Farm Advisory Service
National Advice Hub
T: 0300 323 0161
E: advice@fas.scot
W: www.fas.scot

News in brief

August 2019

New PM, Brexit hurdles remain

The UK's new Prime Minister, Boris Johnson, has made it clear he wants to exit the EU on 31st October – Deal or No Deal. He is confident that with a new team of Brexit-leaning cabinet ministers and a can-do spirit he can get the job done.

While it is clear the UK needs to break the impasse over Brexit that bedevilled Teresa May's term in office, will a new government be enough? The EU have shown no sign they will re-open the withdrawal agreement or look again at the Irish backstop; the key sticking point. Johnson also has only the slimmest of majorities in Parliament currently just two MPs and possibly one (subject to Thursday's by-election).

If the new government cannot deliver its primary objective either the current state of limbo continues past 31st October or something else happens; potentially a new election.

One thing that is certain is that a No Deal would be a very high risk gamble for the economy and most sectors of agriculture. Currency traders tend to agree given that sterling has fallen to a two year low against the US dollar. Maybe Johnson is using No Deal as a bluff to get a better deal out of the EU or gain electoral advantage without actually going through with it. Those in many sectors of agriculture can only hope so. Some key issues facing the UK red meat sector under Brexit are detailed in articles on pages 6 & 9.

Forage quality and quantity up

So far, 2019 has proved to be an excellent year for grass and forage growth with some excellent yields and good quality reported. Full silage clamps and high protein, energy and digestibility levels promise good livestock performance and reduced feed purchases. Barley prices are also currently down given the favourable cereal yield prospect in Scotland and across Europe. This is welcome news for livestock producers given the current poor prices for beef and lamb and the risk of No Deal Brexit.

This year's excellent forage harvest has also helped rebuild buffer stocks for the year ahead, a full silage clamp is close to cash in the bank for what could be a turbulent year ahead.

Contents

This month's editor:
Julian Bell

Next month - Organics

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

SAC CONSULTING

Scottish Government
Riaghaltas na h-Alba
gov.scot

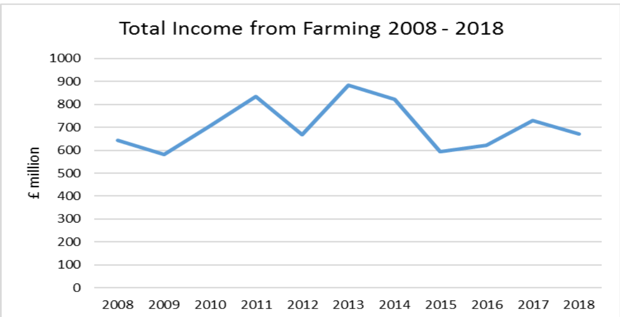
Agricultural Facts and Figures

Each year the Scottish Government publish Agricultural Facts and Figures for Scotland, which includes summary indicators on output, inputs, incomes and results from agricultural census and surveys. A summary of Total Income from Farming (TIFF) and subsidy figures are presented below, other facts and figures can be found at: https://www.gov.scot/publications/agriculture-facts-figures-2019/.

Total Income from Farming (TIFF)

TIFF is a key indicator of the performance of the agricultural industry. In 2018 TIFF in Scotland was estimated to be £672 million, down £57 million (7.8%) from 2017. As the table at the bottom of the page shows, although between 2017 and 2018 output increased by £76 million (2.4%) and support increased by £22 million (4.5%), costs increased by £155 million (5.4%). The increase in costs was mainly due to an increase in labour, feed and fuel costs, contributing to the drop in TIFF.

Since 2008, overall profitability (TIFF) has generally increased, see chart below, but since the fall in 2015 which was due to low milk prices and a fall in subsidies, growth has been slow. The spike in 2013 was due to high cereal, potato, milk and beef prices, while the dip in 2012 was due to the poor winter. TIFF highlights the industry's volatility to weather and market prices.



Source: Scottish Government

Payment Schemes Expenditure

The figures also once again highlight farming's continued dependence on support subsidies. Support, including subsidies directly linked to livestock production accounted for 82% of TIFF in 2018. A breakdown of expenditure under the main payment schemes can be found in the table below. The value of subsidies and support payments, although lower than in 2008, have increased since the dip in 2015.

Expenditure under payment schemes (£ million)

	2008	2015	2016	2017	2018
BPS	n/a	219.49	251.65	262.54	281.16
Greening	n/a	115.39	130.91	135.86	141.88
YFP	n/a	0.96	1.58	1.74	1.89
LFASS	59.0	65.5	62.56	63.5	65.5
SSBSS	n/a	25.91	31.97	33.4	34.28
SUSSS	n/a	4.50	5.53	5.80	5.91
LMO	n/a	5.20	2.12	2.21	0.99
RSS	17.3	0.10	n/a	n/a	n/a
RP	n/a	28.17	14.3	12.52	9.04
Others*	37.17	2.23	1.68	1.62	1.50
Total	**583.69**	**487.42**	**511.31**	**526.14**	**549.27**

*ESA, CPS, Organic, LMC, Woodland, arable aid, compensation payments. *Source: Scottish Government*

Greening

As combines start to roll this month, thoughts will be turning to winter cropping. For 2020 the rules relating to greening i.e. three crop rule and EFA requirements are expected to remain the same so can be factored into future plans. As for the remainder of this year below is a reminder of EFA requirements.

<u>EFA green cover</u> - establish by 1st November and maintained until 31st December, inclusive.

<u>EFA catch crops</u> - can be grazed after main crop has been harvested.

<u>EFA nitrogen fixing crops</u> - aftermath can be grazed but livestock must be excluded from any EFA margins that are adjacent to watercourses.

<u>EFA margins</u> - can be cut and if the margin is not adjacent to a watercourse they can be grazed.

Full details of greening can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/basic-payment-scheme-full-guidance/greening-guidance-2019/

Total Income from Farming (TIFF) summary (£ million) *(Source: Scottish Government)*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Change 17-18
Output	2,439	2,408	2,583	2,940	2,956	3,161	3,088	2,816	2,781	3,106	3,182	**+76**
Support*	557	621	602	602	554	568	490	452	467	480	502	**+22**
Costs	2,354	2,448	2,480	2,704	2,842	2,845	2,756	2,675	2,627	2,857	3,012	**+155**
TIFF	**642**	**581**	**705**	**836**	**668**	**883**	**821**	**593**	**621**	**729**	**672**	**-57**

Note: figures are not adjusted for inflation; *subsidies directly linked to livestock are included in output.

gillian.inman@sac.co.uk, 07803 222362

World grain output and prices steady

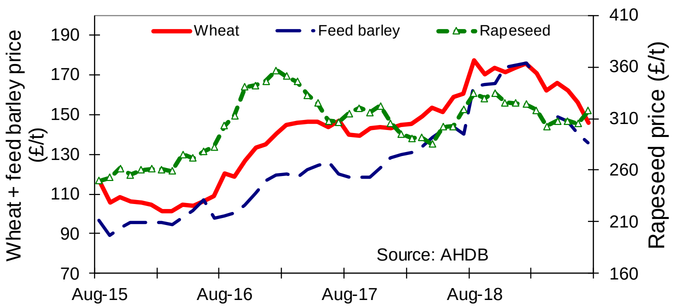
World cereal markets have been relatively stable in recent weeks amid a slight fall in overall grain output estimates in the last month. In its July report the USDA cut 2019 world wheat production estimates 9.4mt to 771.5mt but output remains a record and 40.6mt up on 2018 (731mt). Hot weather in Russia, Ukraine and the EU cut wheat yield estimates there. World wheat ending stocks fell 7.9mt in the last month to 286mt but remain 11.3mt up on last year.

For coarse (feed) grains the USDA revised 2019 world output up 6mt to 1,395.5mt, down slightly on the 1,395.8mt in 2018. World 2019 coarse grain ending stocks rose 8.3mt in the last month to 328mt and are 26.8mt down on last year. But this increased supply assumes higher US maize plantings than the industry expects so output remains sensitive to actual planting results due out in August.

Oilseed rape prices have risen due to further cuts in global oilseeds production with 1mt cut from estimates in each of the EU, Canada and Australia. Global oilseeds output was also cut 11.7mt to 568mt with further cuts from lower US soya yields.

UK grain prices have gained support from heightened Brexit uncertainty as Boris Johnson takes the helm pushing Sterling to a two year low against the US dollar and lower against the Euro.

Scottish spot ex-farm grain and oilseed prices



UK cereal area up, yields positive

AHDB's 2019 spring planting survey confirms higher winter cereal plantings, lower oilseed rape and spring barley sowings in GB. In Scotland spring barley area is down 11,000 ha (-5%) to 239,000ha while both wheat and winter barley areas are up.

The area of oats rose in Scotland, up 4,000ha to 36,000ha and in England it rose 10,000ha to 142,000ha. In England oats have replaced failed crops of OSR in some areas. This could result in an oats crop over 1mt, (the largest since 1973) and a large export surplus; a particular concern in a no-deal Brexit as most trade is with the EU.

Early reports indicate good yields of grain and straw in winter barley crops across Scotland. Further south English winter barley and early cut wheat are reportedly yielding well. Given the higher area of winter cereals in the ground and assuming 5 year average yields there could be an additional 1.5mt of wheat and 0.6mt of barley produced in the UK. While domestic usage can rise, overall a larger export campaign is likely. AHDB will start to report yield estimates based on ADAS survey results from 2 August at the AHDB market's page.

AHDB 2019 spring planting survey

000's ha		Wheat	Winter barley	Spring barley	OSR*
GB	2018	1,741	381	737	583
	2019	1,802	422	708	519
	Change	***61*** *(+4%)*	***41*** *(+11%)*	***-29*** *(-4%)*	***-64*** *(-11%)*
Scotland	2018	100	38	250	33
	2019	103	43	239	31
	Change	***3*** *(+3%)*	***5*** *(+16%)*	***-11*** *(-5%)*	***-2*** *(-6%)*

- *Good yields so far suggest an increased UK cereal export surplus in 2019*
- *Whatever happens to global grain markets UK cereal prices will have to remain competitive to export the surplus*
- *"No-deal" remains a major risk to UK – EU cereal exports*

julian.bell@sac.co.uk, *07795 302264*

Indicative grain prices week ending 26 July 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Jul 2019	Hvst 2019	Nov 2019	Mar 2020	May 2020	Nov 2020
Wheat	Ex-farm Scotland	145.00	145.00	148.00	151.00	153.00	149.00
Feed barley	Ex-farm Scotland	125.00	125.00				
Malt. barley - distil	Ex-farm Scotland		168.00				
Malt. barley - brew	Ex-farm England#		140.00	148.00	152.00	154.00	
Oilseed rape*~	Delivered Scotland		314.00	323.00		328.00	

The lowest price since 2016

Deadweight cattle price continued to fall on the month with the average Scottish base price, at week commencing 15th July, in the region of 330 - 335p/kg/dwt. That is some 15p lower on the month (£50/hd @ 360kg carcase) and over £150 down on the year. The Angus premium was relatively good at 355-360p/kg dwt.

Cow beef fairing slightly better

The cull cow trade is fairing comparatively better than the wider market, despite throughputs being higher on the year since May. This indicates what is moving on retail shelves; cheaper processed beef.

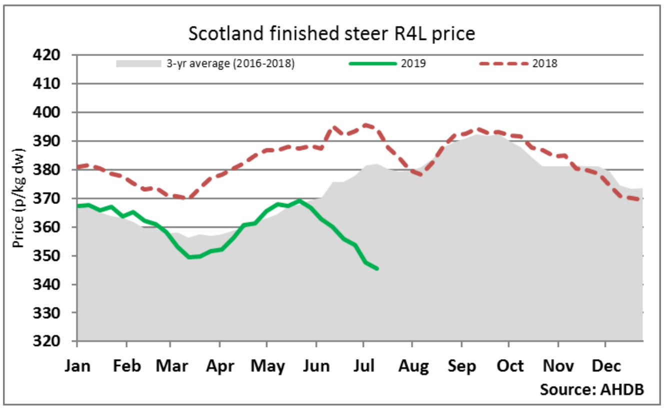
The differential between cow beef and steer base price (both R4L) was around 90-100p/kg deadweight in 2017 and 2018 compared with nearer 60p this year, at the start of August.

Is the prime market bottoming out?

There are waiting lists reported at some abattoirs, grass fed cattle (from both GB and Ireland) will become increasingly available and there are cattle undoubtedly being held on the hoof to maximise weight and in the hope of a better price (the UK average carcase weight is up 5kg on the year) – all these factors continue to bloat supply and put downward pressure on the market.

The Southern England base price, however, will average 320-322p/kg/dwt at week commencing 22nd July, which is stand-on for the week. That is now very similar to the Irish price (and therefore the major competition).

Also, increasing availability of grass fed cattle from August to housing is itself not new. Ireland cannot sustain providing the volume imported since March last year. Domestic supply is forecast to contract in the autumn while consumer demand starts to lift. Meanwhile, English school holidays (particularly if sunny weather and an increase in staycations) could see greater consumption, provided there is not a corresponding reduction in incoming tourists.



Maybe slightly more tenuous, the odds of a hard Brexit have never been so short meaning those infamous beef reserves in chill would be needed and not just act to suppress the market.

Later store sales better this year?

Rolling beef reserves will remain high, as a deliberate policy to cover any disruption in trade resulting from Brexit until Westminster can provide greater clarity, with a definitive certainly not before late October.

If an EU trade deal looks likely over the short-term then supplies hanging in costly chill space will be released, impacting the market. In the event of hard Brexit (and significant disruption to trade) those reserves will quickly be used and the prime beef price rise. Surely an already improving prime market by then coupled to this scenario would certainly give finishers the confidence to go out and buy store cattle.

Consumers need to check origin of beef

An NFUS shelf survey found that 96% of the 2500 packs of burgers analysed were from British beef. Aldi and Tesco were praised for 72% and 86% of burger packs respectively found to be Scotch beef.

To support Scotch and Red Tractor beef it would be worth checking the origin of purchased processed foods (where the declaration of origin can be less obvious) and equally with the catering trade; it isn't every restaurant or 'food to go' outlet that declares origin. robert.logan@sac.co.uk, 07909 840534

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
29 Jun 19	**353.8**	-2.1	12.1	**350.6**	-0.6	9.6	343.1	10.2	277.1	253.9
06 Jul 19	**347.6**	-6.2	4.5	**346.0**	-4.6	6.9	349.0	18.3	272.3	249.5
13 Jul 19	**345.6**	-2.0	2.1	**342.9**	-3.1	13.0	330.7	4.0	272.4	251.4

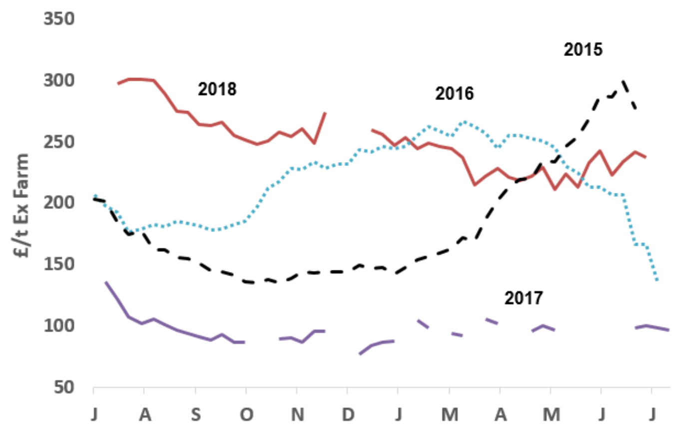
The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

Market price update

- *The GB Weekly Average Prices for the week ending 29th June was £215.55/t for free-buy and contract purchases, and £237.42/t for free-buy purchases.*
- *Compared to the previous reported figures on 22nd June, contract and free-buy purchases were up by £0.33/t and free-buy purchases were down by £4.38/t.*

Crop Year 2018/19	29 Jun	22 Jun	15 Jun
Average Price (£/t)	215.55	215.22	214.57
AVP change on week (£/t)	0.33	0.65	4.46
Free-Buy Price (£/t)	237.42	241.80	233.54
FBP change on week(£/t)	-4.38	8.26	10.72

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



Trading Season July - July Source: AHDB

Market Overview

Free-buy prices have remained steady in recent weeks with the weekly average free-buy price w/e 29th June £237.42/t ex farm down £4.38/t ex farm on the previous week. Early new crop lifting continues in southern England with an increase in volumes now coming onto the market. Increased supply has been met with limited demand which has put downward pressure on new crop chipping prices. Free-buy demand for old crop stocks is limited as buyers are holding off for new-crop supplies in the forthcoming weeks. Reports indicate that remaining old-crop material is predominantly contracted or forward-purchased which may put downward price pressure on any surplus free-buy material still on farm.

Old Crop – In Scotland, grade 1 Maris Piper is trading around £190/t ex farm, up by around £10/t ex farm on the previous week. Grade 1 Whites are trading around £250/t ex farm with reports of particularly good quality stocks with high baker content reaching over £300/t ex farm. Demand for bold stocks continues with Piper bakers graded 65mm+ trading around £350/t ex farm, and graded Whites (65mm+) trading around £340/t ex farm.

In England, remaining old crop Maris Piper is trading around £180/t ex farm and grade 1 Whites are trading around £300/t ex farm, down by around £10/t ex farm on last week. Free-buy demand for old-crop processing material has dropped considerably in recent weeks as buyers hold off for new-crop supplies. Peeling Piper is trading around £120/t ex farm, down £35/t ex farm on last week, and peeling whites are trading around £65/t ex farm, down £15/t ex farm on last week.

New Crop – volumes of new crop material in England are becoming readily available, however, off-farm movement has remained steady as packers use up contracted/forward-purchased old crop supplies. This is not uncommon during the transition from old crop to new crop but does put pressure on pack house planning to ensure continuity of supply once the switch is made to new crop. Where there is free-buy movement, grade 1 Maris Piper is trading around £230/t ex farm and grade 1 whites (Marfona) trading around £300/t ex farm. Maris Peer 45mm+ is trading around £150/t ex farm with below 45mm stocks trading around £320/t ex farm.

Potatoes in Practice – 8th August 2019

This year's industry event, Potatoes in Practice, will be held on **Thursday 8th August 08:30am – 4:30pm** at James Hutton Institute's **Balruddery Farm, Dundee, DD2 5LJ**. The free event brings together variety demonstrations, research, and trade exhibits for farmers, agronomists, industry, scientists and policymakers. https://www.hutton.ac.uk/events/potatoes-practice-2019

GB Potato Area Estimate Unchanged

Last month, AHDB revealed their first estimate for the 2019 planted area based on a 67% sample of producers. With 80% of levy returns now submitted, the estimate for the 2019 crop remains unchanged at 118Kha, which is on par with the 2018 planting figures, estimated at 118,099ha. It is difficult to predict how big an impact this will have on free-buy prices at the start of the 2019/20 packing season. Last year, free-buy prices hit the £300/t mark during two consecutive weeks (w/e 17th Aug and 25th Aug). Reports suggest that Scottish new-crop prices will be strong, but may not reach the same heights as last season.

calum.johnston@sac.co.uk, 07917 263256

Difference a year makes

The lower lamb price so far this season is probably explained by the greater availability of lambs. Just as 2018 was a terrible spring for pasture growth and ewe condition, 2019 has been excellent. So lambs are finishing quicker, further helped by the greater number of singles in flocks down south, again a reflection of the dampening effect of last year's drought on fertility. This week (w/b 22/7/19) the trade is quoting a base of 390-400p/kg dwt in Scotland.

Meanwhile, the cull ewe price is well up on a year ago. Decent old girls are averaging in the low £60's with the best reaching three figures. Support for cull prices is coming from Eid-al-Adha which runs from 11-15 August.

Brexit overshadows autumn prospects

Immediate prospects for the lamb price are solid. Despite more lambs finishing earlier, export demand has been decent with Germany the main driver of that demand. AHDB note that Germany normally imports most of its sheepmeat from New Zealand, but the Kiwis are diverting more exports to China where demand has jumped owing to swine fever reducing pork production.

A good start to store lamb sales is also helping. Excellent pasture growth and silage yields mean that surplus pasture is available, so dairy farmers are after lambs. Importantly, thanks to favourable weather over the past six months, much lower feed bills will be helping sheep margins.

But from as early as the beginning of September Brexit could be reducing market prices as stock are offloaded to beat the 31st October exit date. Breeding sales too will probably disappoint given Brexit uncertainty.

Sheep industry needs a deal

Two options exist for Brexit (three if remain is included). First, a deal to leave the EU at the end of October in an orderly manner, meaning that we would enter a grace period in which the current trading arrangements would persist until a long term arrangement is introduced. Given the importance of the UK market for EU food exports, the chances of us getting good access to EU sheep markets are fair. So basically business as usual even if the whole process could take years.

Second, leave the EU on 31st October with no deal. That means to the EU we become a third country and our sheepmeat exports are subject to a massive tax (tariff), the simple aim of which is to protect the EU market from cheap imports. Just under 100% of UK sheep exports go to the EU, equating to nearly a third of UK lamb production so losing access will hit lamb and cull prices hard even given some displacement of New Zealand imports here.

Suggestions that the EU will not impose such a high tariff if we crash out ignore the reality of WTO rules. Without a comprehensive free trade agreement (FTA) any change to EU tariffs must be available to all countries under what is termed the most favoured nation rule. Ironically, New Zealand will continue to have tariff free access to the EU and the UK as its (tariff free) import quota is expected to be split equally between Britain and the EU.

The optimists point to a big world out there to trade with. Sure, global sheepmeat prices are pretty good at present thanks to a combination of strong Chinese demand and low antipodean production caused by drought (in Australia) and long term decline in Kiwi production as their farmers can't make enough from sheep farming.

Continued on page 9 ……………..

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
29 Jun 19	451.0	-1.4	1.6	11.2	202.70	-10.7	-0.8	4.8	70.71	66.55
06 Jul 19	433.5	-17.5	-0.4	6.3	192.40	-10.3	1.4	0.2	63.70	64.95
13 Jul 19	414.5	-19.0	-1.0	5.8	186.50	-5.9	-2.8	-0.3	69.05	67.43

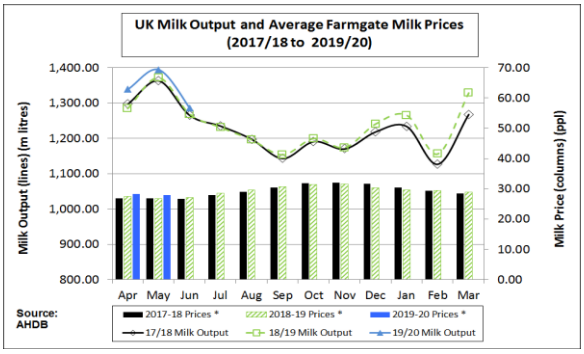
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB

UK output remains high

The latest figures from AHDB show that UK monthly milk output for June 2019 is estimated at 1,286.16m litres (before butterfat adjustment). This is 17.45m litres above milk output for June 2018. Cumulative UK production (April – June 2019) has increased by 94.58m litres above output for the same period last year. Weather conditions have been ideal for grass growth and grass yields for second and third cuts of silage have been impressive. Farmers who use multi-cut silage systems should have no problem growing grass for a fourth cut under current conditions.

The UK average milk price for May 2019 is estimated at 27.86ppl. This represents a reduction of 0.38ppl between April and May 2019. On a year on year basis, the average milk price for May 2019 is up 1.07ppl against a price of 26.79ppl during May 2018.

- *Milk output is high, despite the seasonal dip in UK production.*
- *UK milk production for June 2019 is estimated at 1,286.16m litres (17.45m litres higher than June 2018 output).*



Retail aligned prices to drop in August

Whilst most milk buyers have been able to hold July '19 milk prices going into August, some aligned contract prices have slipped backwards. The main price announcements for August 2019 are summarised below:

- First Milk – FM has confirmed a hold on July prices going into August 2019 (see table below).
- Lactalis (Fresh Milk Company) – the company announced that it will maintain its current minimum price guarantee for the third quarter (Jul – Sep). This maintains the price for the liquid standard litre at 27.13ppl and the manufacturing standard litre (4.2% butterfat and 3.4% protein) at 28.27ppl.
- Arla Foods amba – Arla has confirmed a hold on its conventional milk price for August 2019 (the seventh consecutive month that the company has held its farmgate milk price). The liquid standard litre price remains at 29.05ppl.
- Co-op – The Co-operative Dairy Group (CDG) which is comprised of Müller suppliers, is to reduce its milk price by 0.19ppl from 1st August 2019. This takes the price down from 29.56ppl to 29.37ppl for the quarter running from 1st August – 30th October 2019.
- Tesco – The Tesco Sustainable Dairy Group (TSDG) members will see their milk price reduce by 0.07ppl from 1st August 2019. This takes the price down to 31.07ppl for Müller suppliers and 30.95ppl for and Arla supplier.

Annual Average milk price estimates for August 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	27.13
First Milk Liquid [1, 2]	27.45
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	28.37
Müller - Müller Direct [1, 3]	26.75

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 FM prices include 0.25ppl Member Premium.
3 No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.

FM Scottish creameries announcement

First Milk has announced that it has commenced a consultation process regarding the future of its two Scottish creameries at Arran and Campbeltown. FM has been unable to sell the Arran creamery during the last 12 months and the company is now considering a proposal to close the site.

With respect to Campbeltown, FM is currently in discussions with local farmer suppliers on Kintyre with a view to the farmers forming a new, independent co-operative which aims to take over the running of the creamery.

UK butter and cream prices reduce

Although the UK price level for SMP increased between May and June 2019, butter prices reduced on the back of falling cream prices. This resulted in a slight weakening to AMPE (down 0.10ppl) to 28.41ppl for June 2019. During the last GDT online auction (16th July 2019) prices increased by 2.70% leaving the weighted average price across all products at US $3,412/t. The GDT price index had been reducing since the middle of May 2019, therefore the latest price rise brings some welcome stability to commodity price levels just as UK production levels drop further back.

UK dairy commodity prices (£/ tonne)	June 2019	May 2019	Jan 2019
Butter	3,240	3,440	3,900
SMP	1,820	1,730	1670
Bulk Cream	1,450	1,510	1,710
Mild Cheddar	2,830	2,830	2,880
UK milk price equivalents (ppl)	**June 2019**	**May 2019**	**Jan 2019**
AMPE (2014)	28.41	28.51	30.19
MCVE (2014)	30.37	30.44	31.58

Source: AHDB

alastair.beattie@sac.co.uk, 07771 797491

Sector Focus
Red meat after Brexit

Red meat routes to market

On the 19th July AHDB, QMS and Hybu Cig Cymru (Meat Promotion Wales) released a detailed report assessing the impact of a Brexit Deal and No Deal Brexit on the UK beef and sheep sectors. The report assesses trade opportunities, cross-border processes and tariffs, as well as impacts on retail, domestic consumption trends, and farm-level gross margins. The full report can be found here: https://ahdb.org.uk/knowledge-library/red-meat-route-to-market-project-report

Key findings:

- *Under a No Deal and to a lesser extent even with a Deal, there will be reduced efficiencies in supply chain and cost-effectiveness, leading to delays and value deterioration of shipments, a step back on progress of recent years*
- *It is unlikely that regulation, inspections and paperwork will be reduced, certainly not in the short term and may increase*
- *SMEs are likely to be worst affected by new requirements and processes, with proportionally higher costs acting as a barrier for export*
- *The loss of EU export markets will not be fully compensated by establishment of new markets such as China, but still worth developing these*

Brexit Deal versus No Deal scenarios

The report found that a Brexit Deal would have little impact (i.e. 1.0% decline in exports) on the red meat sector, whereas in a No Deal the impact would be huge (i.e. 92.5% decline in exports, and worse for sheepmeat). Tariff rate quotas (TRQs) would increase volumes of imported red meat, reduce prices and increase consumption. Prices for beef and sheepmeat under a Deal would reduce 1% and 3% respectively, and under No Deal 4% and 24% respectively, or potentially more for beef if increased volumes of Irish beef were imported through Northern Ireland (see tables).

With an estimated output of £661m from beef production in Scotland (2015 Scottish Government figures), the relative impact compared to 2015 (price and production changes combined) could be estimated at a loss of £5.3m of output to the sector in a Brexit Deal, and £26.4m in output in a No Deal. For the sheep sector worth around £203m of output in 2015, this would be a reduction of £4m in output in a Brexit Deal, or £67m of output in No Deal.

Frictionless trade – a possibility?

What is clear from the report is that even in the case of a Brexit Deal, frictionless trade will be nearly impossible, as there would be a necessary implementation of regulatory checks. There is no guarantee that even if the UK was to match new regulation with current EU regulation, trade of livestock and livestock products would continue without additional checks and paperwork. While ensuring that regulatory standards are not lowered will maximise the possibility of 'lower friction' trade, it is likely that the UK will have to earn recognition of the equivalence of its regulation over time, rather than expect it from day one.

Table 1 – Estimated changes in UK beef and sheep; exports, prices, production and consumption under Deal and No Deal scenarios

Sector	Brexit Deal			
	Exports (t)	Price (£)	Produc-tion	Consump-tion
Beef	-0.8%	-1%	+0.2%	0%
Sheep meat	-1.5%	-1%	-1%	-0.7%
Sector	**No Deal**			
	Exports (t)	Price (£)	Produc-tion	Consump-tion
Beef	-87%	-4%	0%	+7%
Sheep meat	-99.7%	-24%	-9%	+14%

Source: Andersons

Additional regulation and export costs

Such additional regulatory steps (or non-tariff measures) on red meat exports would include a higher level of checks, Export Health Certificates and Common Veterinary Entry Documents on exported live animals, and a greater number of sample checks per consignment, increasing costs and time spent at cross border inspection. There would also need to be greater documentation and evidence on sanitary or phytosanitary measures (SPS), and rules of origin (RoO). While in the long term technology (such as New Zealand's e-certification system) offers potential to increase the efficiency of these processes to some extent, this is certainly not a short-term solution to what will be a labour intensive challenge.

Sector Focus
Red meat after Brexit

The impact of this on exported red meat, particularly on fresh meat; for example, is that retailers in Europe commonly demand a use-by date of packing plus 8 days of shelf life. Therefore a reduction of 3 days' shelf life through sampling and testing of export consignments can reduce the product value by 25-30%. Returning to trading frozen meat as the UK did prior to joining the EEC is an option, but again would reduce the value of traded meat. The report's analysis indicates that non-tariff measures could add a considerable cost onto the export of red meat, which may partly be borne by consumers, but will likely be largely passed on to producers.

What will this mean for Scottish farmers?

While beef production is projected to remain stable and consumption increase, this does not account for a decreased price, and increased competition with cheaper imports. For example, if there were no checks at the GB-NI border to avoid a hard border in Ireland, while checks would be in place from Dublin to Holyhead, there would still be large quantities of Irish beef making its way to UK markets even outside of the 230Kt TRQ, with huge impact on the price and profitability of British beef.

However, it is extremely difficult to see how the WTO would permit such a porous border to continue on a permanent basis after the UK has left the EU so any such impacts may not be sustained.

An increase in trade friction will lead to both decreased production and decreased price of sheepmeat, in either scenario. Seasonal sheepmeat consumption trends are unlikely to change, although some seasonal balance could be mitigated through reduced imports and packaging options to extend seasonality, and reduced prices to consumers.

Other future challenges

The report did not speculate or model scenarios on the future of subsidy support, which will of course have a large impact on the future viability of farm businesses; however, the variation in subsidy regimes proposed between England & Wales and Scotland may buffer negative impacts on the red meat sector in Scotland in the short-term (as per the modelled gross margin scenarios in the report).

Over time the potential EU-Mercosur deal (if ratified) could see reduced prices of beef (and lamb though less so) within the EU anyway, making any price gap between the EU and the UK a little lower than it might currently be.

anna.sellars@sac.co.uk, 07717 717561

No Deal and the sheep sector (continued from page 6)

Further, establishing trade links with distant markets will not be easy. The Kiwis have a FTA with China and routes into the complex Chinese market through processor partnerships with Chinese companies. We don't. There are also technology issues: trading long distance will require investment in chill technology. For trading with the Middle Eastern and North African countries, non-stun slaughtering becomes a thorny issue. As for North America, their consumers typically want small parts of the carcase (typically racks) meaning that carcase balance becomes a problem.

It remains possible, despite the current political bluster, that a further extension will be agreed to make every effort to reach a deal. From a Scottish and UK sheep industry viewpoint, avoiding a no deal remains highly desirable.

kev.bevan@sac.co.uk, 07990 777813

Forage Update

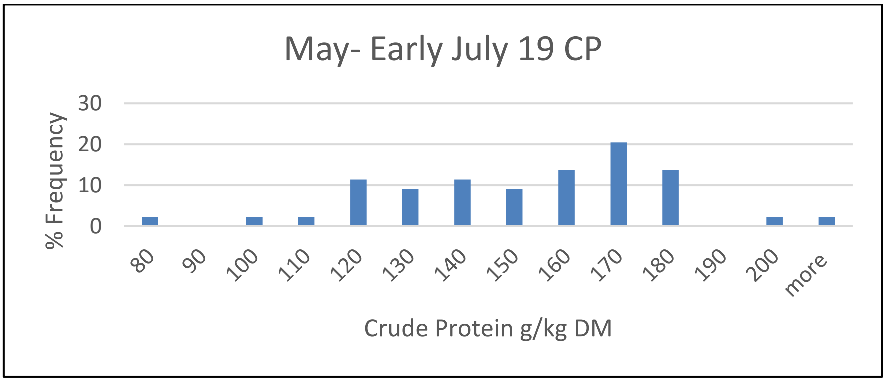
The SAC Consulting lab have started to receive grass silage samples for analysis. The results so far show that they have analysed well, however, the majority of these samples are dairy first cut, pit silages which tend to be of higher quality. Figure 1 shows the average dry matter for 2019 silage (280 g/kg) is lower than those received at the same time last year (332 g/kg), this is not unexpected given 2018's unusually dry conditions during first cut silage making.

So far the quality has been good with high ME (11.7 MJ/kg DM), D value (73), good crude protein level (148 g/kg DM) and high silage intake potential (SIP). Figure 1 shows the range of results which have come through the lab. To get a better overview of how the crude protein results are distributed you can see from Figure 2 that just over 20% of all the samples received have analysed at 170 g/kg DM, and less than 5% have analysed at 80g/kg DM. Overall, this year's silage crop is yielding better and early test results feeding quality is also higher than last year suggesting lower feed purchases this year.

Figure 1

Overall:	May- July 2018 Average	May- Early July 2019 Average	Minimum	Maximum
DM g/kg	332	280	148	454
D Value (%)	67	73	60.5	77
ME MJ/kg DM	10.8	11.7	9.7	12.3
CP g/kg DM	139	148	79	229
Ash g/kg DM	80	86	62	122
SIP	-	106	86	124
pH	4.4	4.1	3.6	5.1

Figure 2



mary.young@sac.co.uk, 07795 453840

Key economic data

General Indicators		Price indices for May 2019 (Defra 2015 = 100)			
		Output Prices		**Input Prices**	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	137.72	Seeds (all)	107.2
ECB interest rate	0.00% (0.05% Mar '16)	Barley	130.42	Energy	127.8
UK (CPI) inflation rate	2.0% (target 2%)	Oats	159.76	Fertiliser	105.0
UK GDP growth rate	0.5% (Q1 '19)	Potatoes	146.81	Agro-chemicals (all)	106.3
FTSE 100	7,613 (31 July '19)	Cattle and Calves	100.75	Feedstuffs	118.4
		Pigs	111.31	Machinery R&M	108.8
		Sheep and Lambs	123.45	Building R&M	112.6
		Milk	113.74	Veterinary services	116.6

SAC Consulting 2019. SAC Consulting is a division of Scotland's Rural College (SRUC)
This publication is funded by the Scottish Government and EU as part of the SRDP Farm Advisory Service

SAC Consulting, Rural Business Unit publication
Annual subscription: free on-line at www.fas.scot or £50 for printed copies
Contact: janis.forrest@sac.co.uk or 0131 603 7525