SRDP Farm Advisory Service

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August 2022

News in brief

Will EBC interest rates put the brakes on inflation?

The recent interest rate rise by the European Central Bank of 0.5% (from 0%) signals a step up in the tone of the response to months of rapidly increasing commodity prices and spiralling inflation. The rise is the first in 11 years, and inflation has never been higher in the history of the Eurozone. This sentiment is being echoed around the world as the US Federal Reserve has increased the main interest rate by 0.75% for the second month in a row – now sitting at 2.5%.

What's interesting about current inflation is that it is supply-led, rather than demand-led; usually inflation is driven by an overstimulated marketplace (demand-led), and therefore implementing higher interest rates will put a dampener on willingness or ability to spend. However, current inflation largely appears to be supply-led, due to lack of availability of commodities, and/or speed of production. This questions whether interest rates will have the desired (or enough of an) effect, where demand for key commodities will remain regardless of price. The effects are yet to be seen, but further interest rate rises are predicted in the ECB in the coming months.

For farming businesses, this will directly impact any unsecured lending and increase finance costs. As inflation continues and the direction of travel for interest rates appears to be clear, it may be a good time to consider what financing arrangements are in place and to see if any amounts could be fixed to help alleviate pressure of future interest rate changes. It is important that farmers consider their cashflow forecasts and consider what an increase in interest rates may mean for their specific business to ensure resilience.

For a range of expert advice on business management and finance, see the Farm Advisory Service website or contact the helpline.

Next month:

- Organics update
- Biodiversity

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This month's editor:
Anna Sellars

New Land Reform Bill

As we transition to a Net Zero Nation, in order to ensure greater benefit to communities and the environment transformative changes are being proposed by the Scottish Government to the way Scotland's land is used and managed.

The New Land Reform Bill aims to address long-standing concerns about the highly concentrated pattern of land ownership in rural areas of Scotland.

The proposals for the Bill which is expected to be introduced by the end of 2023 are based on the Scottish Land Commission's (SLC), recommendations for legislation to tackle the scale and concentration of land ownership, including a major review of the Scale and Concentration of Land Ownership.

Proposed measures include:

- The introduction of a public interest test for transfers of large-scale landholdings.
- A requirement on owners of large-scale holdings to give prior notice to community bodies of their intention to sell.
- A requirement on those seeking land-based subsidies to have the land registered in the Land Register, to ensure transparency around who benefits from public funding.
- As part of the consultation process, views are being sought about how to ensure communities benefit from future investment in Scotland's natural capital, and that there is greater transparency around land and asset ownership.

The closing date for the consultation process is the 25th of September.

Thrive 2022

SRUC, Abertay and Queen Margaret Universities have launched a free collaborative initiative aimed at supporting the next generation of food & drink and rural enterprise entrepreneurs.

Through a combination of face to face and online sessions THRIVE has been developed to help students and recent graduates to gain essential business skills and knowledge to support their business idea.

Forthcoming sessions include a Business Skills day (5th Nov) and a Food Product Development day (12th Nov). The free courses cover concept development, planning, marketing, pitching, and access to general business support information. For more information and/or to book a place, click here.

Sustainable Farming Survey Open

Track Two of National Test Programme has now been launched with "Testing Actions for Sustainable Farming" (TSF). The purpose of TSF is to design, test, improve and standardise the tools, support, and process necessary to reward farmers, crofters and land managers for the climate and biodiversity outcomes they deliver.

The first phase of testing is a simple survey of multiple-choice questions to understand current awareness and experience of sustainable and regenerative agriculture.

While to ensure the survey results represent the breadth and diversity of farms and crofts across Scotland, a representative base of participants has already been invited under Tranche 1 to participate with a positive response from invitees; Tranche 2 of the survey is now open to farmers and crofters across Scotland.

Participants who complete the survey will be awarded a participation fee of £50 within three weeks of the survey closing date for each tranche. The fee will be paid directly into the bank account associated with their BRN.

The closing date for Tranche 2 is the 28th of August 2022. However, the survey may close earlier if the target number of participants is achieved before then. To take part in the survey, please email TSF_Mailbox@gov.scot stating the business's Business Reference Number (BRN).

Survey of the Economic Conditions of Crofting 2019-2022

Over the coming weeks, crofters across Scotland will be invited to take part in a survey of the Economic Conditions of Crofting (online, via post or over the phone). The survey will provide valuable information on the uses and financial situation of crofts in 2019-2022.

The information gathered will help to inform future Scottish Government crofting policy development. In addition, the Crofting Commission will use the results to help focus resources on the factors which will be of most benefit to crofting.

Unique links have been sent to applicable crofters. The deadline for postal responses is Friday 26 August, with telephone interviews taking place from Friday 2 September.

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Markets adjust to post-conflict impacts

Markets have been mixed as macroeconomics, dry and hot weather globally and Black Sea uncertainty continue create a nervous and volatile trading arena.

Underlying the current volatility, tight global supply persists. The International Grains Council has forecast global 2022-23 wheat and coarse grain production at 2,255Mt compared with output of 2,290 Mt in 2021-22 and end of season stocks at 583Mt (607Mt in 2021-22). Within these figures the Ukrainian 2022 wheat crop is forecast at 18.2Mt (a little over half its 32.2Mt output in 2021) and maize at 27.7Mt (42.1Mt in 2021). On the flipside, Russia's IKAR agricultural consultancy has raised its wheat production estimate for the country to 90.5Mt, up 1.8 Mt on its previous estimate and it is becoming evident that Russia is expected to have a 45Mt surplus to export.

However, all of the historic 'war premium' built into the wheat futures values of late, has evaporated with market falls of over £100/t seen off the highs experienced back in May. There was evidently an over-correction as the hedge funds sold commodities from energy to gold to grain. Since then, the market has tried to recover, but keeps getting knocked back by the inevitable northern hemisphere harvest pressure now underway. Which way the market swings now, will depend in part on the success of the deal brokered to trade out the 20Mt of Ukrainian grain purportedly sitting dockside. Questions around whether insurance companies will insure vessels leaving the mined waters, and the recent strikes on ports, are also adding to uncertainty.

Legislation intervention

The EU Commission, in recognising the future threats to food security, has adopted a temporary short-term derogation from conditionality rules on crop rotation & maintenance of non-productive areas in a bid to increase the EU's cereal output. Following repeated requests from Member States, the Commission tabled a proposal seeking derogations from GAEC standards 7 & 8 limited to claim year 2023 in a bid to maximise the EU's production capacity for cereals aimed for food products.

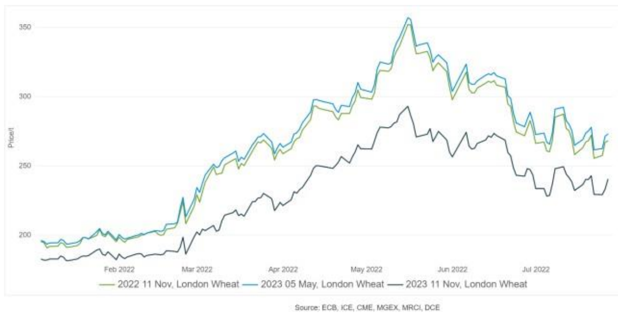
The impact of the measure will depend on the choice made by national capitals & farmers, but DG AGRI estimates show that it could put back 1.5 million hectares in production compared to today. In practise this is a reversal on the 3-crop rule and EFA requirements in EU Member states.

Harvest '22 progress

Progress on the continent is reported as positive with optimistic outlooks given particularly for quality. French farmers are over 50% harvested on soft wheats with best crops being to the north and east of the country. Germany too, cites promise in their harvest, offsetting some earlier concerns. This picture is reflected here in the UK with the market buyers at ease with yield estimations for feed barley harvest currently sitting at 10% over 'average'. As - available prices have come under pressure as a result as sellers look for outlets but the favourable carry in forward pricing is aiming to incentivise growers to hold crop on farm.

In Scotland the harvest has yet to prove itself with concerns particularly for light land performance given the dry season. Some growers will still have malting barley contract premiums to sign off on, frustrated perhaps by the absence of buyers committing to a premium earlier in the year. With UK feed wheat futures (Nov-22) back to £270/t (28th July) (Figure 1) its reason enough to tie up any remaining spring barley contracts for early movement and help generate funds for post-harvest cash flow requirements.

Figure 1. UK Feed Wheat Futures 1st Jan-28th July 2022



Market sentiment is currently favouring wheat and rape as the longer-term holders into 2023, with barley more potentially exposed to price pressures later in the season coming from any UK surplus that develops and therefore initiates a requirement to export.

Indicative grain prices week ending 29th July 2022(Source: SAC/AHDB/Graindex)

£ per tonne	Basis	July '22	As available '22	**Nov '22**	**Nov '23**
Wheat	Ex farm scotland	242	252	270	244
Feed Barley	Ex farm scotland	211	220	228	202
Malt. dist. Barley	Ex farm scotland		270-280		
Oilseed Rape	Delivered Liverpool	445	510	707	650

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Beef

Finished price eases backwards

Finishers welcomed a price lift in June, although still not enough to offset the inflation of production it would have helped lift moral among cattle finishers that prices were moving in the right direction. However, the current finished beef price has since trickled downwards. In the week ending 16th July for the second consecutive week cattle prices fell, with the price for Scottish R4L steers sitting at approx. 456p/kg/dwt. Although prices in Scotland are around 10% higher compared with this time last year, in inflation adjusted terms they are a mere 1% higher than 2021. And as we have alluded to before breakeven prices for finishers are estimated to be in the region of 470-500p/kg.

July's price drop is not unusual as demand drops with school holidays and people holidaying abroad which sees consumers buying routines change. This slowing in demand will no doubt lead to downward pressure on prices which will feed back to processors and producers.

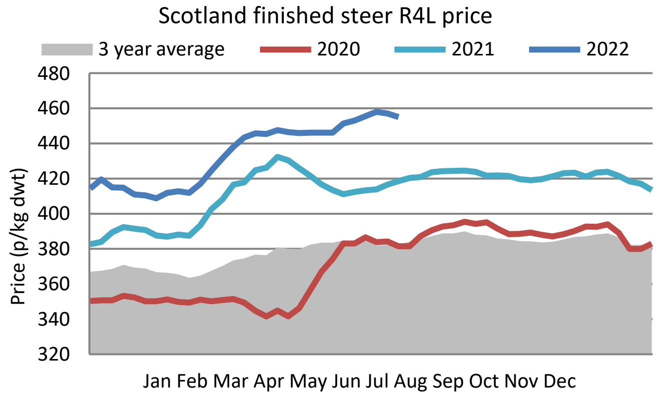
Input costs remain a real concern for finishers. While the price of straights has started to fall back from the highs seen after the start of the Ukrainian war feed prices remain well above pre-war levels and higher than 2021. The lag time with compound feeds mean it will take time for a rebalance in price meaning finishing margins will continue to be squeezed in the coming weeks and months.

Dry hot weather puts pressure on

As well as inflated input costs, more recently farmers have had to contend with the recent spell of dry, hot weather putting pressure on livestock systems, which is affecting production. Continuing dry, hot weather is a potential threat to food security and food prices during a time of rampant inflation. Some areas are now extremely dry with concerns over forage availability, which will have a knock-on effect with cattle being finished off grass. This could potentially lead to additional slaughterings at lower carcase weights.

Forage availability is a concern both now and looking toward the autumn store and weaned calf sales. In some areas farmers are being faced with a choice between winter forage or grass for grazing cattle.

The main store sales are now passed, with numbers forward at store sales less. Short-keep, heavier cattle continue to be a good trade. However, if the recent hot weather continues and grass availability drops, farmers will look to sell off stores and wean calves earlier to ease grazing pressures.



Source: AHDB

Cost of living crisis

In line for the time of year cull cow price has fallen back, however it is remains in a strong position as the continued demand for manufacturing beef and less cull cows currently available has contributed to the strong trade for cows. National BBQ week (July 4th) supported the demand for burgers and BBQ meat. Going forward the cull cow price will drop further as scanning results will see more cows come onto the market.

The cost of living remains a threat to consumer demand for beef, as consumers cut back on the amount of meat they buy in an attempt to save money on the weekly shop. It is predicted there will be a downturn in retail sales of meat compared with last year as consumers tighten their belts. Worth remembering that there was a time in 2021 when restrictions meant eating at home was above average, so retail meat sales were higher than normal. Recent consumer insight conducted by AHDB showed that mince, traditionally regarded as a budget friendly meat option for families is now perceived to be getting expensive. If these once cheaper meat options are now thought of as expensive where does that will leave the demand for cuts such as roasting joints and steaks.

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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
02-Jul-22	**457.9**	2.4	4.3	**453.4**	-0.2	2.5	449.7	-2.7	409.4	388.8
09-Jul-22	**456.9**	-1.0	1.1	**452.3**	-1.1	-2.4	447.5	0.3	406.4	381.3
16-Jul-22	**454.9**	-2.0	0.0	**450.8**	-1.5	-0.9	444.2	-2.3	402.8	375.2

Sector Focus: Food & Foraging

Why Foraging? Why not? Including wild and / or sustainably foraged foods in your farm shop / café or as part of an experience-based diversified rural enterprise is a savvy idea given key food trends and consumer needs.

Food trends update

Five key food trends have dominated the food sector in the last 18 months:

- Our planet
- Plant-based
- Functional wellness
- Life well-lived and
- The impact of covid #19

The post-pandemic consumer has reassessed what is important - 85% of UK consumers have adopted at least one lifestyle change (Deloitte, April 2021) and 48% of consumers think sustainability is more important (Kantar 2021). Consumers care more about our planet and many are highly engaged in 'sustainability' – whether that is moving from packaged products to refillable alternatives, loving local or taking part in #Veganuary or #Regenuary. Since its launch in 2014 more than 2 million people globally were expected to sign up to Veganuary in 2022 with food producers, shops & restaurants maximising the opportunity and catering for this demand. For people wanting to eat more sustainably while not cutting out meat there is Regenuary – a more nuanced approach with a focus on seasonal produce from farms with a lower or beneficial impact on the environment.

Plant-based is no longer just for vegetarians, it is here to stay driven by beliefs that is it better for health & the planet, that it helps manage weight, supports animal welfare or that meat is too expensive. A staggering 54% of Gen Z are actively trying to reduce meat consumption (Euromonitor 2020).

At the same time there is increased interest in 'functional wellness' – foods that do something positive for you and your body – people thinking of food in terms of medicine – food for health. The pandemic kick-started a growth in interest in 'food for immunity' and many daily foods now feature immunity statements on their packaging.

Life well-lived combines a few sub-trends – life slower, self-indulgence & self-care. Today's consumer is looking for a better work:life balance, they want more from their time, they want mediative moments and sensory indulgence, they want to enjoy the journey & not just the destination. This may be about guilt-free consumption & having a positive impact on the planet but it is also about provenance and an appreciation of what is around us.

The pandemic has made consumers reassess what is important and will have a lasting impact. There is a greater interest in local culinary culture & sustainability, and people are looking for 'experiences'. Food inflation and the squeeze on household disposable income has also increased interest in cost-saving meal ideas, often nostalgic recipes from previous 'hard times'.

Opportunities in wild & foraged foods

Wild and sustainably foraged foods address a number of these trends. They immerse the consumer in nature and highlight the importance of sustainability. They support well-being – getting out in the fresh air and foraging for your free ingredients. We're talking plants – many with historical functional wellness characteristics and with a connection to local heritage and locality.

Is there an opportunity for you to consider a food tourism offering - where people travel for a taste of place in order to get a sense of place - by showcasing local, wild or sustainably foraged foods? Can you create an immersive food experience foraging & cooking wild foods? Do you have land where foraging experiences can be created? If you're developing a destination experience make sure you embrace local and visiting customers, and to be open in terms of your sustainability commitment. Any enterprise will be strengthened with an online offer – be sure to take advantage of the digital trend and build your offer with a clear and credible story.

Be responsible when foraging:

- Don't pick or eat anything you can't 100% positively identify
- Avoid picking rare species – be aware of local laws & protected species
- Only take what you need
- Take advantage of guided walks & foraging courses
- Avoid plants on busy roads

If you want to find out more take advantage of the free online webinars curated for businesses interested in exploring the foraging opportunity. Whether you're a food producer, a farmer, a chef, a garden centre or plant nursery; thinking about product or experience development – there's an event for you. Check out the link to book your place: [Foraging Fortnight Business Events]

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Population & production long term growth

The OECD have recently published their global long term agricultural outlook (2022-2031). They predict global population increasing by 11% and red meat consumption rising by 15% by 2031. Combined with this, a predicted increase of 9% in greenhouse gas emissions, which is lower than the rate of meat production increase due to a high volume being intensive poultry (increase of 31 billion head). Sheep are forecast to increase globally by 2031 by 2.9 billion head.

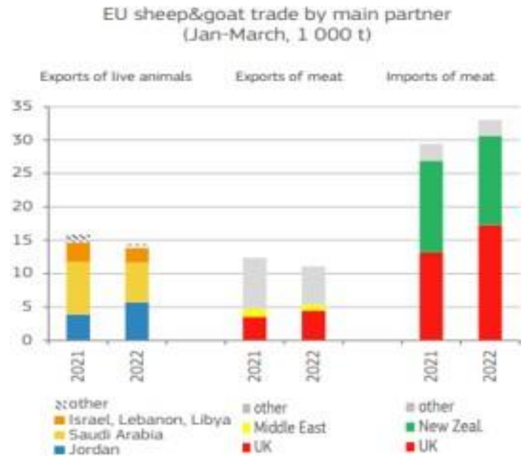
It is anticipated that EU will face challenges with high domestic and environmental costs, a reduced opportunity to export product and greater competition for global markets compared to expanding sheep meat producers e.g. Asia, China, Africa, India and Pakistan. CAP support will be key here from the EU. Production in New Zealand is expected to be sustained at current levels, while Australia is expected to continue growing its national flock.

It is thought consumers will choose which meat to purchase on reasoning such as environmental, animal welfare, ethical and health concerns.

Short term outlook

While the EU have recently issued their short-term outlook. They detail the high prices of lambs being driven by high demand in the EU against a low domestic supply, with some countries reducing their flocks e.g. Greece. They have warned that high feed prices may result in lambs going forward for slaughter at lighter weights, which may distort the market.

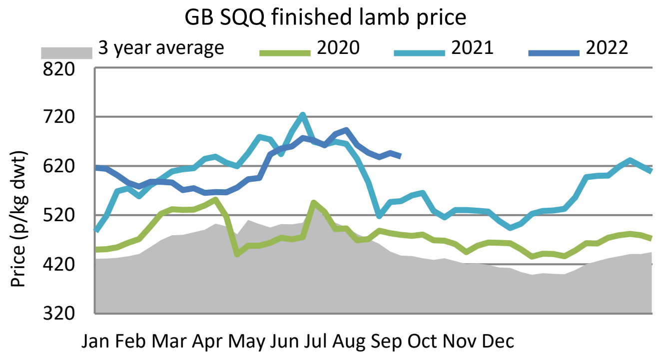
The export of live animals is forecast to decline by 8% this year following the high domestic price and continued shipping problems through the Black Sea. Sheep meat from the UK to the EU has showed great recovery post Covid-19 and Brexit, while imports from New Zealand have stayed stable. Trade frictions between the UK and the EU have been highlighted as a potential risk in the short term.



Source: DG Agriculture and Rural Development based on Eurostat

Price high but slipping

The lamb market has remained high, supported by Eid al-Adha between 9th – 13th July, since this many abattoirs and markets have reported the price dipping back in prime lambs and ewes. The week ending 16/07 the SQQ for liveweight stood at 289.9p/kg, and deadweight at 639.1p/kg.



Source: AHDB

Store lamb sales are showing the heavier better fleshed short keep lambs at a premium compared to the light lambs. With buyers capitalising \on surplus forage and good prices. The short keep lamb trade is a reflection of the price of concentrate feeding, which may marginally decline now harvest has started and barley has reduced in price a little.

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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
02-Jul-22	**637.2**	-8.1	0.9	-0.8	**305.50**	-5.8	6.8	1.5	111.06	99.92
09-Jul-22	**644.2**	7.0	-3.8	-4.0	**318.40**	12.9	7.5	5.9	111.39	103.10
16-Jul-22	**637.7**	-6.5	-4.5	-1.3	**290.60**	-27.8	8.8	-3.1	101.15	94.15

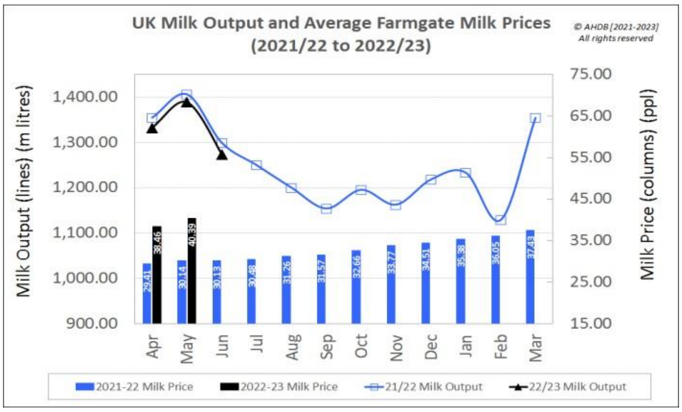
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB and IAAS
Standard weight 32.1 - 39.0kg; Medium weight 39.1 - 45.5kg; Heavy 45.6 - 52.0kg

Price rises begin to cool

- *UK milk output is well behind last year. At the end of June 2022, the UK is already 64.28m litres down on 2021 output.*
- *UK milk prices remain buoyant as high farmgate prices continue to be driven by soaring production costs. Producer margins remain fine.*
- *Although some farmgate prices have increased for August 2022, there are signs that retailers are unwilling to raise milk prices much further.*

The latest milk production statistics from AHDB for June 2022 indicate that output for the month is estimated at 1,273.11m litres (before butterfat adjustment) – a reduction of 25.55m litres compared against June 2021. Cumulative production for the 2022/23 milk year to the end of June 2022 stands at 3,994.16m litres (before butterfat adjustment), which is 64.28m litres down on the same period last year.

The latest figures available from AHDB show that the average UK milk price for May 2022 is estimated at 40.39ppl. Several milk buyers increased their farmgate milk prices during June and July and the data relating to these milk price increases is still being collated by AHDB. During the June/July period, most farmgate milk prices have been sitting around 42.00 – 46.00ppl.



Farmgate prices: August 2022

The main price changes for August 2022 shown below:

- Arla direct supplies – 1.59ppl price increase confirmed from 1st August 2022. The liquid standard litre for direct suppliers is set to increase from 43.44ppl to 45.03ppl.
- Arla Foods amba – members will receive a 1.0-euro cents increase from 1st August 2022. This equates to an increase of 0.86ppl for the liquid standard litre which lifts the farmgate milk price from 47.56ppl to 48.42ppl. The manufacturing standard litre (4.2%BF & 3.40% protein) increases by 0.90ppl from 49.45ppl to 50.35ppl.
- Arla Foods organic – Organic suppliers will also receive the same 1.00-euro cents increase which takes the liquid standard litre up to 53.87ppl and the manufacturing standard litre up to 56.01ppl.
- Müller Direct - No change to the Müller Direct milk price for August 2022, following a 4.50ppl increase in July 2022. See Milk Price table, right.
- Fresh Milk Company – 1.00ppl increase confirmed from 1st August 2022. This takes the liquid standard litre price up to 46.40ppl (see Milk Price table below). The manufacturing standard litre price increases by 1.04ppl to 48.25ppl.
- First Milk – FM milk price will increase by 3.05ppl from 1st August 2022. See Milk Price table, below.
- Graham's Dairies – 2.00ppl increase confirmed from 1st August 2022. This takes the liquid standard litre price up to 46.00ppl for August 2022.
- Sainsburys (SDDG) – 1.00ppl increase confirmed from 1st August 2022. The price increase means that Müller members of the SDDG will see their price move up to 47.00ppl for the liquid standard litre, whilst Arla members will see prices move up to 46.88ppl.
- Co-op – 0.33ppl increase confirmed from 1st August. With the July 2022 Coop milk price having increased by 2.65ppl due to the Coop milk price tracking Sainsburys (SDDG) and Tesco (TSDG) milk prices, the latest 0.33ppl increase for August means that the liquid standard litre price for August 2022 moves up to 46.33ppl.

Annual average milk price estimates for August 2022 (ppl)	
Milk Prices – Scotland	**Standard Ltr***
Lactalis / Fresh Milk Co. (No profile or seasonality) [1]	46.40
First Milk Liquid [1, 2]	44.94
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	46.50
Müller - Müller Direct - Scotland [1, 3]	45.75

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 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.

Wholesale prices begin to level off

UK dairy commodity prices (£/ tonne)	July 2022	June 2022	Jan 2022
Butter	5,940	6,020	4,860
SMP	3,290	3,380	2,910
Bulk Cream	2,850	2,734	2,155
Mild Cheddar	4,740	4,740	3,760
UK milk price equivalents (ppl)	**July 2022**	**June 2022**	**Jan 2022**
AMPE (2021)	54.75	56.43	47.31
MCVE (2021)	53.01	54.09	43.12

Reduction to Tesco cost of production

Although the Tesco milk price will continue to track the Müller Direct milk price during August (45.75ppl in Scotland), the retailer has given a signal of intent by announcing that the cost of milk production reduced by 0.32ppl during July 2022 to 42.59ppl. Whilst the Tesco (TSDG) milk price continues to mirror the Müller Direct for now, this latest announcement suggests that a downward movement to the TSDG milk price may be imminent. Ultimately there is a limit to how much the consumer is prepared to pay for milk and this latest announcement from Tesco suggests that the retailer would prefer to see a lower price level.

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Input Costs : Sexed Semen

Sales of sexed (or gender sorted) semen have increased significantly in recent years, accounting for over half of all UK dairy semen sales. This increase is largely due to better success rates and more competitive pricing. The success rates of sexed semen in the past have been relatively low in comparison to conventional semen largely due to damage caused to sperm during the sorting process and fewer sperm per dose. However, due to advances in technology, some breeding companies are claiming that it is up to 90% as effective as conventional semen.

Sexed semen has the potential to speed up genetic progress, increase the number of replacement heifers coming into the herd and maximise beef calves from dairy cows. Realistically, a 20% reduction in conception rates is expected from using sexed semen on milk cows. If you would normally expect to get conception rates of 40% when using conventional semen, then you would expect conception rates of 32% when using sexed semen[1].

[1]Figures from Farming Connect Article by Dr Cate Williams: IBERS, Aberystwyth University

Factors affecting success rates

There are many factors that will determine the success of using sexed semen on the dairy herd.

- Milk yield
- Age of cows
- Stage of lactation
- Diet
- Timing of inseminations
- Environmental conditions i.e., Heat stress
- Semen handling
- Competency of the inseminator

Improving success rates

Milk yield is likely to affect success rates when using sexed semen, with higher-yielding herds experiencing reduced fertility. Lower-yielding cross-bred herds may experience conception rates closer to that of conventional. When allocating sexed semen to milking cows, prioritising younger animals, animals with better condition scores and ones earlier into the lactation should give better success rates. Genomic testing of females and prioritising those of higher genetic merit could also bring better returns.

Using sexed semen to boost replacements

Producing replacements from a closed herd mitigates the risk of buying in disease and ensures the quality of new stock. If a herd has a shortage of replacement heifers, then increasing sexed semen use on milkers will generate additional replacements whilst maximising the use of beef on dairy. However, reduced success rates may reduce pregnancy rates, increasing calving intervals and potentially leading to an increase in cull cows. Semen costs will also increase due to the higher cost of sexed semen and an increase in animals requiring repeat services. Cost savings coming from rearing replacements rather than purchasing at higher costs could potentially outweigh costs associated with reduced pregnancy rates. The opportunity to sell surplus heifers could generate additional income, however, profit margins will be influenced by rearing costs and market value.

Is it cost-effective?

A 200-cow herd, with a 25% replacement rate would require 50 replacements each year to maintain herd size. Using only conventional semen, 73% of the herd would need to be put to dairy in order to produce enough replacements. If the same herd used sexed semen on 41% of milk cows, rather than conventional, then the remaining 59% could be put to beef. This could create an additional income of £8,112 from calf sales[2].

Semen costs will increase by £1,988 and there may be a reduction in the 21-day pregnancy rate due to reduced conception rates[3]. A possible loss of 1 pregnancy every 21 days will cause the pregnancy rate to fall from 25% - 22%. Consequently, this will lead to an increase in days to conception, estimated to cost anywhere between £2.41-£6.52 per day, based on a study by Cambridge University. Depending on the farm's breeding policy, this could lead to voluntary culling of animals who fail to conceive within a set timeframe or after multiple services.

[2]Based on the market value of Holstein bull calves at £80/hd and British Blue cross calves at £250/hd

[3]Semen costs are calculated using the AHDB semen usage calculator. Based on beef semen at £10/straw, Conventional dairy at £20/straw and Sexed at £30/straw

Using sexed semen on youngstock

Conception rates of sexed semen on maiden heifers are relatively equal to that of conventional semen. Maximising the use of sexed semen on maiden heifers will reduce the number of dairy calves needed from milk cows. In theory, genetic progress will improve with each generation of breeding, therefore the younger the animal, the more genetically superior it is likely to be. The maximum genetic gains will be achieved from pregnancies out of maiden heifers. Replacing conventional semen for sexed semen on maiden heifers will produce more heifer calves from youngstock, optimise beef calves from milk cows and potentially reduce overall semen costs by through the increased use of cheaper beef semen.

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What is the Northern Ireland Protocol?

In effect since 1st January 2021, the Northern Ireland was put in place to protect the EU single market and the Good Friday Agreement; with Northern Ireland (NI) leaving the EU with the rest of the UK, there was a risk that goods imported to NI from Great Britain would leak into the EU single market without adhering to the EU's sanitary and phytosanitary (SPS) restrictions. To address this, all goods entering NI should be checked upon arrival at ports, effectively placing a border across the Irish Sea rather than a hard border with NI and the Republic.

Current implementation

The Protocol has led to conflict since its implementation but has only been implemented in part. The UK Government opted to suspend certain checks and customs procedures, including what would have otherwise been an outright ban on the movement of chilled meats from GB to NI. Around mid-2021, the EU estimated that only around 30% of veterinary checks required by the Protocol were being carried out. These suspensions and grace periods have mitigated administrative costs and other negative effects on businesses caused by the Protocol. The UK Government has spent £250 million annually on the Trader Support Service, Movement Assistance Scheme, and other measures to reduce the costs to businesses.

Impacts on businesses

Nonetheless, the Protocol is having detrimental effects. Limited evidence suggests that businesses are spending 6% of all costs on navigating the new system, including paperwork and products being held in Belfast. Since 2021, at least 200 British firms have withdrawn from or reduced offerings in NI. NI retailers with supply lines coming from GB have been most affected, while those with more local supply chains have received a competitive advantage. The Protocol seems to be diverting trade away from NI-GB in favour of NI to the Republic of Ireland (exports to the south up 65%, imports up 54% over 2020 levels). NI becoming more closely tied to the RoI and EU would increase the length of their supply lines (to Europe, rather than GB) and would likely increase food retail prices (RoI prices were 34% higher than the UK average in 2020).

***Figure**: New red and green lanes proposed for goods entering Northern Ireland ports. Goods destined for Northern Ireland markets only could bypass cumbersome customs checks, while those headed to the Republic of Ireland would be checked to ensure compliance with EU single market standards (BBC).*

New Protocol Bill

The UK Government and EU have tried to find solutions acceptable to both parties, with limited progress. This issue has now come to a head, and the Northern Ireland Protocol Bill was introduced on 13 June and proposes measures to alleviate grievances with the current implementation of the Protocol:

1. Burdensome customs processes: Green and red channels to remove unnecessary costs and paperwork for businesses moving goods destined for the Northern Ireland market only, while ensuring full checks are done for goods entering the EU. Introducing a Trusted Trader scheme with real-time data sharing.
2. Inflexible regulation: Businesses to have the choice of placing goods on the market in Northern Ireland according to either UK or EU goods rules, to ensure that NI consumers are not prevented from buying UK standard goods, including as UK and EU regulations diverge over time.
3. Tax and spend discrepancies Ensure NI can benefit from the same tax breaks and spending policies as the rest of the UK, including VAT cuts on energy-saving materials and Covid recovery loans.
4. Democratic governance issues: Normalise governance arrangements so disputes are resolved by independent arbitration, not the European Court of Justice.

On 15 June, the European Commission took legal action against the UK for not keeping to the Protocol and called for them to return to negotiations. The UK Government asserts that they are acting within the law and allowed to change the terms of an international agreement to safeguard an essential interest, on the grounds that disputes around the Protocol threaten to undermine peace in Northern Ireland. Both parties maintain that they prefer a negotiated, permanent solution, but the UK states that the EU must be willing to amend the Protocol because problems are baked into it, which they are not willing to do. At the time of writing, the Bill is being considered by a Committee of the whole House of Commons, due to be discussed shortly.

Looking ahead

Agricultural products are at the centre of this ongoing issue. Avoiding unnecessary costs is key to combatting food price inflation, and the current uncertainty is creating costs. The Protocol Bill may alleviate some of the impacts on UK businesses, however it will need to make it through both Houses of Parliament. Until then, the Protocol's partial implementation is likely to continue as-is. Furthermore, if the EU chooses to take more serious action against the UK, this could have more dire impacts on businesses

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Sector Focus: Poultry Update

The poultry sector has seen one of the most challenging years in a long time, facing triple crises over Avian Influenza, input costs soaring, and rising costs of living squeezing down prices and margins. While these issues have been experienced before, they have never all three coincided to this extent. These challenges come after a strong couple of years for the poultry sector, despite coronavirus and Brexit labour shortages providing new stresses to supply chains.

Avian Influenza (AI) has decimated some producers, and forced free range flocks to be housed between the 29th November 2021 and 2nd May 2022 a loss to livestock welfare as much as incomes. BFREPA estimates that 1.8m laying hens have been taken out of production due to HPAI epidemic to July 2022, accounting for 7.1% of the total UK flock.

Margins for producers are also getting tighter, with serious increases in feed prices and energy, but egg prices staying stagnant at best. Conventional feed has seen upwards of a £30/t price rise, and organic over £100/t. The Ranger notes than even some of the top producers are losing around £1 per hen in the current situation. Some producers are facing decision to leave industry or not, or at what scale to continue going forward. Prices are just now beginning to rise (summer 2022) on supermarket shelves, although this is quite a time lag for producers, and does not compensate for the increase in costs.

Producers saw an increase in farmgate egg prices through 2021, at an average of 88.0 ppd (pence per dozen), an 11%% increase from 2020. Despite rising input costs, from feed to energy, prices have so far been slow to rise in 2022, stretching producers to the max; with a cost-of-living crisis and eggs a cheap protein source, the egg sector is between a rock and a hard place.

The industry seems to being polarised in its response to tight margins, and in some cases losses, with some producers scaling up and others reconsidering the future of egg enterprises. Despite these price cuts, the number of free-range hens keeps going up, month by month. Eggs are a cheap protein source for budget-stretched consumers, so demand could be strong and some are seeing opportunity in this. In the last 12 months producers have applied for sheds accommodating 1.139m hens in England, 0.294m in Scotland, 0.132m in Wales, and 0.347m in N. Ireland – a total of 1.912m hens, and this trend is expected to continue.

As of yet, industry figures don't indicate that the stress on household shopping budgets is impacting the type of eggs purchased, e.g. a switch from organic to free-range choices, or free-range to caged. Free range now accounts for 62% of the market rising 8.5% between 2020 and 2021, and organic rising 3.2%. While there was a reduction in percentage of caged eggs bought in this period there was an increase in total volume, and a further increase would be expected with egg prices likely to continue rising also.

Table: proportion of eggs produced by system type in the UK, 1965-2021

	1965	1980	2010	2021
Cage*	53%	95%	50%	35.4%
Barn	37%	4%	5%	1.8%
Free range	10%	1%	42%	59.0%
Organic	-	-	3%	3.8%

*enriched cages became a legal requirement for cage systems for laying hens in 2012.

Some retailers have been increasingly focusing on reducing emissions in their food supply chains, and both Morrisons and Waitrose have been exploring reducing soya use in poultry as a major source of emissions. However, in light of recent events in Ukraine, food security, price and self-sufficiency may become priorities over sustainability at least for the immediate term, there are win-wins for these and carbon targets.

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Key economic data

General Indicators	
Base interest rate	1.25% (0.25% Dec 21)
ECB interest rate	0.5% (0.00% Sep '18)
UK (CPI) inflation rate	9.4% (target 2%)
UK GDP growth rate	0.8% (Q1 '22)
FTSE 100	7,413.42 (1 Aug 22)

Price indices for August 2022 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	244.7	Seeds (all)	122.2
Barley	249.3	Energy	198.7
Oats	214.4	Fertiliser	284.7
Potatoes	138.2	Agro-chemicals (all)	158.8
Cattle and Calves	134.3	Feedstuffs	157.9
Pigs	133.9	Machinery R&M	124.3
Sheep and Lambs	172.3	Building R&M	158.8
Milk	164.5	Veterinary services	117.0

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