Agribusiness NEWS

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

News in brief

January 2025

Steady progress amid changing policy and markets

2024 appears to have been a relatively unremarkable year in Scottish farming, with the sector ploughing on among political change, an evolving policy environment, and imperfect seasons of weather. The pace of policy change in Scotland appears more gradual than south of the border, allowing Scottish businesses valuable time to adapt and reorient to changing public payments and alternative income streams.

Statistics indicate that livestock numbers continue their long-term trend of contraction (see ABN's November edition for more details), supporting strong prices for livestock producers, and raising questions about alternatives for land freed up by this change. How businesses explore changing public payments and conditions alongside exploring alternative opportunities for income (see Sector Focus on pg 6 for environmental updates) will be critical to success. Getting the balance of these right alongside existing farming operations right could be economically favourable – the question will be how complex this will be for farm businesses.

The 45th Edition of the SAC Farm Management Handbook (co-funded by the Scottish Government) is now available to download free on the FAS website at: https://www.fas.scot/publication/farm-management-handbook-2024-25/

To own your own hard copy of this comprehensive and up-to-date source of farm and rural business management information, please visit www.sac.co.uk/fmh or contact us on 01835 823322 or email the FMHB team on fmh@sac.co.uk

Merry Christmas and a Happy New Year from the Agribusiness News team!

Contents

This month's editor:
Anna Sellars

SAC CONSULTING
Scottish Government
Riaghaltas na h-Alba
gov.scot

Round up of 2024

In March, the Land Reform (Scotland) Bill was introduced. It is aimed at how land in Scotland is owned and managed in rural and island communities. Proposals include, in certain cases, prohibiting landholdings over 1,000 ha from being sold until Ministers can consider the impact on the local community. This could lead to some landholdings being lotted into smaller areas and/or communities being given the opportunity to take on ownership of some or all of the land in question.

In April, the Wildlife Management and Muirburn (Scotland) Bill became law. Designed to protect wildlife, the new Act bans the practice of snaring and the use of glue traps to catch rodents. It also gives greater powers to the SSPCA to tackle wildlife crime and introduced a new licencing framework for grouse moors whereby it is now illegal to shoot or take red grouse from an area without a licence; this applies to both walked up and driven grouse shoots. Applications can be made online on the NatureScot Website.

In May, in preparation for the gradual transition to the new agricultural support framework which will start in 2027, the Scottish Government announced that from 2025, under the Scottish Suckler Beef Support Scheme, calves will only be eligible for payment if their dam's calving interval is 410 days or less. While in future years, the maximum calving interval could potentially be reduced by another 10 days, the maximum 410 calving interval conditionality will also be held for the 2026 claim year.

Under Preparing for Sustainable Farming – Whole Farm Plans, in addition to the support funding available for carbon audits, soil analysis and animal health and welfare plans; two new initiatives were announced – Biodiversity Audits and Integrated Pest Management Plans. Further details about the new Integrated Pest Management plans are available on the Plant Health Centre website. From 2025, in return for eligibility for basic payments, farmers and crofters will have to declare on their IACS Single Application Form that they have carried out at least two of the five activities that are relevant to their business.

In addition to which, linked to GAEC No6 – Maintenance of soil organic matter; new cross compliance conditions are being introduced for wetlands and peatlands to help protect vital carbon stores.

In July, the new Agriculture and Rural Communities (Scotland) Bill became law. As part of the Scottish Government's 'Vision for Agriculture'; it will provide a framework to support the agricultural sector to play its part in cutting emissions, mitigating climate change, enhancing nature and biodiversity, as well as continuing to support the sector in its critical role with regards providing Scotland with a sustainable and resilient food system.

In September, the new Scottish Kept Bird Register was announced whereby all Scottish bird keepers, large or small, are required to register their bird location. The new ruling applies to domesticated bird species including hens, ducks, geese and quails. Once registered, the information must be updated annually.

In November, the Climate Change (Emissions Reduction Targets) (Scotland) Bill was passed. To provide a more reliable framework for emissions reduction; the new law is seeking to set a limit on the amount of greenhouse gases emitted over each five-year period starting with 2026-2030.

Looking to 2025 and beyond…

Sheep and Goat Inventory

All keepers of sheep and goats in Scotland must complete the online Sheep and Goat Inventory by midnight on the 30 January 2025.

Preparing for Sustainable Farming (PSF) – 2024 Year Grant Claims

All carbon audits, soil analysis and/or animal health and welfare claims for the Scheme year 1st January 2024 to 31st December 2024 must be submitted by midnight on 28th February 2025. Full guidance on how to make a claim is available on the Preparing for Sustainable farming portal on the Rural Payments and Services Website. Please note late claims will be rejected for payment.

Slurry Storage

From the 1st January 2026, under the Water Environment (Controlled Activities) (Scotland) Amendment Regulations 2021, all businesses out with NVZ areas which produce slurry from housed livestock must have sufficient slurry storage capacity equivalent to:

- 26 weeks for housed pigs and/or
- 22 weeks for housed cattle

This capacity **must** also be sufficient to capture and store any rainwater entering the system, including runoff from dirty yards, silage pits and parlour washings. For more information please click on this link Farming and Water Scotland - Slurry and Manure Storage

christine.beaton@sac.co.uk

Political alliances define trading blocs

The recent grain trade conference in Dubai highlighted the deepening fractures in global economic and political systems. The decline of globalization is giving way to a "duopoly" of power, with the G7 nations (Canada, France, Germany, Italy, Japan, the UK, and the U.S.) on one side and the BRICS bloc (Brazil, Russia, India, China, and South Africa) on the other. Each group accounts for roughly 30-32% of global GDP, signalling a shift in trade flows and economic influence as Washington and Beijing emerge as dominant global poles.

The rise of the BRICS bloc is now outpacing the G7 in GDP growth and prioritizing the development of independent trade routes and frameworks that reduce reliance on Western markets and the U.S. dollar. Russia has become a leading price-setter for internationally traded wheat, while Brazil has solidified its dominance in soybean and corn exports, aided by competitive pricing and political ties within BRICS. At the same time, China has diversified its suppliers, reducing its reliance on U.S. grain and soybean exports and shifting its purchases to South America and Russia. This trade realignment, driven by political strategy rather than price, underscores the diminishing influence of the U.S. in global agricultural markets and these trends reflect a broader effort by BRICS nations to reduce dependence on Western markets and redefine global economic power structures. This geopolitical restructuring is forcing many agricultural players in the United States and the European Union to consider the nature of future demand, and how they can stay competitive in an increasingly divided world.

Black sea region supplies diminishing

This week, world wheat prices have rebounded amid lower Black Sea export prospects for the second half of the season. Wheat prices in Ukraine are now trading at season's highs and in Russia prices are moving up for the first time since October and are now trading at parity with EU offers. Russia's export volumes have already started to slow down significantly since mid-November having exported record volumes so far against a backdrop of a 12Mt lower production compared to last year. Russia has also set a very small quota of 11Mt for the Feb-June period (compared with 29Mt in 2023 for the same period) and they have also increased the export tax by 30% to $50/t. Meanwhile EU exports have been very slow so far this season currently at 10Mt vs 14Mt this time last year. Hopefully demand will increase as Black Sea supply slows and if demand lifts EU prices, UK prices will follow.

UK barley and oats

Malting barley markets remain sluggish, with weak demand from brewing and distilling industries keeping premiums at multi-year lows. Ample supply and poor demand make it difficult to justify malting prices significantly exceeding feed barley as the new year approaches. The preliminary findings of the Early Bird Survey for the 2025 harvest indicate a decline in the total UK barley acreage, attributed to reduced plantings of both spring and winter barley. If confirmed, the projected area of 1,084,000 ha would mark the smallest UK barley area since 2014. One contributing factor to this decrease is believed to be the pressure seen on malting barley premiums this season.

European oat markets are similarly quiet, with limited trade activity. In Scandinavia, a shortage of farmer selling has kept offer prices high, but these could fall if more sellers enter the market, especially as many consumers report having adequate supply. Feed demand remains subdued, both in the UK and Europe, with limited farmer selling and slow consumer interest. UK milling buyers are mostly covered for December and January, but some demand exists for later months. UK oat exports are off to a slow start, down 93% year-on-year, but are expected to pick up with recent EU sales. For now, oat prices remain supported due to the lack of farmer selling.

mark.bowsher-gibbs@sac.co.uk

Indicative grain prices week ending 13/12/2024 Source: SAC//United oilseeds/Farmers weekly/AHDB)

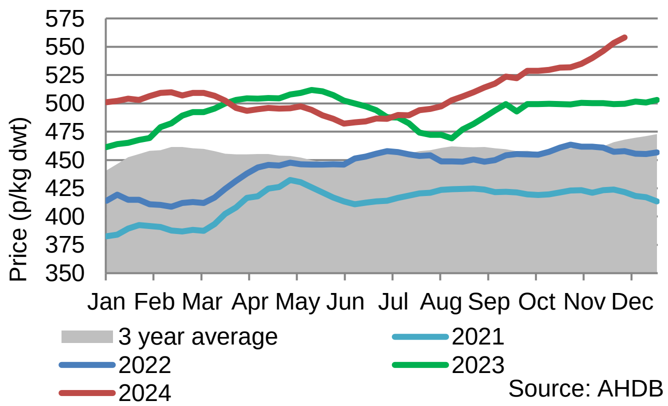
£ per tonne	**Basis**	Dec '24	**Mar '25**	**Nov '25**
Wheat	Ex farm Scotland	190	200	190
Feed Barley	Ex farm Scotland	160	165	160
Beans	Ex farm Scotland		225	395
Oilseed Rape	Ex farm Scotland		430	385
Milling oats	Ex farm Scotland		180	

2024 market recap

Beef prices started the year strongly, above £5/kg, 8-9% above 2023 levels and 26-27% above the five-year average. Data from QMS showed that to find a time when prices were lower than a year earlier, you had to look back to May 2020. Finished beef prices began 2024 approx. 45% higher than they did in 2020. On the back of strong retail demand in the first few months of the year prices continued to trend upwards as demand continued to outstrip supply.

During January to mid-March, those selling store cattle received record prices, which brought some much-needed positivity to suckler herds who had been feeling the economic pressures. Many averaged over 340p/kg when selling strong continental types, with some markets reporting 400kg well-bred strong Charolais cross bullocks averaging up to 370p/kg. Store cattle and weaned calf prices have continued to be elevated above 2023, with strong demand from England for Scottish suckler bred cattle contributing. It is reported that more than 20% of Scottish stores are now moving into England.

Scotland finished steer R4L price (deadweight)



In April, deadweight cattle prices fell which in turn affected the store trade. Reasons included lower consumer demand, good supplies of young bulls coming forward and carcase weights showed a year-on-year increase. Poor spring weather hindered turnout. With sheds at full capacity and feed costs increasing, finishers were reluctant to purchase stores with most unable to get cattle out to grass.

Tightening prime cattle availability has led to prices surging upwards since July, when prices broke back above £5/kg/dwt. Prices were above 15% higher than the five-year average. Simply there are not the cattle numbers out there and finishers and processors are battling to secure numbers, with prices increasing to 555p/kg/dwt in the final few days of Christmas kill to secure orders.

Cull cow prices started the year around 370p/kg/dwt, after a sluggish start to the New Year prices have remained strong throughout 2024, with prices returning to more normal levels relative to prime cattle prices. Cows traded at a premium in Scotland over England and Wales for much of July and August. Prices are currently sitting at 420p/kg/dwt

Scottish suckler herd

The decline in the Scottish suckler herd remains a concern for the industry. ScotEID data reported in September 8,400 (2%) beef cows lost in the past 12 months. Summer 2024 saw an increase in herd dispersals throughout Scotland, however data suggests that approx. 80% were sold into other herds. Lack of succession and lack of labour are some of the reasons behind herds being dispersed alongside the investment required by some to adhere to new government regulations e.g. with slurry storage.

2025 beef outlook

Cattle availability looks to remain tight as we go into 2025, as reduced beef cow numbers further impact supplies. Recent figures from AHDB forecast beef production to fall 6% in 2025 due to increased cow and heifer slaughterings. There are concerns that changes to the Scottish Suckler Beef Support Scheme (SSBSS) will further reduce the national herd size. While prime cattle and store cattle values are at record levels input costs remain high and farmers continue to feel the pressure of trying to improve business and herd efficiency along with the challenges of farming in a nature friendly way.

sarah.balfour@sac.co.uk

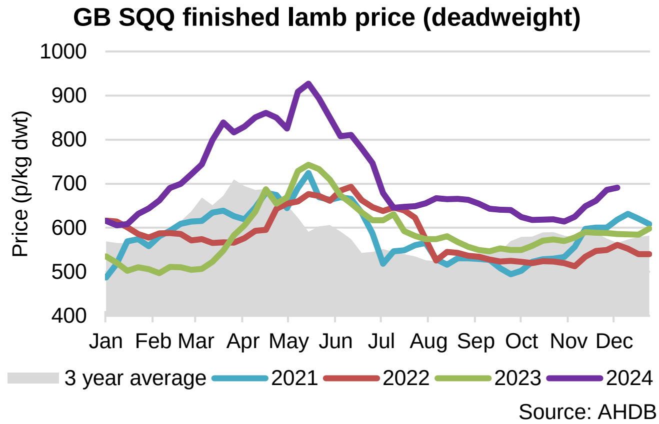
Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB and IAAS data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bulls -U3L		Cull cows	
		Change on week	Diff over North Eng.		Change on week	Diff over North Eng.		Diff over North Eng.	R4L	-O3L
23-Nov-24	**546.3**	6.2	4.0	**550.1**	7.6	7.0	533.7	1.8	413.2	381.9
30-Nov-24	**553.3**	7.0	1.9	**556.5**	6.4	4.6	541.4	14.8	421.0	392.4
07-Dec-24	**558.2**	4.9	1.4	**560.6**	4.1	7.2	548.8	22.5	423.7	395.1

2024 – What a year!

2024 has seen some extreme trading conditions for sheep meat. With a huge drive coming in the late spring from the hogget market with a top SQQ for the year with the week ending 18/05 of £9.27/kg DW. We have again seen the strong demand that key religious festivals drive, and the importance of the Muslim market. Muslim people only represent 6.5% of the UK population, however 80% consume lamb weekly and 64% consuming mutton weekly (source: AHDB). With the electric hogg trade, we saw many ewe hoggs who would have typically been retained for breeding, sold through the prime ring, which then had a strong impact on breeding sales later in the year.

The European flock has contracted in size, there has been disruption to global logistics with problems in the Red Sea, which have assisted the UK route to market. There have been challenges in vaccine shortages, midge related diseases, and land use change.



Source: AHDB

Look forward to 2025

Beef and Lamb NZ have recently published their Lamb Crop 2024 report, which shows a preliminary figure of 5.2% fewer lambs being tailed in 2024 compared to 2023, meaning a reduction of 1.1 million head of lambs to a total of 19.2 million. This has been due to a flock 2.9% lower on the year, less

h

2.6% to 127.4% due to poor body condition at tupping and harsh weather in the South Island. With the reduced lambs, their export figure is estimated to be reduced by 6.5% for the 2024 lamb crop.

The Australian flock is set to slightly decrease. Meat and Livestock Australia have reported three main opportunities for 2025. The first being UK and India Free Trade Opportunities. As we go into year 3 of this FTA, their quota to import to the UK rises to 36,111 tonnes, by year 10 (2032), this will be 75,000 tonnes. Other opportunities include the shortage of protein in the US, with the cattle herd being the smallest since 1961 following poor prices, climatic challenges and high input costs. Which may lead an opportunity for a higher consumption of lamb, if beef becomes a less affordable protein, and as the population grows. The final opportunity identified, is a change in breed dynamics, with Merino producers possibly moving to wool shedding breeds following poor trading of wool.

In the UK, 2025 is set to decrease the national flock slightly more. However, the world population is growing, currently sitting at 8.2 billion, with a growth of 0.85% forecast for 2025. With further recovery of the economy, shoppers spending may well look for sustainable environmental choices in their protein, somewhere that lamb ticks a lot of boxes.

AHDB have recently shown that almost a quarter of households (23%) plan to have two meats on the table this Christmas, with 10% planning on three. This shows how the economy is recovering, and how key family gathering dates are vitally important. Interestingly, 26% of people surveyed said they would be looking for ready-cook meals this Christmas, showing how giving various options to customers is vitally important now and going forward.

Key dates for 2025 will be include:

- Ramadan – 28th February – 30th March
- Eid al Fitr – 30 - 31st March
- Eid al Adha – 6 - 10th June

Kirsten Williams; 07798617293

Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish
	R3L	Change on week	Diff over R2	Diff over R3H	**Med.**	Change on week	Diff over stan.	Diff over heavy	**All**
23-Nov-24	**663.6**	12.1	-2.9	-3.5	**302.90**	0.4	13.0	5.3	85.86
30-Nov-24	**688.2**	24.6	-1.6	-1.9	**313.30**	10.4	2.7	8.9	105.93
07-Dec-24	**691.7**	3.5	-1.1	-1.3	**306.60**	-6.7	-1.4	8.3	106.54

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
Note: From 11th May, prices transition to new season lambs

2024 Environmental Roundup

Key policy developments

November saw the passing of the Climate Change (Emissions Reduction Targets) (Scotland) Bill by the Scottish Parliament, outlining a move from annual emissions targets to 5-year budgets, now similar to the rest of the UK. The previous interim target of a 75% reduction in Scottish national emissions by 2030 was scrapped in April, although 2045 net zero target still stands. Further details of implementation, action planning and monitoring are expected in the next Climate Change Plan update.

In September the National Adaptation Plan 2024-2029 was released, with attention to nature, communities, public services, economies and international action. November also saw the launch of the Biodiversity Delivery Plan 2024-2040, supporting delivery of the Biodiversity Strategy. Agriculture should expect greater biodiversity proofing and more detailed actions going forward, following lead from Biodiversity Net Gain which became mandatory in England this year.

News from the industry & business

Reflecting international business trends, the Science Based Targets Initiative (SBTi – see article in Oct 2023's Agribusiness News) has seen expanded uptake in the UK, with 1,447 businesses in the UK now signed up to climate targets in alignment with the Paris Agreement of a 1.5ºC limit on global warming. Of these, 26 have Scottish operations, including brands such as Nairn's, Kettle Produce, Albert Bartlett, Branston and Diageo, retailers including Morrisons, Asda, Tesco and the Co-operative, as well as food processors and food distributors. While some state targets of a reduction in absolute scope 1 & 2 emissions or commitment to Paris Agreement alignment, some include more ambitious targets such as 50% reduction in emissions by 2030.

International trends and outlook

Azerbaijan hosted this year's COP29 climate summit; discussions focused on commitment to scale and terms of finance for developing countries, and furthering of agreements to phase out coal, though not oil and gas. A key outcomes was finalising Article 6 from the Paris Agreement, agreeing on rules and methodologies governing carbon markets, and tightening rules on inter country trading of carbon credits, effectively making it more transparent and further limited potential for double counting of carbon credits and offshoring of carbon emissions. Looking forward, there are concerns about the direction of travel of global progress of climate change with new Trump presidency, which has indicated a move to reverse of recommitments to climate goals in Biden administration.The COP16 on Biodiversity, held in Colombia, pushed for greater integration of climate and biodiversity goals, and announced a Cali Fund for biodiversity conservation, although there was limited progress on challenges in international monitoring efforts.

The year has also seen significant movements forward with Environmental, Social and Governance (ESG) reporting internationally, which though not affecting UK businesses directly, impacts those with EU interests, and suggests a direction of travel in business trends. To date, only large corporations (500+ employees) in the EU have been required to adopt ESG reporting, but from 1st Jan 2025 this will be expanded to other large companies (balance sheet greater than €25 million, turnover greater than €50 million or employees greater than 250), which will be further expanded on 1st Jan 2026 to listed SMEs.

Agriculture and land use

Announcements this year provided further detail on environmental compliance measures in agriculture from 2025 including a 410-day calving interval, Whole Farm Plans including carbon, biodiversity, soil, pest management and animal welfare considerations, and peatland and wetland cross compliance. The recent budget indicates no change going forward to Pillar 1 (BPS, greening, SSBSS, SUSSS) or LFASS, though a cut of 15.7% to the AECS (suggested to reflect defunding of some low-impact measures). The Land Reform Bill also proposes new obligations of land management plans, involving greater community engagement, and environmental accountability.

The new budget sees the woodland creation budget increased by £10m, recovering some of the £32m cut from the budget in December 2023, and peatland restoration budgets (£20m), following reports this year of record levels of peatland restored in 2024 (10,360 ha). The budget reflects aims to increase scale and pace of carbon reductions, and a push for further inward private investment to one of the longest established carbon markets in the UK.

Nature-based finance and projects

2024 has also seen progression of nature-based market development. The Natural Capital Markets Framework was launched in November, providing guidance for land managers, investors and communities around attracting responsible investment. These principles include integrated land use, community engagement, public, private and community benefit, integrity, and inclusivity. This follows a successful year for the Facility for Investment Ready (FIRNs) which continues to fund and pilot investment in the space, and created nearly £5 million for Scottish projects by mid-2024.

Alongside these, pilots of Landscape Enterprise Networks (LENs) in the UK (including one in Leven) have facilitated a linking of buyers and sellers of nature-based solutions across multiple habitats and land uses, evidencing opportunities for managed risk in blending of public and private capital and the potential for local benefit of aggregated land management options.

anna.sellars@sac.co.uk

2024 review: a year of two halves

- *Rising prices for butter, cream, SMP and cheddar came on the back of low milk volumes both here and in the EU in the first half of 2024.*
- *Milk volumes rose in the second half of 2024 stimulated by milk price rises and lower feed costs.*
- *Milk price has been below the cost of production for much of the year, but margins have been improving.*

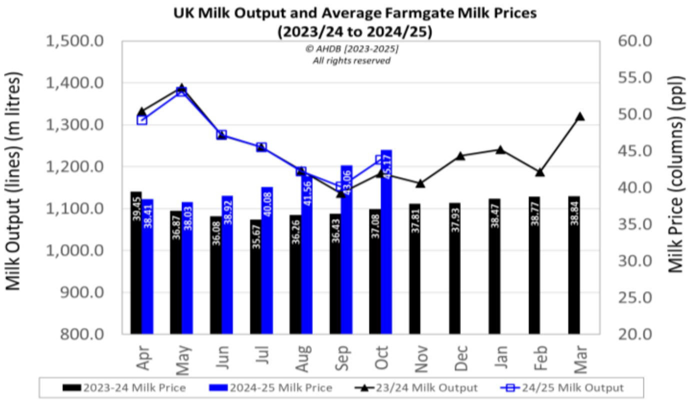
Milk prices were pretty static for the first half of 2024, with the Defra average farm-gate milk price ranging from 38.03ppl to 38.92ppl from January to June. With a poor start to the milk year with lower milk volumes due to a cold, wet spring and a subdued spring flush, the Defra milk price started to head north quickly and reached 45.17ppl in October, just over 8ppl more than 12 months ago. Arla and Lactalis have had 11 monthly milk price increases this year, First Milk with 10 and Muller with 6. None of these processors had a month where their milk price dropped in 2024.

Milk Prices for Dec 24/Jan 25 Scotland	Standard Ltr ppl	
First Milk[2]	Jan	45.35
Müller - Müller Direct - Scotland [1, 3]	Jan	42.25
Grahams[1]	Nov	40.00
Arla Farmers[2]	Dec	48.54
Lactalis / Fresh Milk Co.[2]	Dec	44.72
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 *Manufacturing standard litre - annual av. milk price based on supplying 1m litres at 4.2% butterfat, 3.4% protein, bactoscan = 30, SCC = 200 unless stated otherwise.*		
3 *Includes 1.00ppl Müller Direct Premium. Haulage deducted depending on band for 2023 vs 2021 litres, ranging from -0.25 to -0.85ppl.*		

Milk volumes have reflected the atrocious weather conditions in the first half of the year, hampering grass growth and delaying turnout in many areas. Volumes were down and apart from February, monthly GB deliveries from January to July were less than the previous year. AHDB's December forecast is estimating GB production for 2024/25 to be 12.43 billion litres, 0.9% more than the previous milk year.

As a result, wholesale prices particularly for fats started to head north from April onwards. With the seasonally lower butterfat levels, lower milk volumes and a poor spring flush, butter and cream prices skyrocketed, with butter reaching an all-time high average monthly price of £6,730/t in September. Stocks were very tight and with a cream shortage, butter manufacture took a hit with sales of cream prioritised rather than incurring production costs from churning cream into butter.

Given the rise in milk prices and the easing of feed costs, with soya back over £100/t from 12 months ago, the milk price to feed price ratio has been more favourable and encouraged higher concentrate feeding rates to stimulate production in the second half of the year. In addition, from September onwards, grass growing conditions and grass quality improved, with September and October GB production being higher than the same months in 2023. More Autumn calving cows have also contributed to production increases. At the time of writing, the estimated GB November volume was 4.4% up on November 2023.



For the 2023/24 milk year, the average cost of production was calculated at 45.0ppl by The Dairy Group, with an estimated cost of 44.2ppl for the 2024/25 milk year, leaving a 0.5ppl profit after accounting for family wages. This is well above the Defra average farm-gate milk price from April to September this year. However, interestingly there was nealy a 9ppl difference in cost of production between the top 25% and the average dairy farms.

2025 dairy outlook

Rabobank Research predicts that global milk supply will increase by 0.8% in 2025. With rising milk prices and feed being more affordable it is expected that all seven main exporting regions (New Zealand, Australia, the EU, the US, Uruguay, Brazil and Argentina) will see year-on-year growth in 2025 – this has not been the case since 2020. China's domestic milk production is expected to decline by 1.5% in 2025, which will likely end their three-year run of falling net imports. Chinese imports are predicted to rise by 2% in 2025 on the back of lower milk supply and improving consumer demand. Globally, demand for dairy products is expected to improve, and with more milk, the dairy markets remain fairly well balanced going forward into 2025. However, as always, the market is sensitive to many factors: geopolitical events, disease and weather will always impact production and trade. Bluetongue in the EU and avian influenza in the US could affect herd numbers and milk output but there is confidence that vaccines will limit production impacts. The new Trump administration could affect markets if new tariffs disrupt the flow of trade and there is the risk of less labour on US farms if the threat of mass deportations are realised.

lorna.macpherson@sac.co.uk

The UK and European agricultural economies have been on a slow journey back to more stable conditions in the wake of the disruptive effects of Covid-19 and the war in Ukraine. While agricultural trading patterns have shifted to account for these, new shocks such as the conflict in the Middle East continue to drive economic uncertainty for the coming years.

State of global and regional economies

Global food consumption is set to expand by 1.2% per annum (p.a.) over the coming decade (2024-2033). This is slower than the preceding decade due to a slowdown in population growth, which is expected to average 0.8% p.a., bringing us to 8.7 billion people in 2033. China is expected to recede as the leader in food consumption (consumed 28% of global food over the past 10y), making space for India and SE Asia to take over (expected to make up 31% of global food consumption by 2033).

Food inflation peaked in 2023 but has since returned to a more moderate rate, averaging +2.9% for the Euro area for 2024, back in line with inflation across the economy overall (Fig. 1). However, food prices remain higher than they were before Covid, especially for sugar, olive oil, and certain vegetables.

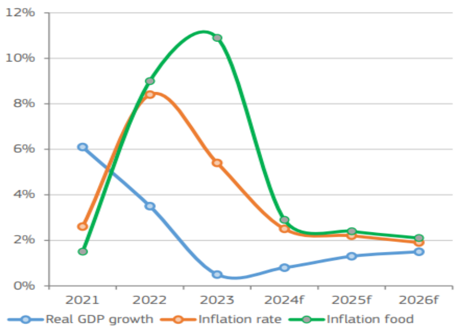


Figure 1: Euro area real GDP growth and inflation forecasts. Source: European Central Bank.

The Bank of England lowered interest rates to 4.75% in Nov 2024, in response to the reduction in inflation across the UK economy. The new Labour government's fiscal policy, which will increase spending, is expected to increase inflation by 0.5% at peak, taking us from current levels of around 2% to 2.5% at the end of 2025, settling to 2.2% in 2026. Interest rates are expected to be gradually rolled back to 3.5% over this timeline.

Input costs

While input costs have steadily declined in recent months, the cost of fertilisers has not returned to levels similar to before the energy price shocks of 2022 (Fig. 2). Conventional fertilisers continue to be unaffordable for some farmers (phosphates are 77% more expensive than pre-crisis), leading them to explore alternatives nutrients or practices. Over the longer term, however, fertilisers are expected to become more affordable due to the reduced demand for fossil fuels across the economy, as these are increasingly replaced by renewable energy.

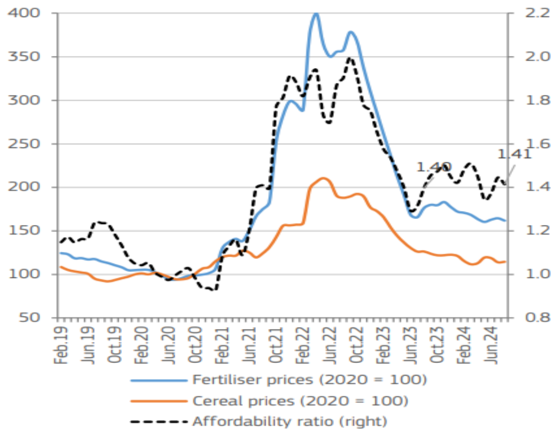


Figure 2: Fertiliser affordability index: Fertilisers vs cereals prices for Euro area. A higher ratio of fertiliser price compared to cereals prices, indicated by the black line, means fertilisers are less affordable to farmers. Source: European Commission.

Pivoting for resilience

The UK and wider Euro zone have been able to maintain positive (although sometimes described as 'sluggish') growth following Covid, the energy crisis, and the ongoing Ukraine war. To overcome the challenges of logistical bottlenecks, workforce shortages, and labour mobility, lessons learned by local communities and food networks include a focus on local sourcing (impacting procurement channels) and an associated emphasis on healthy eating. The patterns which allowed food systems to recover from these shocks are expected to persist over the coming years. These adaptations will be necessary as new perturbations will certainly emerge:

- Conflicts in the Middle East: If the re-routing of ships to avoid the Suez Canal continues, this could have knock-on effects for energy prices. Other key maritime passages such as the Panama Canal and Black Sea are vulnerable to both geopolitics and climate change.
- Extreme weather events such as droughts, floods, and hurricanes are expected to become more frequent over the coming decade. Climate change also increases the risk of plant and animal disease outbreaks.

While local food networks can boost short-term resilience in the face of these challenges, fluid and efficient international commodity markets are equally essential to providing access to safe and nutritious food for everyone: 20% of food consumed globally is transported across an international border.

Agricultural Sector Spotlights

2022 saw historic price highs for livestock, dairy and cereals. What goes up must come down-- During uncertain times, farmers and producers are encouraged to future-proof themselves as much as possible by minimising overheads, benchmarking against peers, and remaining nimble, keeping an open mind to change and innovation.

Cereals: Grain production globally was projected to see a 2.8% bump in 2024, driven by a bumper maize crop from Brazil. This depresses commodity prices for grain, despite the ongoing war in Ukraine, because trade patterns have shifted to accommodate for the conflict. Extreme and adverse weather continue to depress cereal production across the EU, both total yields and the quality of harvested grain, especially soft wheat and corn. As a result, EU exports are expected to be lower than average in the coming year and led to premiums for milling and malting quality grain.

UK farmers also experienced challenging weather for cereals this year, leading to a -6% decrease in barley output, -18% for oats, and -10% for wheat. The quality of harvested gain also takes a hit under these conditions, with less harvested wheat being suitable for bread making specification.

Oilseeds: EU oilseed production saw a decrease in the past year – Fewer fields were planted with rapeseed and sunflowers were hit with bad weather. Protein crops have been increasing by 12.6% year-on-year, largely field peas and broad beans.

In the UK, prices for oilseed rape (OSR) have fallen precipitously since the spike of 2022. Area planted with OSR was forecasted to decline by 19% in 2024, to the lowest area since 2021. There is strong demand for rapeseed for crushing, leading to imports from Australia and Uruguay. Forecasted prices for 2025 are middling, around £442/tonne.

Dairy: UK milk production was forecasted to contract by 1.1% in 2024 due to reduced margins, however input costs coming under control will help the situation. Predictions for domestic and international demand are somewhat pessimistic, due to slow economic growth and uncertainty around the developing situation in the Middle East.

While the herd size across the whole of the EU continues to decline, improved milk yields have allowed the supply of milk to remain stable. Plateauing input costs and raw milk prices could improve dairy farmers' margins, on average. Dairy production is set to increase while demand remains constant, resulting in increased exports – the EU's share of global exports of animal products could rise to 46% by 2033, driven by dairy.

Beef: UK prime cattle slaughter is pegged at 2.06 million head for 2024, a 1% rise, with beef production similar to that of 2023. However, 2025 is meant to see a 3% drop. Prices in the northern hemisphere have been enjoying historic high prices, buoyed by strong consumer demand and reduced production in the USA.

Europe and Central Asia account for 23% of global animal feed use. This market share is expected to shrink substantially over the coming decade and total feed use will shrink by 3% in Western Europe. This forecasted trend is partly due to the expected increase in extensive livestock systems for the associated environmental benefits.

Sheep: Total UK sheep meat production has decreased 8% in 2024, coming in at around 263,000 tonnes, driven by a reduced breeding flock, a reduction in rearing rate, and lamb losses due to disease and weather challenges. Carcase weights have remained similar, underlining the conclusion that this reduction is due to reduced throughputs. Farm gate prices have been strong, however, and farmers will likely achieve good prices at clean sheep slaughter in 2025 Q1.

Pigs: The UK pig market has been stable in 2024, with prices and input costs plateauing and delivering margins of around £15/head. Production has increased by around 3% compared to 2023, due mostly to higher carcase weights rather than numbers. This is set to level off in 2025, with only 0.9% increase expected. Prices for 2025 are uncertain and hinge on the dynamic and exchange rate between the UK and EU, as well as demand from China.

Climate & Environment

There is an 86% chance that at least one year over 2024-28 will be the world's warmest ever recorded (current record set in 2023). In the coming decade, global agricultural greenhouse gas emissions are set to increase by 5%. This increase is less than the increase in total agricultural output, indicating a decrease in carbon intensity of agricultural production, enabled by improvements to productivity rather than expanded land use or herd size. The World Bank stipulates transitioning the global food system could eliminate one third of global emissions by 2050 but will cost $260 billion per year.

The UK and EU's emphasis on sustainability in food production is world leading. However, more stringent requirements may increase the cost of production, which threatens the competitiveness of exports in a global market. Farmers should prioritise sustainability innovations which have productivity benefits, as this will help mitigate additional costs, as well as increase resilience to external shocks. Governments need to provide clear strategies and adequate resource to support rural livelihoods and food security.

brady.stevens@sac.co.uk

Financial Matters

A year of political change

2024 has brought substantial shifts in the UK political and economic landscape. Following the UK General Election, the Labour Party secured a clear majority. This change in government has introduced a new set of priorities, culminating in the Autumn Budget on 30th Oct. The Budget represents one of the largest fiscal pivots in decades, with significant tax rises and increased public investment aimed at driving economic growth and public service improvement.

On the international stage, the US Presidential Election in November 2024 has also introduced a change of dynamics in global markets – many of which have the potential to influence UK agricultural exports and input prices over the coming years.

Although inflation continues to ease, the ongoing restructuring of subsidy frameworks and the introduction of new taxation measures mean 2024 will be remembered as another year of uncertainty.

Fiscal policy

The Autumn Budget of 2024 echoes a more traditional Labour formula: increasing state investment funded through both higher taxation and borrowing. This departure from the last decade's fiscal stance has introduced sweeping reforms affecting employment costs, capital taxes, and inheritance planning to name a few.

One of the most notable changes with direct relevance to farmers is the reform of Agricultural Property Relief (APR) and Business Property Relief (BPR) for Inheritance Tax (IHT). From April 2026, a new cap of £1 million will be applied to the combined value of business and agricultural assets qualifying for full relief. Above this threshold, assets will effectively be charged 20% IHT. While the basic principle of APR and BPR remains, this cap significantly narrows the scope of relief that many farming families have historically relied upon. With Scottish farming asset portfolios often well above this threshold, careful succession planning and restructuring of assets will become even more critical.

Employment costs are another pressure point. From April 2025, an increase in Employer's National Insurance Contributions and a reduction in the secondary threshold mean higher staff costs. Simultaneously, the National Living Wage rise, along with moves towards a single adult rate, puts additional upward pressure on wage bills – particularly impacting sectors reliant on seasonal and lower-paid labour such as fruit, veg and poultry.

Capital Gains Tax rates are also on the rise, with standard and higher rates confirmed to increase and Business Asset Disposal Relief rates gradually rising over the coming years. For businesses considering restructuring, selling land, or transitioning to the next generation, the tax environment is undoubtedly more complex and costly.

In Scotland, the devolved budget echoed some of these pressures. While mainstay support such as BPS, Greening, LFASS, and certain agri-environment measures remain broadly the same, there have been no significant boosts. The Scottish Government's approach, influenced by the UK's larger fiscal framework, has been to hold funding steady in cash terms, equating to a real-terms reduction as inflation erodes value.

Looking ahead

As a short-term shock, inflation is expected to rise above 2% in 2025, before falling below in 2026/27. Current interest rate forecasts suggest a base rate of 3.5% by 2026.

For agricultural businesses, one of the most pressing future considerations is the practical implementation of the APR/BPR changes from April 2026. With a technical consultation expected in early 2025, farms should be engaging with professional advisers now to navigate these imminent challenges.

andrew.coalter@sac.co.uk, 07721 473 566

Key Economic Data

General Indicators	
Base interest rate	4.75% (5.0% Nov 24)
ECB interest rate	3.25% (4.00% Sept 23)
UK (CPI) inflation rate	1.7% (target 2%)
UK GDP growth rate	0.1% (Q3 2024)
FTSE 100	8,295.51 (11/12/2024)

Price indices for June 2024 (Defra 2020 = 100)			
Output Prices		Input Prices	
Wheat	113.9	Seeds (all)	107.1
Barley	119.5	Energy	138.4
Oats	116.1	Fertiliser	148.3
Potatoes	196.1	Agro chemicals (all)	111.2
Cattle and Calves	145.4	Feedstuffs	121.6
Pigs	130.7	Machinery R&M	133.1
Sheep and Lambs	134.5	Building R&M	139.1
Milk	150.6	Veterinary services	117.1

This publication is funded by the Scottish Government as part of the SRDP Farm Advisory Service