December 2016

News in brief

Brexit and the future of Scottish agriculture

As part of a recent biennial SRUC report into the outlook for the rural economy; *Rural Scotland in Focus 2016* (RSiF 2016), SRUC surveyed farmer clients on their view of Brexit. Some key findings from the impact of Brexit so far were:

- 20% said they were more likely to retire from farming,
- more than 50% said business uncertainty has significantly increased,
- 37% thought Brexit would create opportunities to maintain or expand the farm business, though optimism was lower on beef and sheep farms,
- 11% thought their business would shrink, 15% thought it would grow,
- Over 30% thought they would have to increase off-farm income.

So, despite the massive uncertainty remaining over what Brexit will actually mean, it is clear Scotland's farmers are already giving serious thought as to how they will adapt and in many cases prosper.

The RSiF report includes details of some of the risks and opportunities that each sector faces and farm case studies of innovative producers across Scotland.

Despite the expected difficulties from leaving the EU there are also opportunities to develop a better targeted, less bureaucratic and hopefully more effective system of agricultural support. The report stresses that much of the groundwork has been done in earlier studies such as Brian Pack's *Inquiry into Future Support for Agriculture in Scotland* and the Scottish Government's vision for a *Future of Scottish Agriculture*. The challenge will be turning these ideas into practice.

Further details can be found in the report *here*.

Next month…

- Annual sector review and outlook

Contents

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Annual subscription: free on-line at www.fas.scot or £50 for printed copies.
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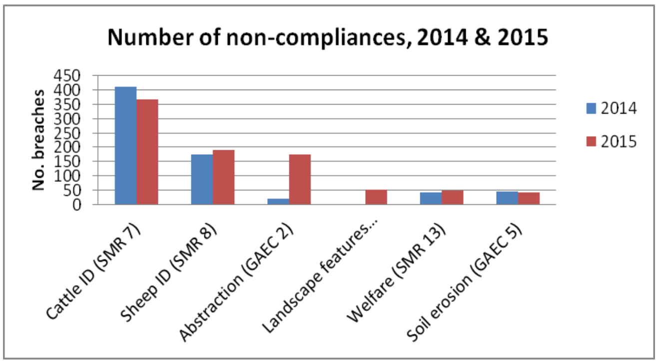
Cross compliance inspection statistics

Cross compliance is a set of rules made up of 'Statutory Management Requirements' (SMRs) and 'Good Agricultural and Environmental Conditions' (GAECs) that must be adhered to in order to receive CAP support payments. The Scottish Government is required by EU law to carry out cross compliance inspections to ensure that farmers (and other land managers) are meeting the various requirements.

In 2015 the top six areas of non-compliance were:

- Cattle identification and registration (SMR 7)
- Sheep and goat identification (SMR 8)
- Abstraction of water for irrigation (GAEC 2)
- Retention of landscape features (GAEC 7)
- Welfare of farmed animals (SMR 13)
- Minimum land management reflecting site specific conditions to limit soil erosion (GAEC 5)

Between 2014 and 2015 there was a significant increase in the number of breaches relating to water abstraction and retention of land scape features, see chart below.



Why the increase?

GAEC 2 - In 2014 SEPA only referred cases to RPID where farmers had breached the conditions of their licence by over abstracting, but in 2015 SEPA started to also refer cases where farmers had not submitted a data return confirming the volume of water abstracted.

GAEC 7 - The requirement to leave a 2m uncultivated strip from the centre line of the hedge was new for 2015 hence there were no breaches in 2014.

Other common reasons for breaches in 2015 include:

Cattle identification and registration

- Failure to report movements and deaths to the British Cattle Movement Service (BCMS) within appropriate timelines
- Missing ear tags
- Incomplete farm records
- Passport discrepancies

Sheep and goat identification

- Failure to maintain a record of identification or replacement identification
- Failure to use red tags with replacing lost tags in purchased sheep
- Incomplete identification, movement and death records

Abstraction of water for irrigation

- Failure to submit a data return to SEPA confirming the volume of water abstracted

Retention of landscape features

- Cultivations within 2m of the centre line of a hedge

Welfare of farmed animals

- Incomplete medicine and death records
- Presence of sharp edges or protrusions that could cause injury

Minimum land management reflecting site specific conditions to limit soil erosion

- Failure to prevent erosion of the banks of water courses by livestock

With the start of a new cross compliance year looming it is important to check the rules so if you are selected for an inspection you are prepared. Full details of the requirements can be found at:

https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/

…and remember the new rules relating to linked holdings also comes into force on the 1 January, see last months *Policy* article for details.

Farm Advisory Service – one to one component

As part of the 2014-2020 Scottish Rural Development Programme (SRDP), the one to one component of the Farm Advisory Service (FAS) provides funding of up to £2,700 for the preparation of an Integrated land Management Plan (ILMP), specialist advice and a carbon audit.

Applications forms and further information can be found on the FAS website available at: https://www.fas.scot/.

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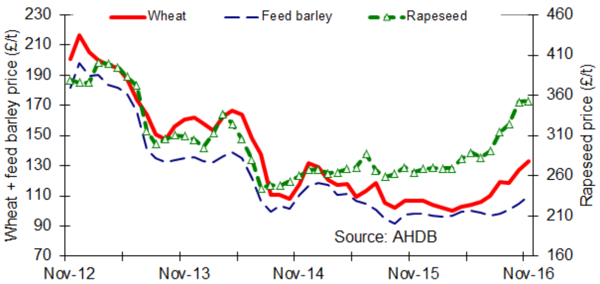
Cereals and Oilseeds

Strong exports support UK prices

UK wheat prices rose around £3/t in the last month and rapeseed prices are unchanged. UK wheat export pace has been going well supported by good UK wheat quality. This has enabled exports into higher priced milling wheat markets rather than usual feed homes, benefitting UK prices.

World grain production, demand and stocks were little changed in the last month though a rise in output led to a 2mt rise in ending stocks. In fact global stocks to use ratios are set to decline slightly from last year to 24.4% (24.8%). Nonetheless the overall situation remains burdensome particularly as stocks in major exporters such as the US continue to rise. There are few surprises left this season though the progress of South American maize plantings and growth will remain important to monitor in the next few months.

UK spot ex-farm grain and oilseed prices



Less UK wheat, more barley for 2017?

AHDB released early-bird estimates for UK crop areas for 2017 as follows: wheat down 25kha at 1,799kha, w. barley down 41kha at 397kha, spr. barley up 114kha at 799kha, oats down 11kha at 130kha, OSR down 22kha at 557kha and fallow down 37kha at 214kha. Assuming trend yields this could lead to a lower wheat crop, higher barley crop but a similar overall cereal output.

UK cereal production estimates (SAC Consulting)

	Wheat	Wint. Barley	Spr. Barley	Total Barley	Oats	Total Cereals	OSR
UK	*Crop (000's t)*						
2015	16,444	3,323	3,952	7,275	779	24,745	2,322
2016	14,652	2,875	3,904	6,779	775	22,419	1,794
2017	14,255	2,705	4,505	7,210	729	22,420	1,855
Chng.	*- 397*	*- 170*	*601*	*431*	*- 46*	*1*	*61*

However, with lower opening stocks likely next season unless yields are above average grain availability and the exportable surplus could fall.

Malting barley contracts out for 2017

The fine autumn means winter sowings are likely to have risen in Scotland and attention is shifting to spring plantings. Better grain prices are likely to lead to less fallow which should enable a moderate rise in spring barley area. A range of contracts are now available in Scotland. A common approach appears to be; 50% of tonnage priced on LIFFE November 2017 wheat futures plus £20/t and 50% at the spot malting barley price at harvest. Other contracts include min-max and fixed prices. The net effect at present is that forward prices can be set for a proportion of next year's crop at between £150-160/t. This represents a good premium over prices this harvest (£130/t). It also reflects a good premium over feed barley of around £35-40/t for 2017 harvest at current forward levels.

Growers are concerned about the recent poor performance of Concerto and new varieties are keenly awaited (Laureate). However Concerto is expected to remain the dominant variety in Scotland in 2017 though the area of other varieties should increase depending on performance in trials.

The AHDB's predicted large rise in (largely) English spring barley area (+114kha or + 17% for the UK) is not necessarily expected to lead to more distilling barley being available from the south. High yielding brewing varieties such as Planet and Tipple are more likely to gain favour in England where large brewing and export markets are available.

- Favourable malting barley prices are needed to encourage a rise in sowings come spring time.
- Range of contracts available in the £150/t to £160/t range for a share of tonnage.
- Large rise in spring barley area in England may not mean more distilling barley due to expected shift to higher yielding brewing varieties.
- This may encourage distillers to maximise the area of distilling varieties in Scotland next spring to guard against future weather risks.

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Indicative grain prices week ending 25 November 2016 (Source: SAC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	Dec 2016	Feb/Mar 2017	Nov 2017	Nov 2018~
Wheat	Ex-farm Scotland	135.10	135.80	130.00	133.00
Feed barley	Ex-farm Scotland	118.00	120.00	115.00	118.00
Malting barley	Ex-farm England	140.00	145.00	145.00	145.00
Oilseed rape*~	Delivered Scotland	344.00	345.00	317.00	306.00

Price hold for December?

Plans for any further price reductions have, at least, temporarily been shelved. While processors are cautious, supply is just keeping up with demand. By the time of reading, Christmas procurement will be finished. Demand remains strong to ensure stocks see retailers through until January. This means the prime cattle price is still 370-374p/kg dwt for week ending 18 November in Scotland. That is 6p/kg (£22/hd) dwt lower on the month but still £1,370 per 370kg carcase and £20 up on the year.

Cattle prices south of the border remain particularly good, only dropping £3-10/hd on the month at 360p/kg for -U4L steer in Southern England. This means the Scotch beef differential is 15-16p/kg dwt.

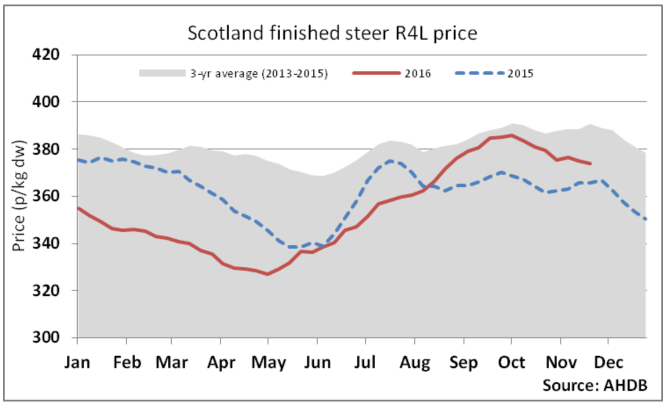
We should not now see significant price movement until the turn of the year. This is a bold statement but the real test will be the month of January. The turn of the year will reflect festive holiday consumption and a foreseeable public mood of caution – over and above seasonal dieting, credit card payments and general belt-tightening.

Cull cows and French beef markets

Cull cow supply has been running ahead of last year since August and within this context, price remains buoyant. Poorer grades have fallen sharply, however, since the beginning of October (down 20-25p/kg dwt, -£80/hd/350kg carcase) but this only brings price back in line with this time last year. Beefy cows are down 10-15p, similar on the year at 350-355p/kg dwt across GB.

- Cows should be booked in to avoid surprise delays resulting from the closed period.
- Those of poorer confirmation see a drop in demand as less manufacturing beef is required.

Another reason behind the discount on poorer grades is that many dairy culls are destined for France, where there is a mini-beef crisis underway, dampening demand and prices. The average French cow price is down 6% on the year. While dairy fortunes seem to be in the early stages of recovery, the EU scheme to remove milk from the market has just been implemented.



There has been a rush of dairy cows and heifers culled with 13,000 French dairy farmers now committed to taking over 0.18bn litres of milk off the market.

Supply 2017

AHDB forecasts suggest that production will remain high into 2017 but it should be less in three of four quarters compared with 2016. Higher exports should also keep pressure on the producer price.

- That does not mean price cannot dip in spring/early summer per 2015 and 2016.
- The likelihood is that consumer buying behaviour will become more cautious too.

There is greater supply within each cattle age group (0-6mth, 6-12mth and 12-18mth) suggesting availability will be higher in spring and early summer. There can be some adjustment for lighter carcases and higher exports but it will still be a pressure point, even if there are fewer young bulls. How long this lasts or how deep the slide is the bigger question.

The aforementioned improvement in dairy markets will require replenishment of dairy heifers and should reduce availability of beef-cross dairy calves. This should have a real market effect, although the rising popularity of female sexed semen means that it will not be to the extent seen historically.

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Prime cattle prices (deadweight) (Source: drawn from AHDB data)

Week Ending	Average prime cattle price (p/kg dwt)						-U4L Steers		
	E&W			Scotland			E&W		Scotland
	South Steers	North Steers	North Y. Bull	Steers	Heifer	Y. Bull	South	North	All
29 Oct	351.3	376.7	347.1	375.3	373.7	369.7	359.7	363.1	373.7
5 Nov	359.8	375.6	348.4	376.5	374.4	366.9	359.4	362.8	374.4
12 Nov	367.6	373.5	349.7	375.2	373.2	363.2	359.8	367.9	373.2

Potatoes

Market summary

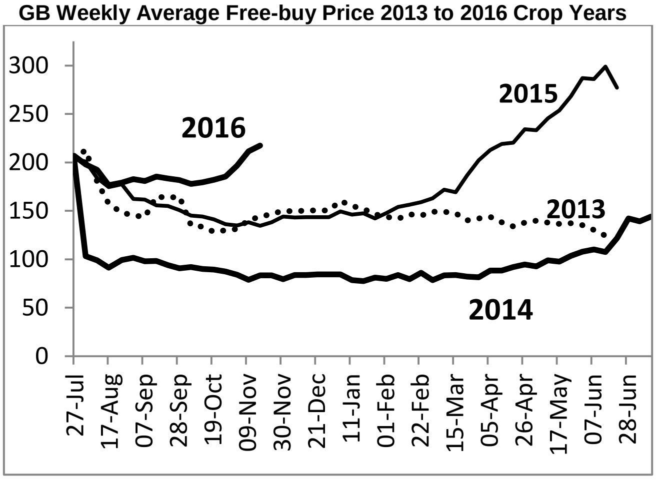
- For the week ending 18 November the AHDB's Weekly Average GB price for all ware potatoes was £188.24/t up by £3.05 (1.6%) over the previous week. The Weekly Average Free-buy price which excludes all forward contract material was £217.40/t up by £5.84 (2.8%) over the week. Free-buy prices are firming fast in the run up to the Christmas holiday period as packers prepare for increased festive orders.
- There is reported to be limited free-buy material available with growers holding on to stocks in the hope of price increases in the pipeline.
- There is a quiet confidence in the industry that the 2016 crop year is going to be one of the better ones. There is no apparent surplus in supply across GB with both seed and ware crops showing good quality.

GB Weekly Average Price 2016 and 2015 Crop (£/t)

Crop Year	18 Nov	11 Nov	4 Nov	28 Oct
All potatoes 2016	188.24	185.19	170.75	160.19
All potatoes 2015	140.12	141.97	139.87	136.73
Free-buy 2016	217.40	211.56	196.46	185.27
Free-buy 2015	134.66	138.13	134.86	136.23

Source: AHDB

GB Weekly Average Free-buy Price 2013 to 2016 Crop Years



Source: AHDB

Crop Update

Most growers benefitted from a clear run at harvest as a result of the good autumn weather. Crops are reported to be in good condition in store with few problems apparent so far. Quality is also reported to be good with 80% pack-outs being commonly achieved in the fresh sector.

Recent sub-zero temperatures have allowed growers with ambient stores to reduce temperatures. There are a few cases of powdery scab and problems with skin set being reported.

Pre holiday prices strengthening

In the wholesale market traders report good steady demand with prices holding to firm.

In the packing sector buyers are looking for blocks for the Christmas break but some sellers continue to resist the prices on offer in the hope of better prices to come. The higher prices being offered have enticed some growers to sell and a good level of movement has been reported.

Typically Charlotte and Maris Peer salads are trading within the £180-£340/t price range. Grade 1 free-buy Piper ex farm is making £180-£200/t.

In the bag trade chipping supplies are being sourced from down south with Piper at £170-£190/t. General ware Piper and Wilja are making £160-£200/t.

Seed deal with Kenya secured

Scottish seed potatoes can be imported to Kenya after an agreement was signed between the two countries. The bilateral agreement represents further recognition of Scotland's high-health status and world-wide reputation for producing high quality seed potatoes.

Fergus Ewing, Rural Economy Secretary confirmed the agreement while visiting AHDB's stand at Scotland's Farm Business Event AgriScot on 16 November.

Kenya grows around 160,000 hectares (Scotland grows 27,500ha) of potatoes annually but only 2% of this is grown from certified seed potatoes. The potential market demand is therefore significant.

This agreement with the Kenyan Government will enable farmers to access high-quality Scottish seed potatoes that are free from disease, potentially improving Kenya's potato crop health and yield.

The Scottish seed potato sector is already successful at exploiting overseas markets with roughly 30% of the crop going for export.

The announcement follows a visit from Scottish Government and AHDB Potatoes to Kenya earlier this month to finalise the bilateral agreement allowing the importation of Scottish seed potatoes into Kenya.

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Price likely to hold for the rest of 2016

The average lamb price has been relatively stable on the month at 370p/kg dwt despite a fall in requirements and surge in lamb supply threatening. The difference in price per kilo between heavy and medium lambs remains low for the time of year also suggesting demand is keeping to supply.

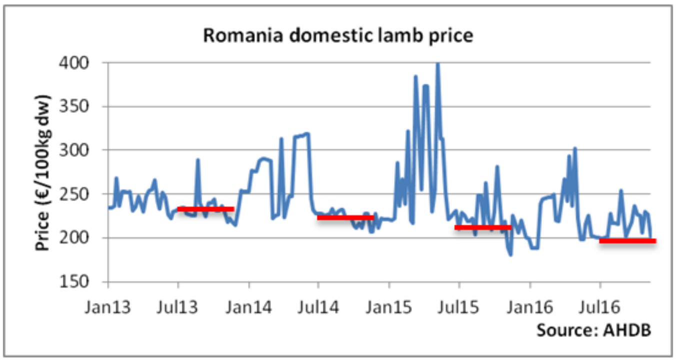
The average liveweight trade held over the last three weeks from the end of October. It dipped 2-4p/kg lwt across GB for week ending 19 November and there is some variability across regional markets. There is, however, no real expectation that lamb price will have any major shift in value though – especially since supply should start to ease with lowering growth rates, colder weather and the transition onto fodder crops.

By this time last season, price had started to recover albeit from a lower starting point. Delayed supply means it is a different type of market this season. Nonetheless, while narrowing, price is still around £4/hd better that this point last year.

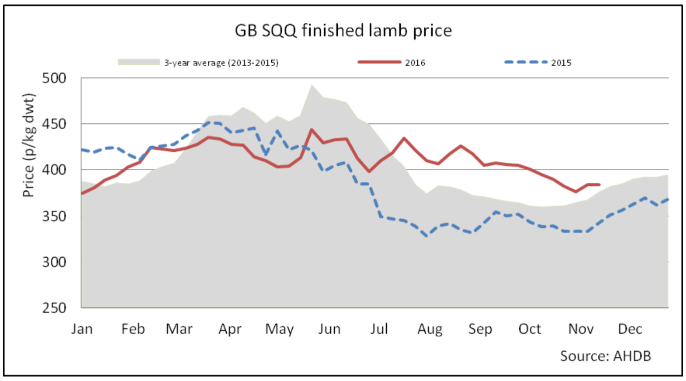
A 19.5kg carcase, therefore, remains around £70/hd. These average figures do not account for the plight in the super light lamb market, see below.

Super lights

Availability of superlight lamb (17-24kg lwt) increases significantly in September/October and is a particular output from NW Scotland. Many traditionally sell into the Mediterranean market. This remains a difficult place to trade despite the exchange rate. Availability of cheap Romanian lamb normally destined for Syria and the surrounding region have compounded the problem.



A consequence has been reports of unsold Shetland lambs and 18kg (lwt) netting a farmer price of less than £10/hd. Some could grow to heavier weights if forage permitted and this remains a solution for some provided strong spring demand.



Sheep sector strategy

Two strategy documents have recently been published by and on behalf of the sheep sector ([1,2]).

Key recommendations include the requirement for greater marketing and promotion, collaborative supply chains, improved transparency and a better payment mechanism, promotion of skilled sheep keepers, encourage peer-to-peer learning, research, and dissemination of knowledge, and a national database to support breeding programmes, traceability and usefulness of abattoir feedback.

There will be few arguments amongst producers over the sentiment. Such reports are useful in crystallising sector challenges and force prioritisation. This is the foundation; the next critical step is the action.

Maybe this is the catalyst. With regard lamb marketing, a declining trend in exports to France make a review for alternative markets necessary – Brexit brings a finer point to the process.

1. The Scottish Sheep Sector Review, A pathway to a profitable future: a vision for the future of the Scottish sheep industry.
2. Recommendations from the EU Sheep Meat Forum – The policy roadmap for the EU sheep meat sector.

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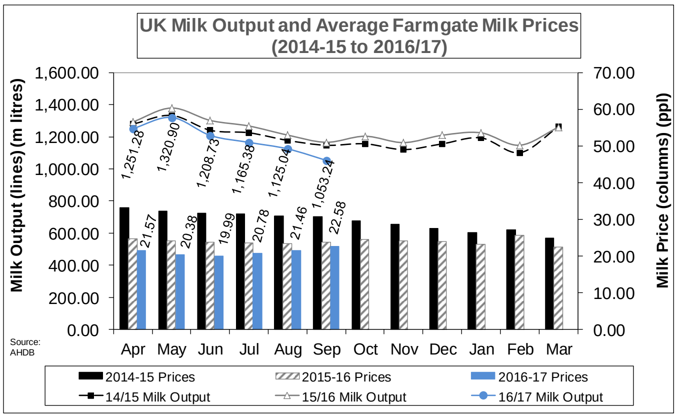
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
29-Oct	379.1	377.7	369.7	157.3	165.8	161.5	50.12	51.58
05-Nov	387.5	386.1	377.7	156.9	166.0	160.5	52.80	53.55
12-Nov	387.8	386.4	378.6	154.6	165.6	159.4	47.46	52.20

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

UK milk output still falling in Sept 2016

AHDB figures show that UK milk output for September 2016 is estimated at 1,053.24 litres (before butterfat adjustment). This is 112.84m litres lower than September 2015 output and means that UK cumulative production is 494.46m litres lower than last year. The average price across the UK increased to 22.58ppl during September 2016 (up 1.12ppl on August 2016).



Lactalis price deal for 2017

Lactalis has announced that it will guarantee its farmer suppliers (Milk Supply Association) a farmgate milk price of 27.50ppl. The milk price is a market related price which is based on the returns from a basket of dairy products. The deal allows the milk price to rise above 27.50ppl but does not allow the price to fall below this threshold.

Milk price round-up for December 2016

Recent price announcements for Dec' 16 include:

- Arla Foods - 2.00 euro cents/kg (1.49p/litre) price increase from 1st December 2016. This takes the farmgate price for Arla members up from 23.14ppl to 24.63ppl. Arla's organic milk supplies will move up from 38.69ppl to 40.18ppl.
- Graham's Dairies – 2.00ppl increase from 1st December 2016. This takes the farmgate milk price up to 23.50ppl.
- Müller Wiseman – Between them, the Müller M&I group and the Müller Direct Milk Group are to receive an increase of 2.00ppl from 1st December 2016. The supplementary payment for October 2016 is confirmed at 2.732ppl. The final supplementary payment for December 2016 is estimated to be around 1.40ppl.
- Müller Wiseman – 1.272ppl price increase applies to the Müller liquid formula price from 1st December 2016. This takes the standard litre price up to 29.96ppl.
- Yew Tree Dairies – 1.50ppl price increase from 1st December 2016. This takes the standard litre price up to 24.50ppl.
- Lactalis – 2.00ppl increase from 1st December 2016, as previously notified. See table below.

Annual Average milk price estimates for December 2016 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	25.00
First Milk Balancing- A price (90% of production). [1]	21.24
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production).	22.21
Müller Wiseman- M&I - Müller Milk Group [1, 2]	22.94

[1] *Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.*

[2] *No monthly supplementary payment included in the price estimate.*

Lower EU production supports prices

EU milk production continued to fall during September 2016. Total milk deliveries dropped to 11,499m litres, down 2.8% on September 2015 output. September 2016 is the fourth consecutive month in which EU milk output has reduced on a year on year basis. Reduced supply continues to effect improving prices for dairy commodities, as the table below shows. Bulk cream prices are now at their highest level since AHDB began recording.

UK dairy commodity prices (£/ tonne)	Oct 2016	Sept 2016	May 2016
Butter	3,750	3,550	2,025
SMP	1,860	1,670	1,250
Bulk Cream	1,930	1,710	860
UK milk price equivalents (ppl)	**Oct 2016**	**Sept 2016**	**May 2016**
AMPE (2014)	31.31	28.47	16.83
MCVE (2014)	33.95	32.40	16.55

Source: DairyCo

Reduced EU production during the period April to August 2016 is being mirrored elsewhere. New Zealand, Australia and Argentina have all experienced reduced production during the same timescale. Of the world's main dairy exporting nations, only the US has witnessed a year on year production increase (+1.3%) during the period April to August 2016.

Exchange rate impact upon exports

Whilst tightening global milk supply helps to support domestic milk prices, movements in the pound - euro exchange rate can affect UK prices. Should sterling continue to strengthen, this will make UK exports less competitive. At the end of September 2016 the pound-euro exchange rate was fixed at £1 = 1.1733 for calculating 2016 BPS payments. Since that time, sterling has strengthened to reach an exchange of £1 = €1.1784.

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Sector Focus: Beef Trade Flows & Tariffs

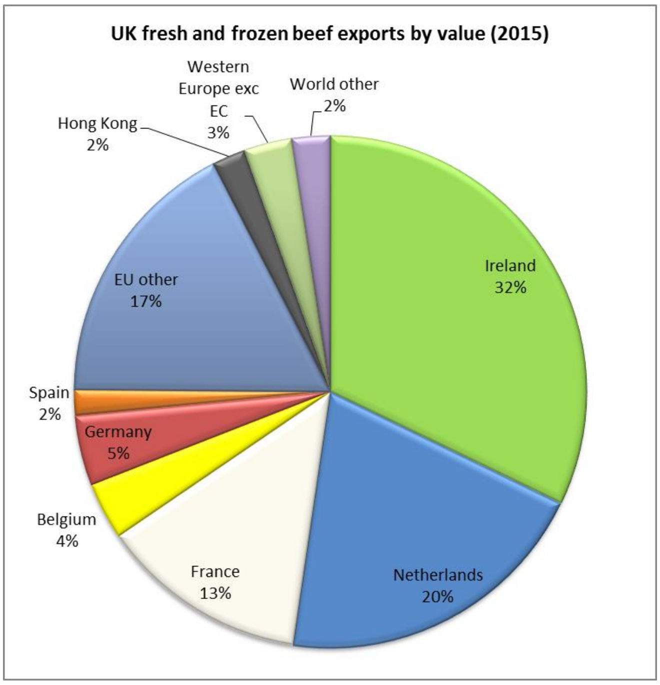
Beef exports and imports

The impact that any trade negotiation may have on producer prices can be complex but particularly in red meat. While producers sell cattle, processors sell the component parts into numerous markets in several countries.

- The UK is 74% self-sufficient in beef (if she retains export trade). Scotland is estimated at 150%, based on QMS published material.

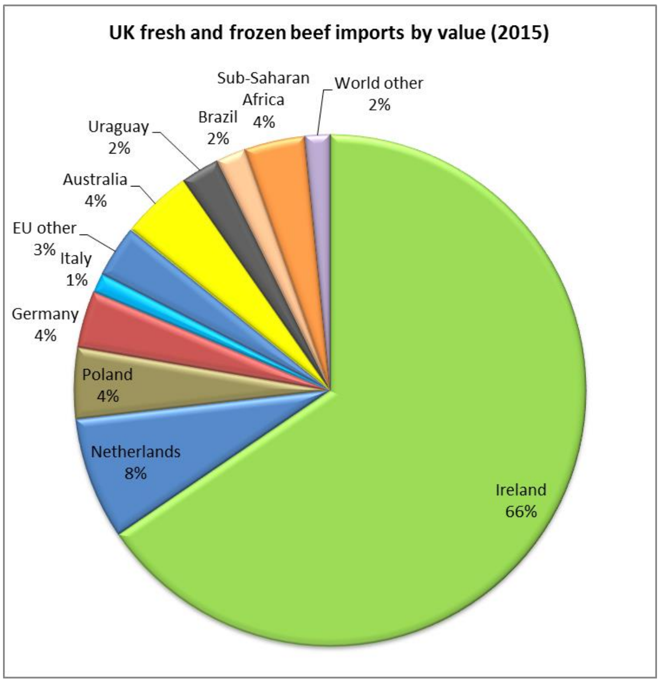
The UK is not a significant beef exporter but around 11% of production was exported in 2015. Much of that was high-value branded beef including the Scotch beef label. Trade also includes the important (but less glamourous) export routes for fifth quarter material that has limited domestic market. The combined value is over, a not insignificant, £0.3bn per annum. Of this, more than 90% is generated from EU sales. Only 4% of UK beef export value is due to sales away from the European continent.

- China, Japan and the USA are identified as target markets. These relationships are at an early stage and will take time to establish.



Beef imports are equivalent to 30% of UK beef production by volume. This was valued at nearly £1bn in 2015. Two-thirds of this is from the Republic of Ireland, which is over half of all Irish beef exports. This should make Ireland a key ally in agricultural trade negotiations.

Non-EU beef imports amount to nearly 15% by value. Incidentally, despite the undeniable (beef) potential from South America, Australian beef imports to the UK 2015 (@ 4.5%) were nearly double that imported from Uruguay and over twice that from Brazil.



Hard Brexit

The main inhibiting factor to future EU trade, if it was a genuine 'hard Brexit', would be prohibitively high tariff rates. Non-quota tariffs could add as much as £2/kg carcass weight. Fortunately, this (currently) looks out of favour. A 'soft Brexit' remains preferable, which would allow continued trade similar to that freely achievable just now – there is a lot of water to flow under the bridge yet.

Other arrangements

Tariff rate quota systems (TRQ) are an alternative. The EU currently has such an arrangement with Canada, USA, Uruguay, Argentina, NZ and Australia. Their combined beef sales into the EU are limited to 48,200t with an in-quota tariff of 20% by value. Any beef sales that exceed quota would revert to a 12.8%+€303.4/100kg charge i.e. more economical to sell into alternative countries.

There are, of course, the darker arts of trade negotiations too – Technical Barriers to Trade (TBT) i.e. red-tape that incurs additional cost to industry.

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Management Matters: Forward Milk Pricing

Milk prices

Milk prices in the UK have spent two years at or below average production costs leading to losses for many producers. This weakness has been caused by a strong rise in global output and a weakening of demand, especially from China. However in the last few months global milk prices, particularly for butter, have recovered sharply as production falls behind demand growth. UK milk prices have also benefitted from a weaker pound against both the euro and the dollar following the UK's Brexit vote. How long this positive trend in milk prices will continue is unclear and UK dairy farmers will remain exposed to global and UK currency changes.

The sharp moves in prices in recent years have been unprecedented and have caused great uncertainty for producers not knowing what price they will receive and at the mercy of buyers able to change milk prices at short notice. Given the massive investment required in modern dairying such uncertainty represents a major threat to the viability of UK dairy farming. What if dairy farmers could guarantee what their milk price will be in a years time? Well now this is possible.

Forward pricing of milk

Recently UK dairy farmers have started to be offered the opportunity to fix forward prices for milk for specific delivery periods. The first milk processor to offer these contracts is Yew Tree Dairy who are offering producers periodic opportunities to commit up to 60% of their expected output on forward priced contracts typically 1 year ahead. There are indications that other processors may also start offering forward prices for milk. In November Lactalis agreed a minimum milk price of 27.5ppl for the whole of 2017 with potential for upside.

These contacts are often referred to as futures contracts however as far as the farmer is concerned these are really only forward contracts with the milk processor. As such they do not represent any contract between the farmer and the futures market. The milk processor on the other hand in most cases will have offset these purchases by agreeing back to back sales on either the future or the physical markets. Which ever end-buyer is involved the responsibilities for the farmer remain the same; they must deliver the agreed quantities of milk on the agreed dates to their processor otherwise penalties and contract breaches will apply. It is extremely important all parties honour their commitments and this is reflected in the supply contracts being offered.

Forward fixing of inputs and margins

At the same time as fixing milk prices forward, dairy farmers also have the opportunity to fix their main inputs; feed and fertiliser. While futures markets offer the underlying pricing mechanism for many feeds and now UAN fertiliser (Euronext), farmers are dependent on their feed or fertiliser suppliers for forward physical purchases.

Combining the forward sale of milk with forward purchases of inputs enables farmers to lock in margins. If a margin can be secured this leaves the dairy farmer free to stop worrying about the price of milk, feed etc and concentrate instead on improving the performance of the herd, something he/she can actually do something about.

While the benefits of forward milk contracts are clear there are many practical issues that farmers new to this will have to work through. It is therefore recommended that farmers seek out professional advice and speak as much as possible to other farmers, milk buyer and input suppliers to understand this new way of working.

Milk prices

- Forward contracts are now being offered to dairy farmers enabling milk prices to be fixed up to a year or more in advance.
- These contracts enable farmers to bring stability to their business in the face of volatile world markets and UK exchange rates.
- Coupling forward milk sales with simultaneous forward purchasing of key inputs such as feed and fertiliser can enable dairy farmers to lock in margins in advance, a major step forward in business stability.
- Before signing forward contracts seek professional advice.
- It is vitally important that the farm is able and willing to deliver the future volume of milk contracted whatever happens to the wider market.
- Forward milk prices can go up as well as down!

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General Indicators		Price indices for September 2016 (Defra 2010 = 100)			
		Output Prices		**Input Prices**	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	100.9	Seeds (all)	96.0
		Barley	106.0	Energy	98.3
ECB interest rate	0.00% (0.05% Mar '16)	Oats	114.6	Fertiliser	78.8
UK (CPI) inflation rate	0.9% (target 2%)	Potatoes (Main Crop)	125.9	Agro-chemicals (all)	105.0
		Cattle and Calves	125.9	Feedstuffs	104.3
UK GDP growth rate	0.5% (Q3 '16)	Pigs	98.6	Machinery R&M	112.6
		Sheep and Lambs	103.6	Building R&M	109.3
FTSE 100	6,784 (30 Nov '16)	Milk	91.5	Veterinary services	108.1

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