved considering the number of breeding herd dispersals and slaughterings of cows and heifers at the end of last year.

Farmers were keen to minimise the number of mouths eating reducing forage stocks and expensive finishing rations and so cashed in heifers that gained a good price per kilo. However, this may come back to bite at the breeding sales when replacement heifers are sought.

Will there be enough quality breeding heifers?

If not, this could inflate the price.

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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
02 Mar 19	**358.1**	-2.9	-5.2	**356.0**	-3.8	-2.9	350.8	9.6	257.5	236.9
09 Mar 19	**353.1**	-5.0	-9.5	**352.6**	-3.4	-0.7	343.7	11.4	260.7	234.4
16 Mar 19	**349.5**	-3.6	-7.3	**348.7**	-3.9	-4.3	332.3	0.2	264.2	244.0

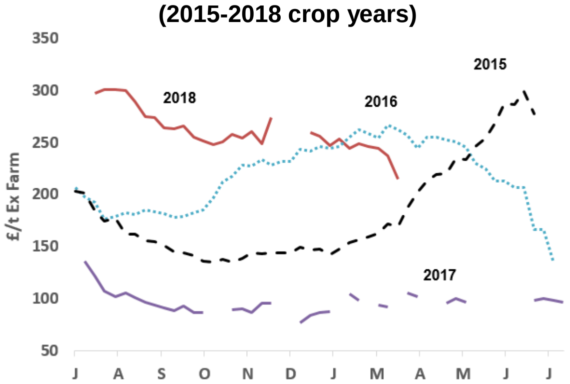
The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

Market price update

- The GB Weekly Average Prices for the week ending 16th March was £192.67/t for free-buy and contract purchases, and £214.21/t for free-buy purchases.
- Compared to the previous reported figures on 9th March, contract and free-buy purchases were down by £9.06/t and free-buy purchases were down by £22.44/t.

Crop Year 2018/19	2 Mar	9 Mar	16 Mar
Average Price (£/t)	197.73	201.73	192.67
AVP change on week (£/t)	0.83	4.00	-9.06
Free-Buy Price (£/t)	244.10	236.65	214.21
FBP change on week(£/t)	-1.59	-7.45	-22.44

GB Weekly Average Free-Buy Price (2015-2018 crop years)



Trading Season July - July Source: AHDB

Demand and prices for free-buy stocks in UK markets has continued to fall this week as packers prioritise contract movement. The latest WAPS free-buy price fell by £22.44/t this week following a £7.45/t drop the previous week. Prices remain strong for good quality supplies, particularly whites stocks with high baker fractions.

The Scottish packing market has remained fairly steady in recent weeks. Strong prices in English markets, coupled with limited local free-buy demand, has encouraged growers to sell material south of the border. Grade 1 Maris Piper is trading around £270-300/t ex farm, down by around £20/t on last week. Grade 1 Whites stocks including; Cultra, Manhattan, Saxon, and Valor, are trading around £190-215/t ex farm, down by around £10/t on last week's figures.

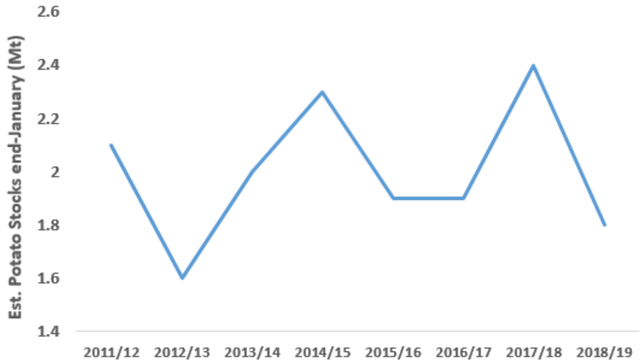
Baker stocks graded 65mm+ are currently being purchased around £325/t ex farm.

The English packing market remains steady with the majority of movement being for contracted stocks. Free-buy prices for good quality material remains strong but increased supply from Scottish growers is putting downward pressure on the free-buy market. Grade 1 Maris Piper is trading around £245-330/t ex farm, down by £15-20/t on last week. Grade 1 Whites including; Electra, Estima, Harmony, Nectar, and Saphire, is trading around £230-250/t ex farm, with exceptionally good stocks with high baker content reaching £320/t ex farm.

Potato stocks down by ¼ on last year

According to AHDB, GB grower-held potato stocks at the end of January were down 24% on last year, 13% down on the five year average. Estimates show that GB grower-held potato stocks at end-January were 1.84Mt, slightly higher than that at the same point in 2012 (1.6Mt) and lower than 2016 (1.9Mt).

Estimated GB grower-held potato stocks end January 2019



Source: AHDB

Following a low yielding 2018/19 crop where off-the-field stocks were lower than average, some growers struggled with ambient storage due to higher temperatures and were forced to sell material quickly to avoid breakdown.

Fresh potato sales up 3%

Figures released by Kantar Worldpanel show that there has been a 3% rise in the volume of fresh potato retail sales over the past 4 years. From the 52 week period to 27th January 2019, the average price of fresh potatoes sold at retail fell by 4% to £0.76 resulting in a 0.6% rise in volume sales. Savoury snacks have seen the greatest growth in retail sales.

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On the rise but book in

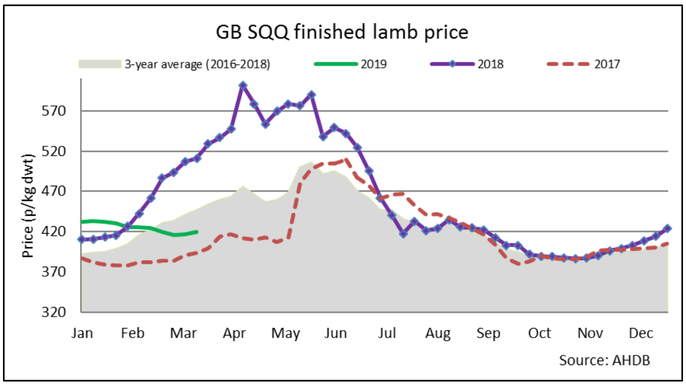
For week ending 15th March, hoggs are trading at circa 405-412p/kg dwt. In the live-ring, Standard Quality Quotation (SQQ) (those weighing between 25.5kg and 45.5kg) were near 200p/kg for the same week. An average priced hogg will gross £85-88/hd. It is meagre conciliation to remember that Easter was three weeks earlier last year whilst in-specification hoggs are £20/hd down on the year.

The average price at many markets was some 10p less than the SQQ, such was the number and current discount on overly heavy hoggs. It has been a kind winter. UK carcase weights are considerably higher on the year, being up over 1kg for February. That means every 19 sold produced some 20hd worth of sheepmeat. It is not quite that simple but the significance is clear.

The first 10 weeks of 2019 have seen GB around 4% lower prime headage throughput on the year but overall tonnage was not dissimilar. HMRC figures, released for January, confirm that exports were 1,200t (-16%) lower on the year. That is only one month but, together with heavier weights, help rationalise the market position.

Nevertheless, the price now represents some promise, with both the live and deadweight markets lifting on the week for the first time this year. Early market performance to week ending 22nd March suggests it will be two consecutive weeks of increase. Less throughput but fewer heavyweights will also lift the average price. Auctioneers report of more lighter types but weights remaining above seasonal trend seems unlikely to change, with sales being delayed in anticipation of a rising market towards Easter (21st April) and the start of Ramadan (5th May). These are late targets and while the cull market will also improve there is a risk of old season lambs incurring a discount of £25/hd if adult teeth break through.

Few producers want to book in lambs early in fear of mistiming sales into a rising market.



But producers are also frustrated when they call to find a 2-3 week waiting list, as other producers had the same idea. It will be worth speaking to procurement and letting them know numbers and book.

Change paralysis

The positioning statement of the EU that 'nothing is certain until it is all certain' is infuriatingly absolute. The proposed fixed cut-off date of 30th June for old season lamb now reverting to the established teeth check method is a comparatively minor but tangible example of just how broad reaching. The UK risks it being viewed as a material change from current EU standards required for export and therefore the UK's ability to deliver 'equivalence'. If the UK is going to trade sheepmeat with the EU, nothing is certain until… further notice.

4% fewer lambs, 2019

Despite a reduction in the Scottish ewe flock, the UK position as at the June census was marginally higher. It was surprising then to see a 4% reduction of lambing ewes at the December census. It may reflect sector confidence but, as importantly, a result of a dry summer increasing lean and consequently barren ewes. These are only projections but AHDB have found a good correlation between estimated December census UK ewe numbers and actual future lamb slaughterings.

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng & Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
2 Mar 19	**418.6**	-3.5	-1.7	2.2	**191.90**	3.8	1.0	14.7	51.19	56.16
9 Mar 19	**419.3**	0.7	-3.7	2.0	**189.30**	-2.6	-0.1	18.7	59.10	61.01
16 Mar 19	**422.4**	3.1	-1.5	1.6	**196.60**	7.3	-2.5	18.9	57.78	63.21

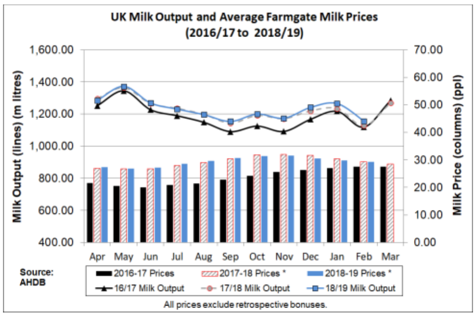
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB

UK production growth continues

UK monthly milk output for February 2019 is estimated at 1,155.65m litres (before butterfat adjustment). This is 28.65m litres above milk output for February 2018. Cumulative UK production from 1st April 2018 to 28th February 2019 is currently estimated at 13,541.34m litres. This is 96.81m litres ahead of last year, when the cumulative total was 13,444.53m litres. By stark contrast, milk production across much of Europe has flat-lined during the latter half of 2018.

DEFRA statistics show that the UK average milk price reduced by 0.42ppl between January and February 2019 taking the average price for February down to 29.28ppl. The UK average milk price figure for February 2019 is 0.12ppl below the average price for February 2018 (29.40ppl).

- *UK production for February 2019 is estimated at 1,155.65m litres*
- *Cumulative UK production for 2018/19 is up by 96.81m litres on last year*



Price freeze for many in April 2019

The following price movements are confirmed for April 2019:

- Arla Foods amba - No change for April 2019. The (liquid) standard litre price remains 29.06ppl.
- Arla Foods organic – 1.51ppl reduction to the liquid standard litre. This takes Arla's organic milk price down from 41.85ppl to 40.34ppl.
- Müller – No change for April 2019 (see table below).
- First Milk – No change for April 2019. (see table below) (see '*FM* confirms *member premium*').

Annual Average milk price estimates for Apr 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Liquid [1]	27.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	28.43
Müller - Müller Direct [1, 2]	26.75
[1] *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.*	
[2] *No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.*	

- Graham's Dairies – No change for April 2019. The standard litre price remains at 26.75ppl.
- Yew Tree Dairy – 0.75ppl reduction from 1st April 2019. This results in a (liquid) standard litre milk price of 26.75ppl.
- M&S – Müller M&S suppliers will receive an increase of 0.54ppl from 1st April 2019. This results in a (liquid) standard litre milk price of 33.36ppl.

First Milk confirms member premium

- *FM member premium confirmed at 0.25ppl*

First Milk has confirmed that the member premium (13th payment for 2019-20) will be 0.25ppl. The premium will be paid as a lump sum during April 2020. To receive the 0.25ppl premium, members must have invested 100% of their capital target. Those who have invested the maximum of 200% of the capital target will receive 0.50ppl premium. Taking the 0.25ppl premium into account, raises the price for the FM liquid standard litre to 27.75ppl.

Arla to go carbon neutral by 2050

- *Arla Foods has announced that it aims to be carbon neutral by 2050*

Arla Foods has announced that its operations from farm to consumer will be carbon neutral by 2050. Any unavoidable emissions (from farms) will be off-set by improvements elsewhere in the supply chain. Arla has already demonstrated that business growth can be achieved successfully whilst reducing CO_2 emissions; the company now handles 40% more milk since 2005 but CO_2 emissions have reduced by 22% across its production and packaging operations. It's an ambitious target, but one which is likely to go down well with retail customers.

Downward pressure on commodities

- *UK product prices for butter and cream decreased during February 2019*
- *Downward pressure mounts as UK milk production rises*

Whilst the table below shows only marginal reductions to prices for butter and bulk cream, the continued growth to UK milk output has reduced spot milk prices below 20ppl and is putting farmgate milk prices under more pressure.

UK dairy commodity prices (£/ tonne)	Feb 2019	Jan 2019	Sep 2018
Butter	3,680	3,900	4,750
SMP	1,690	1,670	1,410
Bulk Cream	1,610	1,710	2,130
Mild Cheddar	2,880	2,880	3,050
UK milk price equivalents (ppl)	**Feb 2019**	**Jan 2019**	**Sep 2018**
AMPE (2014)	29.30	30.20	31.80
MCVE (2014)	31.40	31.60	33.60

Source: AHDB

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Management Matters: "No deal" Tariff Update

UK seeking to sharply lower import protection for domestic producers

In last month's edition, we outlined the potential tariff schedule that the UK might apply in a no-deal scenario. On the 13th March the UK finally released its proposals – published here.

Firstly, it is important to clarify the difference between bound and applied tariffs under WTO rules:

- Bound tariff levels are the maximum level that a WTO member state is permitted to apply to imports under WTO rules.

- Applied tariff levels are the actual tariff rates that WTO member states chooses to apply in practice. Applied tariffs may be the same as bound levels (as the EU operates) or they can be voluntarily lowered as the UK is now proposing. They cannot be higher than the bound limit.

Running to 1,478 pages the UK's tariff document sets out the level of applied tariffs and the tariff rate quota volumes that the UK would apply to goods for a period of 12 months in the event of a no deal exit.

The published tariff levels represent a significant reduction in protection from current EU levels with tariffs on many products reduced to zero. The UK is proposing to retain the EU's bound or upper tariff levels and may choose to re-apply these to some or all goods at a future date.

Proposed UK import tariff levels for agriculture

The level of applied tariffs that the UK is planning to apply in a no-deal scenario are detailed in the following table for selected products.

In most cases the UK has proposed sharp cuts in applied tariffs to imported agricultural products with many set to zero including almost all crop products.

On more 'sensitive' (namely livestock) products the UK is planning to retain tariffs, albeit at a reduced level. Based on the headline tariff levels beef and sheepmeat appear to have retained substantial protection. However, these sectors are also being opened to significant quantities of imports at zero tariff under proposed Tariff Rate Quotas. Poultry meat retains a lower but still significant tariff protection however, pork is proposed to see an almost complete removal of tariff protection down to only very low levels. Dairy products are also seeing very sharp reductions in proposed tariffs.

EU and proposed UK Effective Ad-Valorem Tariff levels

Sector	Product	EU effective ad valorem	UK effective ad valorem
Beef	Carcases	70%	37%
Lamb	Fresh/chilled	76%	76%
Pork	Fresh/chilled	30%	4%
Poultry	Fresh/chilled chicken	29%	18%
Milk	Fat 3-6%	56%	0%
Cheese	Cheddar	57%	7%
Potatoes	Seed	4.5%	0%
Potatoes	Pre-cooked	14.4%	0%
Fruit	Fresh	<12.8%	0%
Veg.	Fresh brocoli	<13.6%	0%
Cereals	Wheat	47%	0%
Cereals	Barley	53%	0%
Cereals	Malt	33%	0%

Source: AHDB, Note * - 2016-18 average prices

Outlook

Some sectors where the UK runs a large deficit and is reliant on imports had hoped to benefit from increased prices on the imposition of import tariffs such as dairy, beef and pork. This is now not going to be the case and instead all sectors may face increased competition from lower priced global commodity producers. Under WTO Most Favoured Nation status the UK will apply these tariffs equally to all countries including the EU. For sectors exporting to the EU, they will continue to face the full EU tariffs making this a one-sided trade deal.

Whether and when these tariff levels will be applied remains to be decided as they are conditional on a no deal. If the UK finally signs the EU withdrawal agreement then existing EU tariffs will remain in force through the transition period to the end of December 2020 and possibly beyond, especially if we remain in the EU customs union longer term.

It is clear from the release of the UK government's proposed tariffs that the welfare of the consumer is being put well ahead of that of agriculture in the name of cheap food. While this should come as no surprise it is a stark illustration of how differently the UK views agriculture than the EU.

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Sector Focus: Diversification

Background

Diversification already plays an important role in today's agriculture and rural business sector, but it is likely to become ever-more important post-Brexit, and following the planned reduction in farm subsidy payments in 2021. Over 60% of UK farms have diversified (Source: DEFRA Farm Business Survey, 2017), and it is anticipated that one-quarter of Scottish farmers will diversify in future to ensure the long-term sustainability of their businesses (Source: NFU Mutual Farm Diversification Report 2018). Farm diversification involves a farm expanding its business activities beyond the traditional farming enterprise in order to add value to its produce, build resilience, increase business profitability, reduce market and price volatility, and highlight supply chain provenance. In Scotland, revenue generated from diversified activities increased by 19% between 2014/15 and 2015/16. Diversified farm businesses achieved incomes, on average, £11,000 higher than non-diversified businesses (Source: Scottish Government Scottish Farm Incomes, 2017). According to NFU Mutual, over 90% of farm diversification schemes are financially successful, and 63% of farms state diversification is either "vital" or "significant" to the financial viability of the farm (Source: NFU Diversification Report 2018).

The latest in farm diversification

There are many diversification options for farmers from alternative livestock production, equestrian facilities, and farm activities, to bed & breakfast, holiday lets and farm tours, but there are some new innovative business ideas taking a lead in the farm diversification market.

Farm Vending - The farm vending concept began when producers selling produce via an honesty box system were often left out of pocket as customers would walk off without paying. Popularity in farm vending has grown significantly in Scotland, following successful examples in continental Europe, providing farmers with significantly higher profit margins than mainstream markets. Fresh produce and milk vending machines can be custom built to suit individual requirements. A 28 locker ambient machine costs around £9,000 to install with refrigerated models coming in at around £11,500. Milk vending machines range in price from £5,500 to £16,500 depending on size and specifications. The payback period is estimated to be around 9-12 months depending on location and produce sold.

Glamping - Glamping pods, wigwams, and yurts have grown in popularity as UK holidaymakers and overseas tourists seek the luxuries of hotel accommodation alongside the freedom and adventure of camping. Glamping is a tourism experience where individuals, couples, or groups seek to immerse themselves in the natural environment by going back to basics and re-connecting with nature from a luxurious base. Glamping pods range from £4,000 to £15,000 depending on size and specifications. Wigwams start at around £7,000 with more advanced models coming in at £14,000. Yurts also come in varying sizes and specifications and range from around £6,000 to £15,000.

Wedding Venues - Farm-based wedding venues have grown in popularity over the past 5-7 years as couples looking to tie the knot see farm barns, marquees, and farm countryside as the special place to host their wedding. Combining a working farm and a wedding venue does not come without its challenges, and requires considerable commitment and a specific skillset to run successfully. However, developing a successful wedding venue on a working farm can be a very lucrative diversification option providing significantly higher profits than the core farm business. Prices vary depending on location, package offering, and unique selling points. As a guide, farm-based wedding venues can generate between £3,500 - £7,500/day solely for the ceremony and reception. Additional service packages can be added on.

Farm Fitness - A farm-based gym may not be the first diversification enterprise that springs to mind for many Scottish farmers but one Essex farmers' son, also a qualified personal trainer, has combined his interest in farming with exercise to create 'Farm Fitness' – a new unique take on a typical gym environment. Another English farm, Welsh Road Farm, voted Farmers Weekly Farm Diversification of the Year 2018, diversified into outdoor fitness. The 'WOLF' Run, is a 10k outdoor adventure race featuring 25 man-made and natural obstacles, including lakes, fallen trees, cargo nets, bale stacks and a 100m waterslide. The event has grown hugely in popularity from 650 participants in 2011 to 35,000 participants in 2018.

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Input Costs – Feeds

Commodity	Price for bulk delivery (£/t)	Commodity	**Estimated** price for bulk delivery 10t loads (£/t)
Soyameal	295	Pot Ale	75-85
Rapemeal	220	Draff	£32-40
Sugar beet pulp	225	Dairy Compd.18%	253
Maize Dark Grains	215	Beef Blend	236
Maize Gluten	208	Lamb Finisher Pellets	258
Soya Hulls	145	Pig Grower	275
Stockmol 20 (10t)	184	Pig Finisher	258
		Dry Sow	247

Animal health	Product Detail	(£ inc VAT)	Fodder	Ex farm
Pour – On Wormer	Ivomec 2.5ltr	60.00	Hay (4×4)*	£35/bale
Drench Wormer	Panacur Sheep 10. 1ltr	88.00	Silage (4×4)*	£25/bale
Inj Wormer	Ivomec Supercattle 500ml	132.00	Straw *	£80-100/t
Magnesium (bottle)	Mg Sulphate 400 ml	6.50		
Calcium (bottle)	Ca + M40 400 ml	6.50		
Flukicide	Fasinex 240 0.8ltr	96.50		

Note: the above prices at time of writing (15th March 2019), based on 29t loads, they are a guide only and may vary from region to region. *Wide variation in prices depending on the area and quality and type. Finished feeds are estimated.

Invergordon are producing a new co-product from their distillery, “Invergold”. It is a maize draff product with 60,000t expected to be produced each year. While availability of draff is still much less than it used to be this is a good boost for ruminant feed in Scotland.

Soya hulls are a good buy against sugar beet pulp to provide digestible fibre (around a £50/t drop since Christmas) and biscuit meal and cereals have come back in recent weeks. Despite this it seems confidence is low and there is a reluctance to buy perhaps the mild winter has had a role to play.

Soya is now below £300/t for full loads for contracts for the summer months and into next winter. Soya has rarely been as low as this over the last few years and with Brexit uncertainty it is definitely worth considering buying a portion forward for the winter.

Straw is trading ex farm at £100/t (£20/t less for wheat straw). Hay is back slightly and silage still holding up at £25/bale (making hay look good value!). Potatoes are trading around £35/t (around what they are worth) although not as plentiful, turnips and fodder beet looking expensive at £30/t and £50/t delivered respectively.

Brexit is out of our control but we can mitigate the risk of high feed costs by spreading the risk, buying some ahead and fixing in prices. Keep in contact with suppliers and plan your feed requirements – it is time well spent.

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Key economic data

General Indicators	
Base interest rate	0.75% (0.50% Aug ’18)
ECB interest rate	0.00% (0.05% Mar ’16)
UK (CPI) inflation rate	1.9% (target 2%)
UK GDP growth rate	0.2% (Q4 ‘18)
FTSE 100	7,203 (27 Mar’19)

Price indices for January 2019 (Defra 2015 = 100)			
Output Prices		**Input Prices**	
Wheat	145.25	Seeds (all)	104.4
Barley	159.75	Energy	118.0
Oats	168.34	Fertiliser	107.7
Potatoes	138.22	Agro-chemicals (all)	104.4
Cattle and Calves	100.29	Feedstuffs	119.0
Pigs	105.61	Machinery R&M	108.0
Sheep and Lambs	107.81	Building R&M	110.9
Milk	121.91	Veterinary services	115.1

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