Farm Advisory Service

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

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News in brief

Brexit – weak and stable

Brexit remains as inscrutable as ever, though current signs indicate an orderly exit may be achievable. The EU are openly indicating the UK could receive a 21 month transition deal to the end of December 2020, if it agrees to abide by all EU rules. If this is achieved, as seems likely, then this gives the sector some valuable breathing space. It is not yet clear whether agriculture will remain in the CAP during this transition.

The transition says nothing about the end point however. The crunch may come in the next few months when the UK finally has to agree what kind of trade off it will accept, between taking back control, and maintaining market access. The real battleground is likely to be over securing UK access to the EU market for services; our lifeblood. If the EU fails to budge from their current position then we could see trade in goods including agriculture restricted – if the EU won't accept our services, why should we accept their goods?

Given the potential magnitude of changes to market access and support that may occur from either 2019 or 2021 onwards, there is still very little time for businesses to adapt. The latest AHDB report on potential Brexit impacts on Scotland (page 8 of this edition) highlights five key questions for farm businesses to start asking themselves. Once the head clears in the New Year may well be a good time to start addressing the longer-term strategy for the farm business.

Merry Christmas and good wishes for a prosperous 2018
from the Agribusiness News Team!

Contents

This month's editor:
Julian Bell

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

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Scottish Government
Riaghaltas na h-Alba
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Agricultural Policies in 2017 ….

Headline news for 2017 was without doubt Brexit, despite not knowing many details it was still a hot topic for discussion across the industry. Greening changes for 2018, glyphosate re-authorisation and SRDP scheme updates were just some of the other topics that also featured over the past year.

Brexit

Triggering of Article 50 at the end of March not only meant that the formal negotiations were able to commence, but that a departure date has been set – Friday 29th March 2018. Although, if all 28 EU members agree, this date can be extended, it is at the moment Theresa May's intention to meet this date. So, what has happened since Article 50 was triggered?

On 8th June 2017 there was a snap election held, which Theresa May had hoped would increase her party's seats, thereby strengthening her hand in Brexit negotiations with European leaders. However, this was not the case, resulting in her having to rely on support from the 10 MPs from Northern Ireland's Democratic Unionist Party.

At the end of June the first official meeting between the UK and the EU negotiating teams was held, with meetings being held at least once a month since. The first task at these meetings was to get an agreement on the rights of UK and EU expat citizens after Brexit, reach a figure for the amount of money the UK will need to pay on leaving, and what happens to the Northern Ireland border. Agreement on these three issues was reached during December, with the verdict being – there would be no hard border, the rights of citizens will be protected and the 'divorce bill' will amount to between £35bn and £39bn. This means that talks can now move onto a post Brexit transition deal and the framework for a future relationship i.e. trade. Although a future trade deal cannot be signed while the UK remains part of the EU, at least discussions can now commence.

As for farm subsidies, the UK Government have confirmed that agricultural support funding will be maintained at the same level until 2022. Although lacking in detail, it does provide some re-assurance that support will still be provided.

Indyref 2

Since the EU Referendum vote, First Minister Nicola Sturgeon has been very vocal about how Scotland should not be taken out of the EU when 62% voted to remain, indicating that she wanted a second independence vote to be held between the autumn of 2018 and spring 2019. However, after losing seats at the election in June she has put her plans on hold, further to this Theresa May stated that a second independence referendum should not be held during the Brexit process. If there is another independence referendum it is unlikely to be within the next few years.

Greening

Going into 2017 there were whispers that there would be changes to the greening rules which would be introduced in 2018. As the year progressed details of these changes, which affect Ecological Focus Areas became clear. Unfortunately not all of the changes were positive, with the banning of plant protection products being among the least welcomed. On the plus side, red and white clover count as separate green cover and nitrogen fixing crops, and existing field drains on fallow can be maintained. Details of the changes were covered in last month's *Policy* article.

SRDP loan schemes

During 2017 two loan schemes were made available by the Scottish Government. The first one was launched in the spring to help support farmers and crofters in fragile areas who are waiting on their 2016 LFASS payment. The second was launched in the autumn and allowed eligible farms to receive 90% of their anticipated Basic Payment Scheme and Greening payments for 2017, 10% more than the previous year. These schemes were once again welcomed by the industry, helping to ease any cash flow difficulties.

What will 2018 bring?

Now that talks are about to turn to trade, discussions and debates are expected to vamp up a few gears. A major milestone that needs to be reached, is in October, when the final treaty on withdrawal and transition should be ready; this is to allow time for ratification before the end of the two year Article 50 deadline.

It is fair to say that getting an agreement on trade will not be an easy task. The UK wants to secure a free-trade deal with no tariffs when it leaves the EU. What is actually agreed, only time will tell, but ensuring the best possible trade agreements with the EU and other countries will be critical to the industry, as will the development of agricultural policies that continue to support farmers.

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

2017 – big world crop but stocks fall

Harvest 2017 was big but not a global record. World coarse grains output fell 42.4mt (-3%) while world wheat output rose slightly (1.6mt). World grain demand was flat. The net result was that after four years of rising global stocks these fell 17.7mt (3%) to 500mt. The fall was not enough to impact prices which have remained weak on a global basis however, the fall in stocks leaves a reduced buffer if any crop problems develop in the year ahead.

EU grain production rose 4mt to 302mt, led by a rebound in wheat output, particularly France. EU feed grain output fell 1.8mt due in part to drought affected barley crops in Spain. Malting barley quality was mixed, with rain hitting some crops, especially in Germany. As a result the EU is not expected to have a surplus this year, which helped boost malting barley premiums to over £40/t.

In the UK, the cereal harvest rose 4% to 23mt led by spring barley. Domestic demand has been strong driven by animal feed and ethanol use which coupled to lower cereal opening stocks has left the UK balance sheet relatively tight. In Scotland cereal output also rose 4% to 2.86mt, close to the 5yr average. Excellent yields led to a sharp rebound in oilseed production up 41% to 144kt in Scotland. The quality of the UK and Scottish harvest suffered due to rain. Malting barley prices in Scotland benefited from quality issues restricting supplies in England. In Scotland the harvest was difficult and quality problems were also experienced. For spring barley, overall it appears that good yields largely compensated for the loss of some crops. However, it was not a bumper harvest and malting barley stocks are depleted.

Historic and future grain price summary

	Last year	This year			Next year
	Dec-16	Dec-17	*Change*		Nov-18
	(£/t)	(£/t)	(£/t)	(%)	(£/t)
Wheat	132	143	*+11*	*+8%*	142
Feed barley	114	131	*+17*	*+15%*	122
Malt. barley*	145	153	*+8*	*+6%*	162
OSR #	332	302	*-30*	*-9%*	305

Source; AHDB/SACC, Ex-farm Scotland/*England # delivered

2018 – tighter grain market to come?

With global grain stocks trending a little lower in 2017, the market will closely monitor weather around the world. Long range forecasts indicate that early 2018 will be dominated by a weak La Nina weather event. This tends to lead to drought in the southern US and low temperatures in the northern US; both potentially damaging to cereal yields.

Within the UK, the AHDB early-bird survey sees a decline in wheat (-2%) and winter barley (-9%) area but higher spring barley (+3%) and rapeseed (+9%) areas. If domestic demand remains strong then the relatively tight balance in wheat may be continued. The recent closure of the Vivergo ethanol plant is a cloud on the horizon, cutting demand by 0.5-1.0mt if it does not re-open.

In Scotland, recent demand changes are positive with the switching of a major grain distillery from maize to wheat, which has helped support the strong price premium in Scotland, over £5/t over English levels. Distilling demand in Scotland for both malting barley and wheat is expected to grow modestly in 2018, but buying interest may be stronger given the low levels of stocks. Winter crop area may be a little lower after the wet autumn, however, a late dry spell helped sowings catch up.

Crop gross margins for 2018 currently appear positive, for wheat and spring malting barley based on current forward contract prices and trend yields. Malting barley contracts of £20 over LIFFE wheat futures indicate £160-162/t for harvest 2018 with wheat prices around £142/t, similar to this harvest.

Alongside global weather uncertainty, Brexit shenanigans will no doubt continue to drive the value of sterling and hence grain prices. As ever, locking in some forward sales when a margin can be secured makes sense.

Harvest	Yield	Price	Grain	Straw	VC	GM
Wheat (1st)	*(t/ha)*	*(£/t)*	*(£/ha)*	*(£/ha)*	*(£/ha)*	*(£/ha)*
2015	10.3	114	1,171	168	443	**896**
2016	9.2	125	1,148	168	437	**879**
2017	8.6	141	1,208	252	438	**1,022**
2018	*9.0*	*142*	*1,278*	*166*	*416*	***1,028***
S. Barley - malting						
2015	6.0	119	719	130	300	**549**
2016	5.5	129	705	130	285	**550**
2017	6.1	160	978	195	263	**910**
2017	*6.0*	*162*	*972*	*129*	*279*	***822***

Source: SAC Consulting

- Global grain stocks fall a little, condition of next years crops will be closely watched by market.
- Growth in whisky demand expected, UK and Scottish grain supply & demand may be relatively tight again next year and similar to 2017.

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

Another good year for beef

Fears of more competition from Ireland reducing our cattle prices in 2017 were misplaced. Tight supply here, across the rest of the EU and, indeed, globally, meant that UK beef producers and finishers had another good year price wise.

The year didn't start that well especially here in Scotland where the Scotch price premium was squeezed. But by the end of the winter prime cattle prices had picked up nicely, which fed through to the later spring suckled calf and store trade, no doubt helped by the good spring weather. Globally cattle prices were generally strong with a lack of supply the driver.

Tight supply in Britain was a consequence of lower cattle numbers plus retailer demand for smaller carcases. Processors were caught in the middle as supermarkets competed hard to limit beef price inflation on their shelves. Yet while cattle prices continued to rise through the late summer and into the autumn here in the UK, Irish cattle prices struggled. The Scottish steer price average peaked at 400p/kg dwt in August. A seasonal surge in cattle supply magnified by the bad summer weather plus an unfavourable exchange rate against sterling, explains the divergence between British and Irish cattle prices.

Home cattle finished prices did ease back in the autumn but then reversed the trend in November as processors filled chills for the Christmas break. The Scottish finished price ends the year above year earlier levels. By comparison, the cull cow price has maintained a handsome margin over year earlier prices throughout the year. The growing importance of mince underpins the trade for cull cows.

More of the same in 2018?

Cattle prices may have been good last year, but the weather across much of Scotland was not. The consequences may well carryover into 2018 especially in the west where cow conditions, calf weights and forage stocks are generally low. Add in very high straw prices and quite a few west coast suckled calf producers have opted to offload some of their calves earlier to cut feed and straw demands. Thankfully decent prices have encouraged the trade. Nevertheless, west coast farmers will be praying for favourable weather through the spring to help calving.

The outlook for finished and cull cattle prices remains good for 2018. The AHDB predict a small lift in production but nothing significant. The exchange rate is also forecast to remain helpful given the uncertainty of Brexit negotiations undermining sterling's value. Higher grain prices will take some of the shine off finisher's margins, but also reduce the competitiveness of chicken meat.

While cattle prices have been helped by tight cattle supply, it has also led some to worry about the longer term health of the industry. Britain is only around 70% self-sufficient in beef. Not in itself a problem, given we are big and growing population on a little island. Yet there is a legitimate concern especially here in Scotland where beef production is based largely on sucklers.

Scottish suckler margins have generally been well up in the past couple of years. Yet census figures support the wide felt view that suckler cow numbers are unlikely to rise in any of the home countries. So any future growth in production must come from better beef cow productivity (tighter calving pattern, higher calving %, better growth rates at grass and smaller cows). In a nutshell, the longer term prospects for suckler beef depend more on what we can control than the whims of politicians and future trade deals.

Will Brexit be settled in 2018? Almost certainly not. Perhaps the best hope is for a quick agreement on a transition deal, to continue the current trading arrangements. Current thinking indicates that the eventual deal will be a free trade agreement that is relatively close to the present arrangement. That would be good.

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

UK Market Situation and Outlook

'000 tonnes	2011	2012	2013	2014	2015	2016	2017	2018
Production	935	882	848	878	882	908	**893**	**902**
Imports	381	409	389	410	430	426	**435**	**444**
Exports	174	143	131	141	132	143	**133**	**144**
Consumption	1,142	1,148	1,106	1,146	1,181	1,191	**1,194**	**1,202**
UK suckler cows ('000 hd)	1,675	1,666	1,611	1,569	1,576	1,596	1,589	
Scottish suckler herd ('000 hd)	471	462	447	437	437	437	433	
UK dairy cows ('000 hd)	1,847	1,796	1,782	1,841	1,895	1,897	1,891	
Scottish dairy females +2yrs ('000 hd)	216	213	211	218	223	217	216	

Source: Defra, SG (revised to BCMS data), AHDB. Estimates and forecasts in bold. All figures subject to revision.

2017 GB planted area, yields and prices

Based on 98% of 2017 planting returns GB's crop planted area for the 2017 crop was up 4% compared to the previous year, taking it up to 122,779ha from 116,225ha. Average net yields for 2017 are estimated to be 49.3t/ha, 4.3t/ha higher than 2016. AHDB Potatoes first provisional estimate of total production for the 2017 crop is 6.04Mt, 15% up on the previous year.

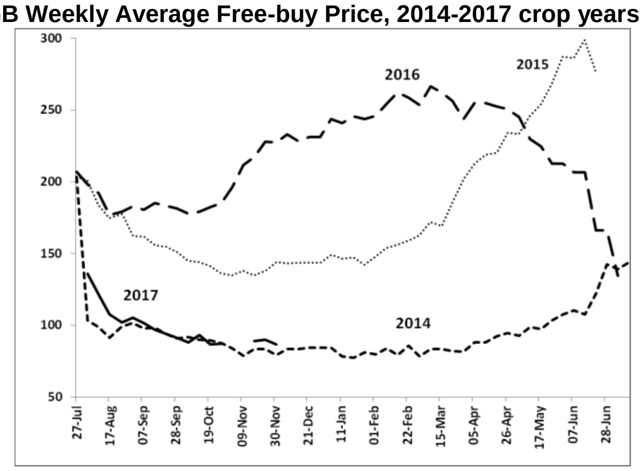
GB Potato Production 2015 - 2017

	2017e	2016	2015	% Chg
Total plantings (000ha)	122.7	116.2	112.0	+5.5
Average yield (t/ha)	49.3	44.9	49.0	+9.7
Total production (mt)	6.04	5.24	5.486	+15.2

% Chg. - Percentage change over the previous year. Source:AHDB
e - Estimate

Increased production has driven down farm gate prices in 2017. Change over from the 2016 to 2017 crop and the impacts of increased packing and frozen imports have also had a negative impact on price.

GB Weekly Average Free-buy Price, 2014-2017 crop years



Source: AHDB

European market - NEPG

The GB market is also influenced by the European potato market, with price and quality of their homegrown supply and the exchange rate influencing the level of imports that come into the UK. How do 2017 crop yields and production in the other North-western European Potato Growers (NEPG) countries compare to 2016?

Potato production in the other four NEPG countries for the 2017 crop (excluding seed and starch) is estimated to be 24.17mt, up 21% on the previous year. The other NEPG countries also recorded a larger planted area, up 5.9% and average yields were up 13.8%. Belgium and the Netherlands recorded the largest yield increases, up 18.3% and 16.5% respectively, however yields were reported to vary considerably.

Consequently supply from these countries is also likely to be plentiful for the remainder of the season, keeping prices down, if crops store well.

NEPG Potato Production 2017 - 2016

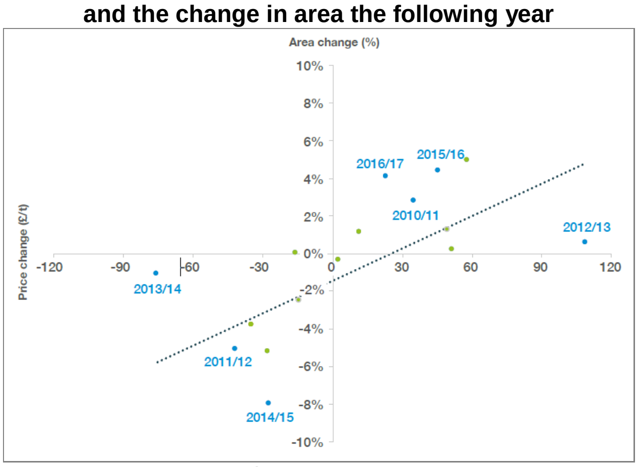
	2017 mt	2016 mt	Change %	Average Yield t/ha
Belgium	5.03	4.03	+24.8%	52.3
Germany	8.95	7.48	+19.6%	50.0
France	6.12	5.11	+19.7%	46.5
Netherlands	4.07	3.36	+21.1%	53.8

% Ch. - % change over the previous year Source: NEPG

Outlook for 2018

As trends published by AHDB have shown, higher prices encourage more growers to plant, and vice versa. Will this mean a lower GB area in 2018?

Relationship between the percentage price change and the change in area the following year



Source: AHDB

Meeting changing demands – potatoes have suffered from falling consumption as consumers seek easier to prepare meals and the perceived benefits of lower carbohydrate foods. The reality is potatoes have an excellent nutritional profile in-tune with human health needs. The industry has also done a lot to improve the convenience of potato products. Renewing the sectors focus on these areas could do a lot to restore market growth. For seed potatoes expanding existing export markets and opening up new ones will require improving health status, new varieties and government support.

Managing volatility - The past five seasons have seen the widest range in average GB farm-gate prices between seasons ever recorded by AHDB. This level of volatility can only continue or possibly increase depending on how Brexit pans out.

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

2017 a mixed bag

Some producers will be very satisfied with the past year, while others will be glad to see the back of it and fearful that its bad weather will have knock-on effects for 2018. As for light lamb producers, the market was and is worrying.

Less said about the hogget price in 2017 the better. It was dreadful set against the cost that many stores were bought for: most finishers will have been badly out of pocket. Lacklustre consumption both here and on the continent is a real problem that even a favourable exchange rate (against both the euro and Kiwi dollar) could not offset.

Yet for many producers, 2017 has been a good year. The weather was generally favourable through lambing and into early summer resulting in high lamb survivability and decent early lamb growth rates. Ramadan helped as the lamb price jumped in late May reaching 515p/kg DWT in early June. Predictably the price eased back thereafter as lamb supply rose.

Nevertheless, the lamb price remained good through the rest of the summer and autumn, with the base price (R3L) not dropping below 365p here in Scotland. So a decent supermarket sized lamb still grossed £70 through the glut period with the best grades near £80 a head. In kinder parts of the UK, total income from lamb sales will have been excellent. But for areas affected by miserable weather through the late summer and autumn, finishing lambs was difficult and, where creep used, expensive. And while the early store lamb trade was excellent, by September it had decidedly cooled, becoming a buyers market.

The GB cull ewe trade mirrored the prime trade through 2017. After a poor start rising to peak in May at £72, then sliding to a low of £46 (cf. £49 the previous year) in the autumn. Again, the overall trade for culls through 2017 has been reasonable and supportive of good margins.

Will Brexit affect the 2018 lamb crop?

The worse-case scenario for the British sheep industry is to leave the EU in March 2019 without a trade deal. Thankfully, the likelihood of this outcome is low with trade talks likely to start in January. Getting a transition agreement seems the obvious priority, which if achieved will mean continued participation in the single market and tariff free imports of NZ lamb.

Of course trade talks will affect sheep prices via the exchange rate. Assuming the talks remain tense, sterling will remain weak against both the euro and Kiwi dollar, benefitting our lamb and cull prices.

Even with helpful exchange rates prospects for hogg prices are muted. Hopefully, they will be better than last year, but we may be carrying more lambs into the New Year and the Kiwis will be sending plenty of legs over for the earlier Easter. An earlier Ramadan (starts 16 May) may help late season hoggs more than early lamb prices.

The big question is whether the lamb price from July through to November will remain as good as the past two years. Though the UK breeding flock was the biggest since 2006, the lamb crop may not be up, thanks to lower ewe condition at tupping and potentially less favourable weather at lambing. Nevertheless there should be plenty of lambs about. As the table shows, AHDB expect more production in 2018 and less exports. So don't be surprised if next summer/autumn's lamb prices are lower than in the past two years.

Two sobering questions to end with. First, despite a favourable exchange rate in the last two seasons, small lambs have traded at unsustainable levels. Is there a future for lambs yielding less than 16kg carcases? Second, what can be done to increase the number of lambs killed in Scotland? Only around 40% of Scottish lambs are now slaughtered here, adversely affecting the farmgate price, levy income and jobs and value added in the Scottish processing sector.

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

UK market situation and outlook

'000 tonnes	2012	2013	2014	2015	2016	2017	2018
Production	276	289	298	302	287	**302**	**312**
Imports	100	116	108	109	109	**91**	**90**
Exports	98	109	108	95	82	**93**	**106**
Consumption	277	296	298	316	314	**301**	**295**
UK breeding flock ('000 hd)	15,230	15,561	16,026	16,024	16,304	16,623	
Scottish ewe flock ('000 hd)	2,624	2,616	2,604	2,588	2,618	2,661	

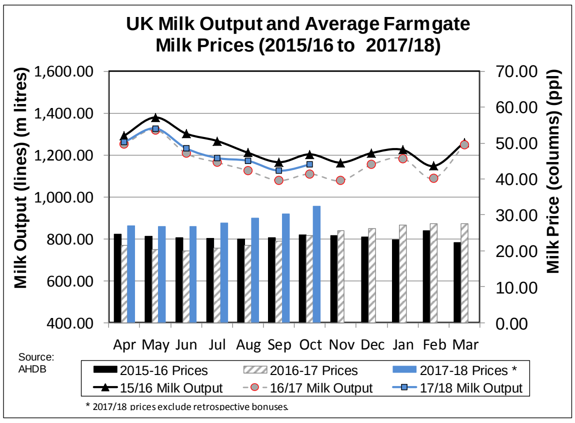
Source: Defra, SG, AHDB. Estimates and forecasts in bold. All figures subject to revision.

Prices and output well up on 2016/17

AHDB milk output figures show that 1,155.35m litres of milk was produced during October 2017 (before butterfat adjustment), equating to an increase of 45.95m litres against year-on-year production. These latest figures mean that cumulative production from 1st April up until the end of October 2017 stands at 8,460.84m litres, which is 202.38m litres above cumulative output at this time last year.

The UK average milk price increased to 32.34ppl during October 2017. This represents an increase of 2.04ppl from the September 2017 average price level. Looking forward, however, the positive signals from the 2017 market have all but dried up and price reductions will be on the cards for many producers in the New Year.

- *Farmgate milk price reductions have now been confirmed by several milk buyers for January 2018.*



Price reductions confirmed for 2018

Whilst average (retrospective) farmgate price levels continue to show a rise, current developments on pricing paints a different picture. At the beginning of December 2017, both Müller and Meadow Foods announced price reductions with effect from January 2018. Since the announcements by Müller and Meadow, Arla Foods, Glanbia Cheese and Sainsbury's have also announced price reductions for January.

Some of the main price announcements for January 2018 are outlined below:

- Müller – 1.50ppl reduction from 1st January 2018. See table below.
- Meadow Foods – 1.25ppl reduction from 1st January 2018. This takes the farmgate price to 29.75ppl.
- Arla Foods – 1.00ppl reduction to its Direct milk price from 1st January 2018. This takes the liquid standard price to 28.00ppl.
- Sainsbury's – Following the latest review of its cost tracker, Sainsbury's has confirmed a reduction of 0.11ppl to the Sainsbury's Dairy Development Group (SDDG) price from 1st January 2018. This takes the price of the liquid standard litre from 28.21ppl down to 28.10 for Müller suppliers and from 28.09ppl to 27.98ppl for Arla suppliers.
- First Milk – FM has confirmed that it will hold its prices for January 2018.

With the exception of the price reduction announced by Sainsbury's, most of the price changes mentioned above have been prompted by the sharp turnaround in dairy commodity prices – butter and cream in particular. The magnitude of cuts means that many farmers will be forced to re-assess their costs of production and adapt accordingly.

Annual Average milk price estimates for January 2018 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	29.00
First Milk Balancing. [1]	29.09
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein. [1]	29.44
Müller - Müller Direct [1, 2]	29.00
[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.*	

Further weakening of wholesale prices spells more gloom for 2018

UK prices reduced for butter, SMP, cream and mild cheddar between October and November 2017. Butter prices suffered the largest drop during the period, falling back a further £550/t to average £4,500/t – the lowest price for UK butter since May 2017. Further afield, the online Fonterra auction (GDT) witnessed a stabilising of prices during the latest auction on 5th December 2017, the price index rising by a mere 0.4% on the previous auction on this occasion. Prior to the latest rise, the GDT price index was at its lowest point since April 2017. This reflects the high in world milk production at the present time. EU production is no exception to this trend: between April and October 2017, 89,917m litres of milk was produced, compared with 87,790m litres during the same period in 2016.

UK dairy commodity prices (£/ tonne)	Nov 2017	Oct 2017	Jun 2017
Butter	4,500	5,050	5,100
SMP	1,270	1,350	1,700
Bulk Cream	2,100	2,180	2,370
Mild Cheddar	3,265	3,365	3,250
UK milk price equivalents (ppl)	**Nov 2017**	**Oct 2017**	**Jun 2017**
AMPE (2014)	29.24	32.73	36.41
MCVE (2014)	34.86	36.61	36.92

Source: AHDB

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

Brexit Impacts for Scotland

Introduction

AHDB supported by SRUC and QMS released a report on the implications of Brexit for Scottish agriculture. For details see the report as follows: https://ahdb.org.uk/documents/Horizon_November2017.pdf

The main areas of concern included:

1. International trade – in general, Scotland's biggest market for food is the rest of the UK, with less dependence on EU exports. Scotland could see winners and losers by sector from any new trading arrangements put in place with the EU.
2. Access to EU labour – migrant labour is essential for many sectors such as soft fruit on farm and red meat in processing. Finding a solution to any labour restrictions will be essential for these sectors to thrive.
3. Agricultural support – Scottish agriculture is more heavily dependent on agricultural support than farming in the UK as a whole.

Sectoral trade issues

Red meat - the rest of the UK is by far the largest market for Scottish red meat at over two thirds by value (£498m) in 2016, compared to 9% for the EU. However, EU markets are important to balance sales of the whole carcase and greatly aid the overall value that can be generated. Sheep are more reliant on EU markets than beef with the EU accounting for up to 30% of sales. Imposition of WTO tariffs would render EU exports uneconomic and the sector remains dependent on free-trade to maximise returns.

Cereals – cereal trade within the UK is generally more important than trade between the EU and Scotland. Scotland imports bread wheat, maize and malt from the EU and exports feed barley, rapeseed and oats products. Scotland imports malt, bread wheat and feed wheat from England. Any trade barriers with the EU would boost intra-UK trade. Almost half of grain demand in Scotland is from whisky which appears relatively less vulnerable due to zero tariffs already in place with the EU. However, the other half of cereal demand is feed so the fate of the livestock sector is hugely relevant.

Potatoes - the main impacts were seen in the seed potato export trade; accounting for around 40% of production (65kt) and worth around £80-£100m per year. The ability to continue to export to many export markets, such as North Africa, will require the UK to negotiate comparable trade arrangements to those that currently exist in the EU. The UK will also have to replicate and maintain high Phytosanitary Standards to secure access.

If tariffs are imposed between the UK and the EU there may be opportunities for UK supplies to displace imports of processed potato products, benefiting English growers and Scots seed sales.

Dairy – the UK is a net importer of dairy products, especially from Ireland, and the UK sector may benefit overall if trade restrictions are put in place with the EU. However, exports of high value processed products are focused on EU markets and these may be at risk. Global export opportunities are positive for dairy products given the high standards and quality of UK dairy products, particularly to emerging markets in Asia, and these may benefit from future non-EU trade deals.

Horticulture – Scotland accounts for around 25% of the UK's strawberry production and is a major producer of other soft fruits and some vegetables for Scottish and UK markets. The UK as a whole is a very large net importer of fruit and vegetables and exports to the EU are relatively minor. If trade barriers are put in place with the EU, it is likely that demand and prices for UK and Scottish fruit and vegetables would benefit. However, the sector is very heavily dependent on EU labour and is already struggling to recruit enough staff. If free labour movement in some form is not continued then the industry will be very unlikely to be able to maintain and certainly not increase output to meet any opportunities that may arise.

Fit for the future

The report sees five critical questions that Scottish farmers should be asking:

1. Are we taking a hands-free view of the business?
2. Do we know our costs and how they compare? The top 25% of business should remain profitable under most scenarios.
3. Is the business generating enough profit on a five year basis without subsidy?
4. Do we have a plan to cope with different subsidy scenarios?
5. What skills will the business need? And if they are lacking, we need to acquire them now!

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

Sector Focus: Shooting Rights

Rateable Values and Rates

In recent months local Councils around Scotland have issued Valuation Notices to landowners and occupiers. These are notifications of rateable values (RV) for Shooting Rights and Deer Forests which may be subject to non domestic rates.

Shooting Rights and Deer Forests have been exempt from revaluations and non domestic rates since 1995. This exemption was removed as part of the Land Reform Act 2016 resulting in the re-entry of Shooting Rights and Deer Forests in local valuation rolls from 1st April 2017.

Shooting rights, in rating terms, are defined as the right to occupy the land for the purpose of shooting game. Game normally refers to wild birds and animals such as deer, pheasants, partridges, black or red grouse, ptarmigan, wildfowl, snipe, woodcock and hare. The right to shoot game relates to whether there is a <u>potential</u> to exercise the right to shoot. In most cases this right is granted through ownership of the land or by the owner granting lease, licence or permission to shoot to another party. This means that a RV is applied whether shooting occurs for vermin control, for sport and even if no shooting occurs.

The RV stated on the Valuation Notice has been calculated using the area over which shootings may be exercised and multiplied using the following rate (£/ha) for the different land types. Some adjustments may also have been applied.

	£/ha
Arable	4.00
Unimproved Grassland	4.00
Improved Grassland	3.50
Deer Forest/Hill/Moor	2.00
Woodlands/Forestry	5.00
Mixed Types	5.00

Rates

The RV is <u>not</u> the amount that will be required to be paid. The rates bill is calculated by multiplying the RV by the rate in the pound. Where the RV is less than £51,001, the multiplier is 46.6p. If above £51,001, the multiplier is 49.2p. For example, a RV of £1,200 would result in a rates bill of £559.20.

Relief

Business rates relief is available by application through the Small Business Bonus Scheme (SBBS). Relief is based on the combined RV of all business premises. The following reliefs are available:

- RV up to £15,000 - 100% relief (i.e. no rates payable).
- RV £15,001 to £18,000 - 25% relief.
- If you have more than one business property, with a combined RV of between £18,001 and £35,000, you will get 25% relief on each individual property with a RV of under £18,000.

In order to obtain relief, land owners and occupiers <u>will need to apply</u> for the SBBS through local councils and provide information including the property reference, address, ratepayer name and RV of the business property. It may also ask for details of other commercial (non domestic) properties in Scotland and information on de minimus state aid that has been granted over a 3 year period.

<u>Many farm businesses (where there are no additional non domestic businesses/diversifications operating) will be subject to full relief on Shooting Rights and Deer Forest rates.</u>

Appeals

In some cases the person being sent the Valuation Notice will disagree with the RV or they may not believe that they are liable for the RV as they do not hold the shooting rights, e.g. a tenant farmer farms land where the shooting rights are held entirely by the landlord and/or another party. If a farmer/land occupier disagrees with a Valuation Notice or believes that they do not have shooting rights on the land occupied, an appeal of the entry in the Valuation Roll can be lodged within 6 months from the date of the notice. Evidence, e.g. tenancy agreements, would be required to support any appeals.

Appeals against the rates charge have to be lodged in writing. Payment of rates cannot be withheld pending outcome of appeal.

kara.craig@sac.co.uk, 07776 466039

The 2017/18 Farm Management Handbook is available now

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https://www.fas.scot/publications/farm-management-handbook-20172018/

Key economic data

General Indicators	
Base interest rate	0.50% (0.25% Nov '17)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	3.1% (target 2%)
UK GDP growth rate	0.4% (Q3 '17)
FTSE 100	7,560 (21 Dec '17)

Price indices for October 2017 (Defra 2010 = 100)			
Output Prices		Input Prices	
Wheat	117.2	Seeds (all)	98.0
Barley	125.7	Energy	109.0
Oats	118.6	Fertiliser	96.2
Potatoes (Main Crop)	93.9	Agro-chemicals (all)	99.3
Cattle and Calves	130.0	Feedstuffs	111.3
Pigs	109.9	Machinery R&M	116.1
Sheep and Lambs	100.7	Building R&M	115.4
Milk	131.1	Veterinary services	108.8

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Contact: janis.forrest@sac.co.uk or 0131 603 7525