SRDP Farm Advisory Service

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News in brief

April 2021

A year like no other

Normally, New Year is the time to reflect on the year that has just past and to look for the positives in the year ahead, but the Covid pandemic has to all intents torn up the rulebook, leaving us, a year on from its initial outbreak in the UK, still trying to get to grips with the impact it has had not just on our daily lives but the world as we knew it.

In reflecting on the year gone by, from the bizarre panic buying of pasta and toilet rolls; we have seen our skies empty of airplane contrails, oil prices plummet and the phrase, "I think you are on mute!" being part of our daily lives.

However, in looking for the positives, last April in Julian Bell's editorial, he said "Hopefully, people not directly involved in agriculture will give some thought to the intricacies of modern food production, and the complex logistics required to bring to fruition the simple sound bite, 'Farm to Fork'. This has not only proved to be the case, but positive marketing campaigns have also brought about a keen interest in homecooked meals, using where possible, Scottish and UK ingredients, and the resultant positive effect on both demand and prices can be seen in the individual sector reports. As a result, it is hoped that next year at this time, the newly published Farm Business Income Estimates will paint a more positive and profitable picture of Scottish Agriculture, and not just for those businesses that are able to diversify.

With Covid induced lockdowns around the globe giving the world a sobering insight into the pollution our day to day lives cause and the impact this is having on the environment; the spotlight is now firmly on climate change and what we can do to protect our environment and to mitigate carbon emissions, whether it be growing alternative crops to becoming more self-sufficient or seeking to improve business sustainability by taking advantage of Scottish Government funded grants such as the Sustainable Agricultural Capital Grant Scheme (SACGS), AECS and FAS Resilience Planning or Woodland Advice grants.

Next month:

Opportunities for Agri-Tourism

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This month's editor:
Christine Beaton

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

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2020 SAF

Following the opening of the Single Application Form (SAF) window on 15th March farmers and crofters will be starting to think about its completion to ensure they get their essential 2021 payments. While there are no changes to the online application process for this year, there are a few things to note.

Crop Diversification

Although the SAF still makes references to crop diversification requirements, these can be ignored as the requirements have been removed for the 2021 scheme year and beyond. There is still however, the requirement to comply with the Ecological Focus Area and Permanent Grassland requirements. Further information on the Greening requirements for 2021 can be found on Rural Payments and Services here

SAF Deadline

Due to the 15th May falling at a weekend, the deadline for submitting the 2021 SAF is **Monday 17th May**. If required, supporting documentation is also required by this deadline. These should be emailed or posted to local RPID area offices. Such documents can also be uploaded to Rural Payments and Services. If posting documents, ensure copies are retained, in case they go missing.

Inspections

Inspectors from RPID area offices have recommenced farm/croft inspections. These inspections will involve verification for regulatory requirements, payments as well as traceability and identification of livestock.

Due to COVID-19, inspectors will continue to contact all farmers and crofters ahead of their visits to inform them of the changes to inspections and discuss any concerns raised. Changes made include a significantly reduced time on farm with an aim of protecting both the businesses being inspected and the inspectors.

Financial Discipline reimbursement

2019 Direct Payments to farmers were reduced by 1.432635% by the European Commission in order to contribute to the creation of a crisis reserve. This money was not required and is now being reimbursed; Scotland's share of the UK's refund is £6.24m.

The rate for reimbursement has been set at 1.43%, with payments averaging £395.13 being made from the 24th of March.

From the 2020 scheme year onwards, financial discipline deductions were not applied to Direct Payments, therefore there will be no reimbursement of Financial Discipline in future years.

AECS - Improving public access

As part of the Agri-Environment Climate Scheme (AECS) applications can now be submitted for funding for projects to help improve public access.

Improving public access projects can be small scale, to enhance a single path or to improve signs and gates; or they can add to larger network improvements or long-distance paths. Eligible capital items that can be included in the application include new and upgraded paths, drainage, gates, signage, seating, bridges, steps, boardwalk, and gabion basket retaining walks. All items have a fixed cost payment rate linked directly to meeting the standard requirements specification.

Applicants have until 30th June to submit claims. Further information can be found on Rural Payments and Services here:

Sustainable Agriculture Capital Grant Scheme (SACGS)

While in response to issues around the supply of certain capital items, the SACGS Capital Grants Scheme application window has been extended from the 31st of March 2021 to the 30th of September 2021; farmers and crofters are being encouraged to submit SACGS claims as soon as they are able to do so.

Key dates for April

Date	Action
16th	Muirburn must not be carried out from this date (except if a licence has been granted for out of season burning)

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Rising global harvest but not stocks?

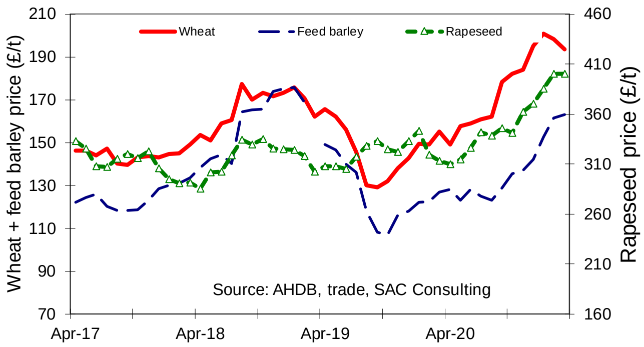
UK grain has steadied in recent weeks as sterling rises against the euro. The UK's rapid pace of CV19 vaccination and the gradual opening up of the economy are all leading to confidence that the UK will see a post-lock down economic bounce. The downside is that UK grain prices in sterling are being undermined, despite a buoyant global grain market.

The USDA release shows lower than expected maize sowings, down 2.2% on expectation while export pace remains ahead of forecasts. Elsewhere, crop conditions were average to below in a range of regions including Brazil, Russia, and the US.

The IGC released their estimate of global grain production in 2021/22 in which they expect a 63mt rise in output to a record 2284mt. They also expect a large rise in demand; up 54mt to leave ending stocks unchanged at 609mt. In effect, this means a tightening of global stocks-to-use ratios. This means the world remains sensitive to any crop problems and anything less than a record crop could see markets strengthen quickly.

Global oilseeds markets continue to gain support from the drought impacted soyabean crops in Argentina and Brazil which will fall short of expectations. The IGC forecast a decline in global soyabean stocks in 2021/22 as consumption edges ahead of production.

Scottish spot ex-farm grain and oilseed prices



Progress on spring sowings

UK cereal crops have come through the cold winter, with little damage and mostly in good condition with low disease pressure. Spring barley sowing is gathering pace in the southern half of Scotland. The cold spring is holding back crop development particularly in the north of Scotland with rain/snow also holding back sowings. More cold weather is forecast but it is early enough not to raise spring cereal crop concerns at this stage.

Where forward contract prices are on offer the potential returns from spring malting barley look good enough to support the expected small increase in sowings in Scotland. Feed barley prices are also strong, encouraging livestock producers to maintain or raise spring feed barley sowings too.

US lifts sanctions on Scotch malt whisky, new maltings announced

Joe Biden's US administration recently announced the 'suspension' for four months of trade sanctions on Scotch malt whisky. The sanctions have had a crippling effect on whisky exports to the US cutting exports by 35% with an estimated £500m in lost sales. The suspension announcement creates a breathing space for UK and US negotiators to resolve wider disputes in aerospace that have spilled over into whisky and it's hoped a permanent resolution can be found.

Paul's Malt, part of the Boors Malt group, have announced a £12m expansion of their existing maltings in Buckie with the intention of doubling capacity to 90,000t. This is a good sign of confidence in the whisky sectors future and follows other planned and in development expansions on other malting sites the north of Scotland. More malting capacity in Scotland means more local barley can processed; offering the chance to displace imported malt and underpin local malting premiums.

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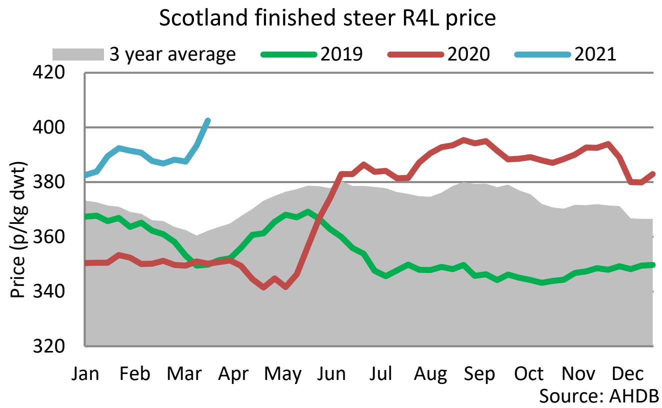
Indicative grain prices week ending 2 April 2021 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Mar '21	May '21	Jul '21	Harvest '21	Nov '21
Wheat	Ex-farm Scotland	193.60	196.00	198.00		165.00
Feed barley	Ex-farm Scotland	163.00	164.00	165.00		142.00
Malt. barley- distil	Ex-farm Scotland				183.00	
Malt. barley- brew	Ex-farm England#		180.00			165.00
Oilseed rape*~	Delivered Scotland				372.00	382.00

Beef prices spring up this Spring



It is hard to believe it is a full year since the first COVID lockdown hit the UK. How the lockdown would affect beef demand was so uncertain last year but on the whole it has been a positive 12 months. When lockdown was first announced consumers went into panic buying mode for certain beef cuts, which was a challenge for the processors in terms of carcase balance. As lockdown continued, beef sales continued to be strong as consumers tried to make up for the lack of eating out options and embraced the 'cooking from scratch' movement.

Into 2021, we have seen the retailers continue to support the British product, with a few of the big 4 retailers committing to Scotch and British to fill their shelves. This retail demand combined with an estimated 5% reduction in beef production this year has seen the beef price continue to remain strong.

At the time of writing (late March) finished cattle prices have risen to in the region of 405-410p/kg. The last time the average Scotch R4L price was above 400p/kg was January 2014. Cattle numbers for slaughter are reportedly tight, especially in England. This has assisted in the increase in price and the availability of 'deals'. With numbers being tighter and an anticipated high retail demand in the lead up to Easter, prices should remain high in the short term.
This price level has seen the finishers acting with confidence at store sales, leading to many store cattle being £100-120 dearer than last spring. Finishers are already looking for grass cattle and it seems the numbers are not there to satisfy all. The store price should encourage any store producers with cattle to sell to move soon. Early spring store sales are usually a good trade as finishers seek to fill sheds ahead of the start of arable spring work, as once the weather and ground conditions are suitable for sowing and sheds are filled up the demand from finishers may reduce, putting a dip in the store trade.

Cull cows are a very strong trade, with March prices well in excess of 320p for well-fed beef cows. This trade seems to have pushed on with a drop in the numbers available combined with the potential for post lockdown gatherings and BBQs.

What remains to be seen is what impact the easing of restrictions will have as the hospitality sector opens up. Beef imports have been down in the last 12 months and with the retail sector mainly using domestic product, one has to assume that historically, the majority of imported beef was being used in the food service and hospitality sector.

In terms of imports, with the hospitality sector being shut down for a considerable period of time they will need a large amount of beef to restock back to capacity. Whilst a lot of this beef usually comes from Ireland, they are in a similar situation to the UK in terms of reduced production so they may not have the capabilities to serve this market; the next reasonable suggestion would be Polish beef (Poland exports 80% of its beef into mainly the EU market). However, whether the Brexit issues with imports/exports have been resolved to allow this beef into the country smoothly remains to be seen.

Great work has been done in the last 12 months to reconnect with beef consumers, resulting in an increased loyalty and more awareness of the positives of home grown beef, we must continue to work on this to keep the consumer engaged with our product.

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Scotland prime cattle prices (p/kg dwt) (Source: Drawn from AHDB and IAAS data)

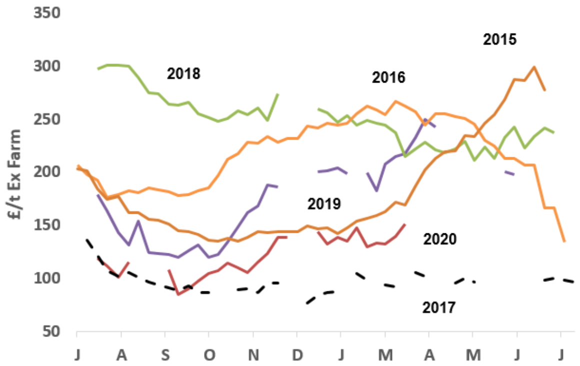
Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
6-Mar-21	**387.5**	-0.7	-0.6	**383.6**	-3.4	-3.2	384.4	1.8	295.6	275.1
13-Mar-21	**393.4**	5.9	3.0	**393.2**	9.6	4.7	383.7	-2.7	301.9	274.3
20-Mar-21	**402.5**	9.1	7.1	**400.8**	7.6	6.6	393.5	-1.7	307.6	280.9

Market price update

- The latest GB Weekly Average Price reported on week ending 27th March was £177.50/t down £0.64/t on the previous week.
- The latest GB Weekly Average Free-Buy price reported on week ending 27th March was £147.79/t up £0.77/t on the previous week.

Crop Year 2020/21	27 Mar	20 Mar	13 Mar
Average Price (£/t)	177.50	178.14	182.51
AVP change from previous (£/t)	-0.64	-4.37	+10.72
Free-Buy Price (£/t)	147.79	147.02	151.04
FBP change from previous (£/t)	+0.77	-4.02	+11.19

GB Weekly Average Free-Buy Price (2015-2020 crop years)



Trading Season July - July Source: AHDB

Market Update

Spring is in the air! With the weather improving, longer daylight hours, and the economy slowly unlocking, there's plenty to be optimistic about. School children have returned to classrooms which has stimulated a slight uplift in demand, but reports suggest that there is an increase in parents providing packed lunches for children decreasing the volume of hot meals served up in canteens. Schools across the country have now broken up for Easter which will pause demand, but we should see the partial re-opening of hospitality outlets in line with the Government's road map. Although this will be gradual, there may be an uplift in free-buy movement towards the end of the season which will be welcomed by the whole potato sector.

Currently, packing demand remains flat with contracted material dominating volume through packhouses. This has been a continual theme throughout much of the season so far. Piper continues to perform better than Whites, mainly driven by consumer demand, and it is likely that free-buy Piper prices will stay strong, or even increase, towards the end of the season as good quality packing supplies starts to tighten.

In the Scottish packing market, Maris Piper is trading around £230/t ex farm and Whites are trading around £60/t ex farm. There is a considerable difference in free-buy price between Piper and Whites and this gap may increase further as stocks reduce and quality issues start to become more prevalent in store. Local reports indicate that a high volume of free-buy Piper has been forward purchased to guarantee supply towards the end of the season. With buyers hungry to secure any unsold Piper stocks, this may also stimulate price increases in the coming weeks.

In the English packing market, Maris Piper is trading around £250/t ex farm with highs of £305/t ex farm. Whites are trading around £90/t ex farm with a high of £130/t ex farm. Salads 45mm down are trading around £300/t ex farm with a high of £360/t ex farm.

In the East of England bagging market, chipping Agria is trading around £145/t ex farm with highs of £180/t ex farm. Piper is trading around £120/t ex farm with highs of £140/t ex farm. Markies is trading around £130/t ex farm with a high of £160/t ex farm reported. Performer is trading around £130/t ex farm and Sagitta is trading around £120/t ex farm. In the West, chipping Whites are reported to be trading around £85/t ex farm, and in the South of England chipping Whites are trading around £160/t ex farm.

In the processing sector, peeling Piper is trading around £100/t ex farm and Whites are trading around £45/t ex farm.

[Prices above reported on Friday 19th March]

Coronavirus temporarily reverses consumer views on plastics

Before the pandemic, there was a strong focus among retailers to reduce plastic packaging in line with consumer concerns about plastics and the environment. According to AHDB, sales of pre-packed potatoes have overtaken loose products due to consumer concerns around product hygiene during lockdown. The pre-packed potatoes share of fresh potato volume in GB retail increased to 94.4% in the 12 weeks ending 21st Feb 2021, the highest level recorded in around 5 years. This trend has been widespread across the fresh produce market. Kantar data indicates that over 20,000 tonnes of loose produce turned to pre-packed produce in the 12 weeks ending 21st Feb 2021. Online shopping, an increase in home-cooked meals, and consumers becoming more price conscious has driven sales of pre-packed products over loose, but this shift is predicted to be temporary as consumer focus on plastics and our environmental footprint will quickly come back into focus as the pandemic eases.

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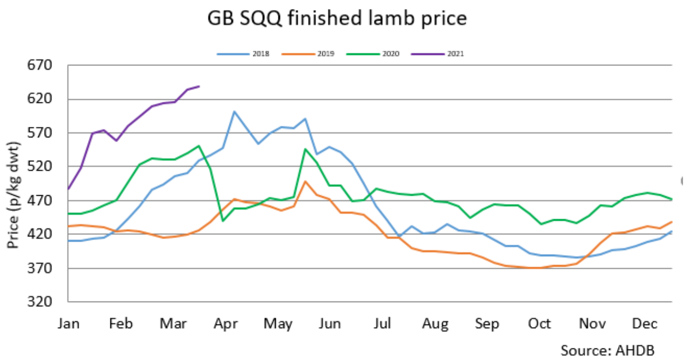
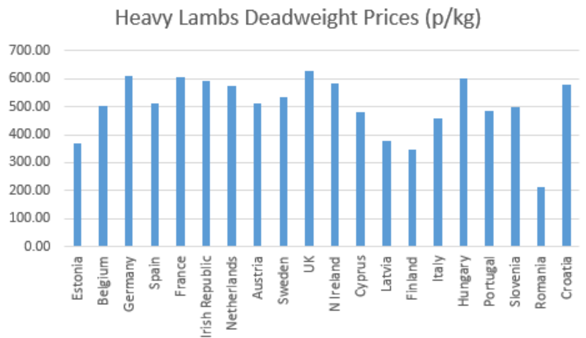
Lamb prices (live and dead) continue to show phenomenal levels, as we experience shortages of lamb supplies across the UK.



I always keenly watch the European lamb deadweight prices in awe, but the following table shows the UK well above the European average of 585.37p/kg (week ending 28/03/21) (AHDB). Showing the premium our lamb is at for our European customers.



The quality of lambs coming forward to the market place is starting to drop, with more hill type lambs, final draws and those with fault now being sold. Early sales of ewes with lambs at foot, are perhaps depressed due to the later spring and the current absence of grass. Cull ewe sales continue to be exceptionally strong.

Figures from HMRC show that UK exports of fresh and frozen sheep products were back by 50% in January 2021 compared to the same time last year. Fuelled by exceptional prices in the UK, a tight supply of product, extra red tape including the requirement for vet health certificates at the port and the pandemic effects to the European food service sector. But our non-European exports to Asian and Middle Eastern markets did show to increase slightly. It is worth remembering that Middle Eastern countries import 90% of the lamb and beef, so this increase, albeit small, is important.

Key Dates

There are a number of dates that tend to increase domestic demand of sheep products.

- Easter – 4th April 2021
- Ramadan – 12th April – 12th May 2021
- Eid al-Fitr – 13th May 2021

However, as the dates above generally mean family gatherings, hopefully the ease of lockdown will allow these to some extent, to aid in maintaining trade.

Ramadan is the fasting festival for practicing Muslims. Giving time for reflection, additional prayers, charity work and recitation of the Quran. The fasting of food is for the 29 or 30 day period (depending on moon) from dawn until sunset. After sunset Muslims often gather to break the fast and feast on protein rich food such as lamb and chicken. As the festival advances, protein intakes tend to increase, to aid the daily ~20 hour fasting period.

Eid al-Fitr is a celebration held the day following Ramadan, where Eid prayers occur between sunrise and noon. After this there are many gatherings to celebrate the end of fasting, with large meals on offer for family and friends, often whole lamb carcases are purchased for this, with all cuts and offal being utilised.

The Muslim community is a major market for the UK sheep industry, with 5% of the UK population being Muslim. 60% of these customers eat lamb at least once a week. One third of sheep meat that is exported to the EU is halal. It is also an exceptionally important market for mutton, with over 80% of mutton being halal, this is not the case in the EU, were little mutton is eaten. Lean carcases are preferred to good conformation, with curries typically being cooked rather than roasts, which do not have such a reliance on flavour from the fat.

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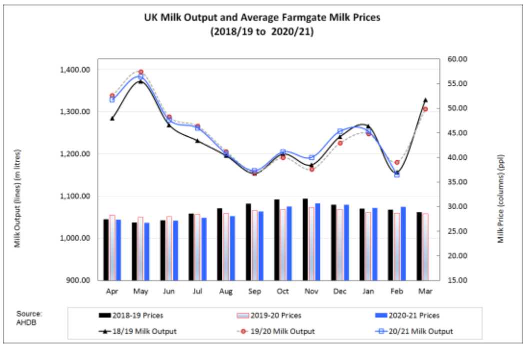
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd)	
									Scottish	Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
6-Mar-21	**617.5**	0.8	1.0	-1.2	**288.80**	12.7	11.1	16.6	76.94	86.63
13-Mar-21	**636.7**	19.2	-0.5	-0.1	**290.60**	1.8	9.1	9.2	85.32	93.46
20-Mar-21	**641.8**	5.1	-1.8	1.3	**288.40**	-2.2	7.4	11.6	89.40	98.09

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

UK milk supplies tighten in February

- *Milk output for February 2021 dropped by 30.4m litres against February 2020.*
- *Output for February 2021 is estimated at 1,150.27m litres.*

UK monthly milk output for February 2021 is estimated at 1,150.27m litres (before butterfat adjustment). This is 30.4m litres lower than February 2020 output when UK production for the month stood at 1,180.67m litres. Cumulative UK milk output for 2020/21 (up until the end of February 2021) now stands at 13,668.79m litres (before butterfat adjustment). This is just 7.03m litres higher than at the end of February 2020. Given the significant change in production trend, it now looks unlikely that the UK will reach 15bn litres of output for the 2020/21 milk year.



UK milk prices have fluctuated since December last year. The UK average milk price decreased slightly to 29.75ppl for January 2021 and has subsequently increased slightly to 29.93ppl for February. On a year-on-year basis, the UK average milk price for January and February are up 0.93ppl and 1.22ppl, respectively.

Farmgate prices - April / May 2021

Price announcements for April & May 2021 include:

- Arla Foods amba – Arla has confirmed a 1.50 eurocents/kg price increase for April 2021, this being the second price rise in consecutive months. This equates to a rise of 1.40ppl and takes the manufacturing standard price up to 31.43ppl. The liquid standard litre price increases by 1.30ppl to 30.24ppl.
- Arla organic supplies – Arla's organic milk prices also will also increase by the same level as conventional supplies, with the manufacturing price for April 2021 rising to 39.79ppl and the organic liquid standard litre rising to 38.28ppl.
- Arla Direct - suppliers will receive a 0.25ppl price increase from 1st April 2021. This takes the manufacturing standard litre price up to 27.58ppl, whilst the liquid standard litre price increases to 26.50ppl.
- M&S – has announced a 0.606ppl price increase from 1st April 2021. This takes the liquid standard litre price up to 33.11ppl.
- Tesco – The milk price for the Tesco Sustainable Dairy Group (TSDG) is set to increase by 0.86ppl from 1st May 2021. Müller Milk Group TSDG suppliers will see prices increase from 31.27ppl to 32.13ppl for the liquid standard litre. For Arla Direct TSDG suppliers, prices will increase from 31.02ppl to 31.88ppl for the liquid standard litre.

Annual Average milk price estimates for April 2021 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	27.75
First Milk Liquid [1, 2]	28.00
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	28.93
Müller - Müller Direct - Scotland [1, 3]	27.00

1 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.
2 The FM member premium is set to remain at 0.50ppl from April 2021.
3 No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.

First Milk aiming for net zero by 2040

First Milk has recently unveiled plans to become a zero-carbon business by 2040 through a programme of new measures to be rolled out through the First4Milk initiative. Key targets include i) a 50% reduction in carbon footprint at farm level by 2030; ii) the sequestration of 100,000t CO_2 per annum on member's farms by 2025; iii) to increase milk from forage by 10% by 2025 to reduce the use of imported feeds, and iv) to use renewable fuel sources for all transport and processing activity by 2030.

Outlook improves as prices firm

Dairy product prices have improved measurably during the last month owing to two factors pulling in the same direction: 1) growth in Chinese demand for whole milk powder (WMP) which has led to a build in demand within international powder markets, and 2) reduced milk production in the EU which has increased butter and cream prices, here in the UK, and on the continent. According to AHDB estimates, cream value has increased by 0.51p, 0.57p and 0.80p per litre of milk processed during January, February, and March 2021, respectively. It is no surprise then that AMPE has jumped 1,69ppl between February and March – see table below.

UK dairy commodity prices (£/ tonne)	Mar 2021	Feb 2021	Sep 2020
Butter	3,430	3,150	3,180
SMP	2,100	2,070	1,940
Bulk Cream	1,471	1,335	1,530
Mild Cheddar	2,960	2,940	2,920
UK milk price equivalents (ppl)	**Mar 2021**	**Feb 2021**	**Sep 2020**
AMPE (2020) *	32.54	30.85	29.54
MCVE (2020) *	32.96	32.47	31.59

Source: AHDB

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Management Matters
Spring Budget 2021

Corporation & Income Tax

Given the cost of the ongoing Covid-19 pandemic, the Spring Budget could have provided a convenient vessel to help balance the books, with Capital Gains Tax potentially being seen as an easy target. However, while Limited Companies with profits in excess of £50,000 will see a tapered increase in the Corporation Tax rate of tax up to 25% for Companies earning £250,000 and above; the trading loss carry-back rule will be temporarily extended from the existing one year to three years for both incorporated and unincorporated businesses.

There is also a short term tax incentive for companies who invest in new plant and machinery – a 130% reduction in their corporation tax bill linked to the cost of the new asset.

There will be no change in Income tax rates for farming and rural businesses operating as sole traders and partnerships. Income Tax rates will remain unchanged and the starter and basic rate bands, as well as the higher rate threshold, will increase by CPI inflation (0.5%) to £12,570 and £50,270, respectively. The top rate threshold will remain frozen in cash terms at £150,000.

Land and Buildings Tax

Although the Land and Buildings Transaction Tax (LBTT) holiday ended on the 1st of April 2021 with the lower threshold returning to £145,000; limited relief will continue for first time buyers, up to £175,000. Existing non-residential LBTT rates and bands for conveyances and leases will remain unchanged.

Scottish Landfill Tax

In line with the Scottish Government target of encouraging a more circular economy; from the 1st of April 2021, the Scottish Landfill Tax (SLfT) will increase to £3.10 per tonne for less polluting materials and to £96.70 per tonne for standard rate waste.

The increased rates will support progress towards full implementation of the ban on the landfilling of biodegradable municipal waste, which will now take effect on 31 December 2025.

Landfill operators are able to voluntarily contribute a capped (5.6%) proportion of their landfill tax liability to the Scottish Landfill Communities Fund (SLCF), and claim 90% of the contribution as a tax credit. In order to claim a credit, the funds must be used for one or more of the objectives set out for the SLCF.

Business Rates & VAT

In support of businesses affected by the pandemic, the 100% non-domestic rates relief for property in retail, hospitality, leisure, and aviation sectors will continue for at least the first three months of the new financial year, and the VAT reduction to 5% for hospitality, accommodation and attractions will continue until 30 September 2021, then rise to 12.5% until 31 March 2022).

Agriculture and the Rural Economy

In seeking to address and minimise the significant impacts of the UK's exit from the EU as well as the extraordinary challenges in terms of survival and green recovery from an unprecedented global pandemic, the 2021 Scottish Spring Budget included:

- Less Favoured Areas Support being reinstated to its' 2018 level of £65.5 million,
- £40m for the Agriculture Transformation Fund (to undertake a range of potential actions to reduce greenhouse gas emissions and support sustainable farming and land use),
- £34.2m for the Agri-Environment Climate Scheme,
- £18.9 for Animal Health,
- £27.5 for Business Development & Leader,
- £0.8 m for the Crofting Commission, and
- Further support for Scotland Food and Drink, tourism, tree planting, peatland restoration and connectivity.

FAS Business Management Grants

Following the publication of the Scottish Spring Budget, FAS have announced that the Integrated Land Management Scheme and the associated Specialist grants will continue this year.

The specialist grants can be used to assess Business Resilience, aid Succession Planning as well as to assess Business Efficiency and for Environmental/Woodland Advice. For more information, please click here.

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New crops, new markets

Various changing market factors make it a good time to consider new opportunities for crops, including Brexit repositioning the UK in world commodity markets, changing consumer preferences with growing interest in provenance, health, and sustainability credentials of products, as well as innovation in processing expanding product options. New systems of subsidies may also offer different incentives and impact on crop rotations (e.g. via environmental compliance) and diversifying into novel crops can create scope to add value to a farm business or increase self-sufficiency of, for example, livestock feed.

Protein crops

Zero Waste Scotland's Future of Food report, published last year, highlights the need for a 'sustainable protein plan' for Scotland, including increasing self-sufficiency of proteins for livestock and aquaculture feed. Many retailers and suppliers are now investigating ways to reduce emissions in supply chains, including emissions associated with livestock feed, and switching to sustainable soya or soya alternatives. Though for many farmers reducing soya in diets be challenging, exploring the scope for soya alternative in feed rations, where possible, is likely to attract more attention in the future.

There are technical challenges for growing many soya alternatives in Scotland, such as in desiccation and harvest, but field beans, peas, lupins, and oilseeds are already grown, and developments in processing are optimising opportunities for output products. Changes to farm payments linked to reducing applied N and benefits of legumes in crop rotations are likely to increase the financial returns from such crops. A current SRUC-SAC University Innovation Fund is exploring these factors in an industry-wide project on how to meet protein demand with home-grown feeds, covering production, processing, markets and policy barriers and opportunities.

Fibre and energy crops

Fibre and energy crops are also seeing a surge in interest, largely due to the growth in biomass plants and demand for fuel, but also increased popularity of products made from natural materials (e.g. hemp and flax) and greater potential for processing fibre crops with investment in processing, such as particle boards or insulation products. AD plants are able to utilise fibre crops well, though they receive a lower price due to silica and chlorine content. Hemp is an annual plant and can be grown for oil, fibre, or for energy production through incineration or anaerobic digestion to produce methane, and it is an effective break crop. Reed canary grass is well-suited to well and low fertility soils and will grow well on land with limited cropping potential. There is also a potential market in livestock bedding for fibre crops.

Medicinal and essential oil crops

Cases of farms diversifying into pharmaceutical crops has received much attention in the press in the last few months, notably a medicinal cannabis site in Dumfries. Contracts for growing such crops are essential in most cases, with supply chains closely monitored and regulated with Home Office licenses, and buyers assisting with providing seed, harvesting, and processing of the crop; this is particularly the case with medicinal cannabis and poppies for opioids, though less so with daffodils growth for galantamine production. While many crops may require optimum land and large infrastructural costs, daffodils can be grown on poorer quality land and upland areas, equipment permitting.

Production of essential oil crops, such as borage and camelina, is more established in Scotland, with contracts available and markets for protein and fibre by-products for feed. Growing may be challenging but possible on land suitable for oilseed rape and higher prices may offset reduced yield. Small-scale processing possible e.g. cold pressing, though less efficient.

Diversifying to novel crops & markets

Growing some of the crops mentioned may require new or adapted farm equipment, particularly in harvesting the crop, as well as potentially on-farm infrastructure such as special storage facilities or security and fencing for pharmaceutical crops. The costs associated with these should be evaluated, as well as how the crop might fit into the farm's rotation.

It is also advisable to investigate potential buyers; what crops they might be interested in, if they require minimum quantities, costs of logistics if they are not local, or any processing requirements and associated costs. For many niche or novel crops, growing for a contract is highly recommended, especially at the offset.

For further information see:

- *SAC Farm Management Handbook*
- *Zero Waste Scotland's Future of Food report*
- *SRUC's Alternative Land Use Report*

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Scottish Farm Business Survey

Survey results

The end of March heralded the publication of the [Scottish Farm Business Survey's] 2019-2020 Scottish Farm Business Income Estimates. The Scottish Farm Business Survey (SFBS) has been running since the 1930s and is widely recognised as the most authoritative annual financial analysis of farmers in Scotland. Based on a detailed economic survey of just over 400 farms in Scotland, the standardised Farm Business Income (FBI) figures highlight the economic picture within Scottish farming.

What is Farm Business Income (FBI)?

The FBS results are expressed as Farm Business Income. While similar in most cases to net profit, any differences can be explained by the inclusion of property depreciation and any margin from diversified activities which use existing farm resources. All agricultural output is valued at actual or as close to actual sale prices rather than end of year stock valuations, which better reflects the real income farmers received for their output.

Average FBI down by 36% for 2019-2020

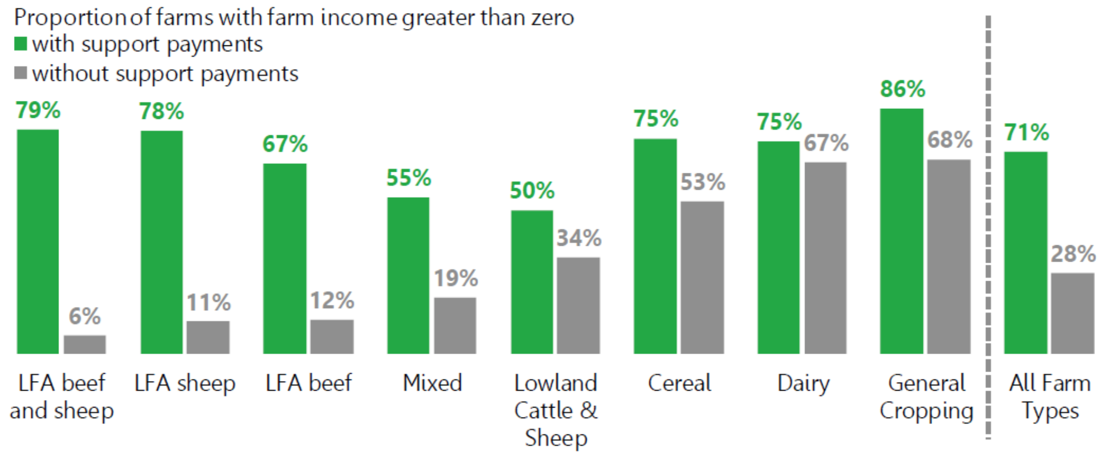
From an eight-year high reported last year of £40 300, the average FBI reported for the 2019-2020 year has dropped by 36% to an average of £25,800 across all farming types, with the loss on farms from agricultural activity alone more than doubling from -£12 400 to -£25 500 in the 2019 crop year.

While part of the fall in FBI is due to increased input costs, by an average 2% increase across the farms in the survey; the biggest hit is on the value of farming outputs, which are down significantly. The picture is different across different farming types, and this is to be expected, with general cropping and dairy farms making the highest average FBIs this year along with specialist cereals.

Role of support payments

Although reliance on support payments varies greatly across the different farming types and regions of Scotland; the role of support payments continues to remain crucial to farming businesses, with direct payments accounting for £38,100 of income on average, and FBI showing an average loss of -£17,100 without support payments.

The graph below identifies the percentage of farms with incomes greater than zero, showing the impact of support payments across the different farming types. LFA beef and sheep farms are most heavily reliant on support payments to get beyond break even. It's important to note here that LFA encompasses a wide range of grassland types from productive grassland to hard hill, and so results can vary even within these categories.

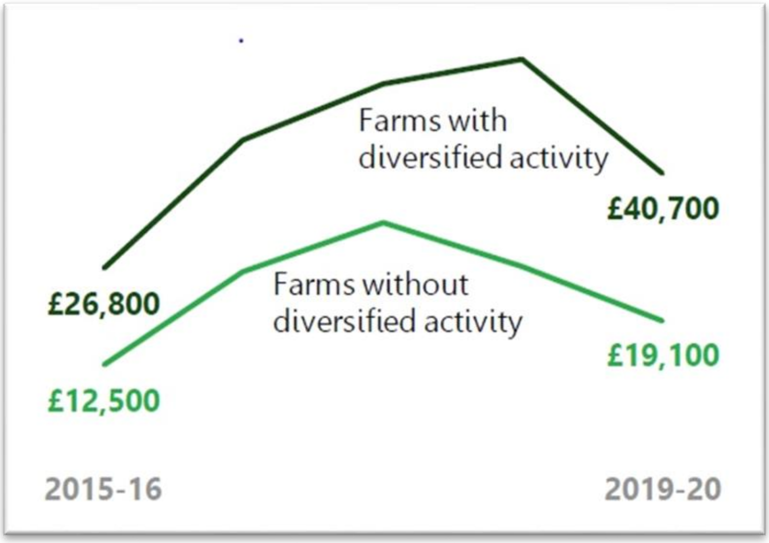


For full details of the Scottish Farm Business Income: annual estimates 2019-2020 report, please click [here]

Scottish Farm Business Survey

Diversification

The chart below highlights the positive impact that on-farm diversification activities can have on Farm Business Income. Over 55% of farms in the survey engage in diversified activities. Farms that have diversified activities show a more than doubling of their FBI on average from £19,100 to £40,700.



While farm diversification is often associated with renting out farm cottages, recent analysis shows that the most common activity engaged in (1/3rd of the farms surveyed) is renting out farm buildings. Further data analysis is needed to better understand which farm types are diversifying and what is driving those individual decisions within a business. Is it access to capital to develop out of use assets such as doing up a redundant building/steading to be used commercially, being in an area of natural beauty where high demand for self-catering holiday accommodation cottages makes it a justifiable investment or simply, the business has needed to diversify to survive?

What is clear from the chart above, is that the gap between farms that are not diversified and those that are has widened over the last 5 years. In the 2019-2020, there has been a closing of that gap, which may be an early impact of the closedown of diversified activities due to COVID, OR due to the 20% drop in numbers of farms in the survey. We can't be 100% sure, but the trend for diversification to improve FBI remains clear.

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Key Economic Data

General Indicators		Price indices for January 2021 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.1% (0.75% Mar '20)	Wheat	165.5	Seeds (all)	113.7
ECB interest rate	0.00% (0.00% Sep '18)	Barley	137.4	Energy	111.2
UK (CPI) inflation rate	0.4% (target 2%)	Oats	124.2	Fertiliser	93.3
UK GDP growth rate	1.0% (Q4 '20)	Potatoes	118.5	Agro-chemicals (all)	143.8
FTSE 100	6,721 (29 Mar '21)	Cattle and Calves	111.9	Feedstuffs	126.9
		Pigs	107.9	Machinery R&M	114.4
		Sheep and Lambs	128.1	Building R&M	116.8
		Milk	123.4	Veterinary services	115.8

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