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July 2017

News in brief

Brexit crops about to go in the ground

Farming is a business with long planning horizons and for this reason it is one of the first sectors to be impacted by Brexit. Cereal and oilseed crops sown this autumn are likely to be sold into a post-Brexit market place beyond March 2019. Livestock farmers putting cows to the bull this autumn and producers in many other sectors will soon face the very same situation.

The problem is nobody knows what to plan for. There is a growing concern that UK politicians seem to be lacking any sense of urgency to the point that the EU has had to helpfully remind our own politicians to get a move on. The loss of a Tory majority at the recent snap election appears to have put paid to the UK government's talk of "No deal is better than a bad deal". However we have yet to see a firm commitment to anything else. Although it may now be true that both parties want an agreement the chances of crashing out of the EU by accident also appear to be growing.

Farming businesses need to get on with making decisions now in the absence of hard information. More emphasis on long term supply agreements may be one way of reducing uncertainty for farmers and processors. For cereal growers some crop can now be sold into the post Brexit market providing some certainty. With less than two years to go it is essential that farmers work with others in the supply chain to develop longer term supply agreements that will provide some security in the absence of any from the politicians.

And finally….

Iain McGregor our potato industry specialist has now penned his last article for Agribusiness News. Thank you Iain for your excellent and insightful articles over the years and we hope you enjoy a long and active retirement.

Next month….

- Sector focus – heat pumps
- Brexit priorities

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This month's editor:
Julian Bell

Pesticide ban on EFAs

For the 2018 Basic Payment Scheme claim year, farmers will not be allowed to use Plant Protection Products on their Ecological Focus Areas (EFAs). Although the exact rules are yet to be set out by legislators, it does mean that pesticides will no longer be allowed on nitrogen-fixing crops, fallow, cover and catch crops that are counted as EFA.

The proposal to ban the use of pesticides in EFAs was initially tabled by the EU Commission as part of its plans to 'simplify' the greening rules. Despite efforts by many MEPs to block the new legislation, it just fell short of a majority. The 18 member states to oppose the pesticide ban were the UK, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Greece, Hungary, Ireland, Latvia, Lithuania, Luxembourg, Poland, Portugal, Romania, Slovenia and Sweden.

Following this ruling, many farmers will need to re think how they are going to meet next years EFA obligations. To aid this, further clarity on exactly how the rules will be implemented is essential.

Other changes to greening that were announced earlier this year by the EU Commission include introducing a 8 week period on catch crops. Further to this the Scottish Government plan to widen the list of EFA options i.e. permit hedges and agro-forestry to count, and merge the field margin and buffer strip options.

Just as farmers have got used to the current rules, further changes are now on the horizon!

Government's plans for next 2 years…

In her recent speech to the Commons Her Majesty The Queen set out the government's agenda for the coming session, outlining proposed policies and legislation to ensure the UK recognises and grasps the opportunities that will arise from Brexit.

Within the speech, plans for 27 new bills were announced, of which eight relate directly to Brexit and its implementation, the others focus on building a stronger economy. A summary about the Bills relating to Agriculture and Brexit are included in this article, further information can be found at: https://www.gov.uk/government/topical-events/queens-speech-2017.

Repeal Bill - aims to ensure a smooth and orderly transition as the UK leaves the EU by ensuring, wherever practical, the same rules and laws continue to apply. The Bill will also create temporary powers for Parliament that will enable changes to be made to laws that do not work, replicate the common UK frameworks created by EU law in UK law, and maintain the scope of devolved decision-making powers.

Agriculture Bill - in line with the Conservative manifesto, the Bill will ensure that after the UK leaves the EU there is an effective system in place to provide stability and support to farmers, whilst protecting the UK's natural environment for future generations.

Within the industry there are calls for the replacement to the Common Agricultural Policy to have a UK-wide framework thereby ensuring that the British market is not fragmented, but only as long as the views of the devolved nations are taken into account. Although the Repeal Bill has clearly stated it will ensure 'intensive discussion and consultation with the devolved administrations', time will only tell how this pans out.

Fisheries Bill - will enable the UK to exercise responsibility for access to fisheries and management of its waters, effectively allowing the UK to set their own fishing quotas.

Customs Bill - will ensure that the UK has a standalone UK customs regime whilst retaining flexibility to accommodate future trade agreements with the EU and others.

Trade Bill - will put in place the essential and necessary legislative framework to allow the UK to operate its own independent trade policy.

Immigration Bill - will permit for the repeal of EU law on immigration, primarily free movement that would otherwise be saved and converted into UK law by the Repeal Bill. This will allow new laws to be established, thereby controlling the number of people coming to the UK from the EU.

Recently, as part of her negotiations with the EU, Theresa May has proposed that a new immigration 'UK settled status' be created for EU citizens who have been living legally in the UK for at least five years. It is expected that those in this situation would get healthcare, education, benefits and pensions. As for the impact on seasonal workers who spend some of their time in the UK, we will have to wait and see.

Although details are currently light, as Brexit discussions with the EU progress, more details will inevitably be fleshed out.

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Global market on the cusp?

As the combines roll the market is now reacting to actual yields and quality results. In Europe, barley crops have been poor in Spain and average to ok in France and southern England. The crop condition of later harvested crops (such as spring wheat, maize and soya) is also being scrutinised. In the US heat and dryness is plaguing the spring wheat region in the north and there are concerns this may spread to the maize and soya belt where July and August will be critical.

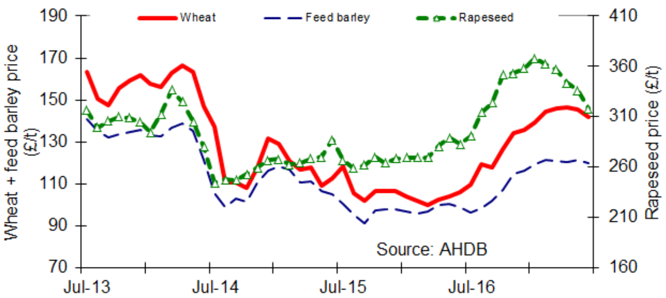
The USDA increased world grain ending stocks slightly (+2.5mt) to 482mt in their June report. When compared to usage global stocks-to-use ratios in 2017/18 are expected to drop 2% to 23.2% down from 25% in 2016/17 and the lowest in four years.

In Europe, farmer and co-operative association Copa-Cogega released their estimates for the EU harvest showing a 0.4% increase on last year to 298mt. Weather conditions in the EU have been better overall than in 2016 however there are problems in Spain and other regions with drought and high temperatures so no bumper crop is expected. If high temperatures persist then EU maize yields may be affected. EU oilseeds output is expected to rise 1.6%, with higher rapeseed output to over 21mt expected.

UK LIFFE wheat futures for November 2017 have risen £2.25/t in the last month to £149.40/t.

- Expected decline in world grain stocks to use ratio means markets remains very sensitive to crop reports and harvest results.
- Early harvest results in Europe are mixed, picture will not be clear for another 4 or 5 weeks.

UK spot ex-farm grain and oilseed prices



UK wheat stocks falling

In their latest release AHDB raised UK 2016/17 wheat ending stocks 112kt to 1.590mt due mainly to higher than expected imports; up 100kt to 1.7mt. These are also the opening stocks for the 2017/18 season and are 43% (or 1.2mt) lower than the 2.792mt that the UK opened 2016/17 with. With a slightly smaller wheat area and assuming similar yields to 2016 it is expected that the UK will have a much smaller exportable surplus of 0.7mt to 1.0.mt (compared to 1.59mt in 2016/17). Much depends on a continuation of current levels of ethanol production which have done much to increase UK wheat demand. If a smaller surplus is realised this will take the pressure off the UK market to remain competitive internationally and could on average lead to better relative prices. However, global factors and currency will continue to drive UK prices and the UK market will still periodically have to resort to export markets.

- Lower wheat opening stocks and similar sized wheat crop should cut the UK's exportable surplus in 2017/18.

Whisky exports up 10%

In the first quarter of 2017, exports of Scotch whisky rose 10% by value to £797m, an increase of £79m on the year before, according to the Scottish Government. In 2016, Scotch whisky exports grew by 4% to break the £4Bn level. The weakness of sterling is helping boost whisky exports. With the uncertainty caused by Brexit showing no signs of abating a weak sterling may well continue to support whisky exports in the near term. World economic growth is also set to increase in 2017 further boosting demand for whisky. In which case demand for malting barley may rise this harvest. Longer term prospects will depend at least partly on the nature of the Brexit deal agreed with the EU.

- Weak sterling and strong global economic growth are boosting Scotch whisky exports.
- Scotch whisky production and barley purchases are expected to increase this harvest, potentially supporting malting premiums come harvest.

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Indicative grain prices week ending 30 June 2017 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	Jul 17	Hvst 2017	Nov 2017	May 2018	Nov 2018
Wheat	Ex-farm Scotland	145.50	143.80	145.00	154.00	143.50~
Feed barley	Ex-farm Scotland	120.00	116.00	120.00	129.00	118.00~
Malting barley#	Ex-farm England	-	145.00	150.00	-	150.00
Oilseed rape*	Delivered Scotland	-	301.00	310.00~	316.00~	300.00~

Supply needed to meet demand

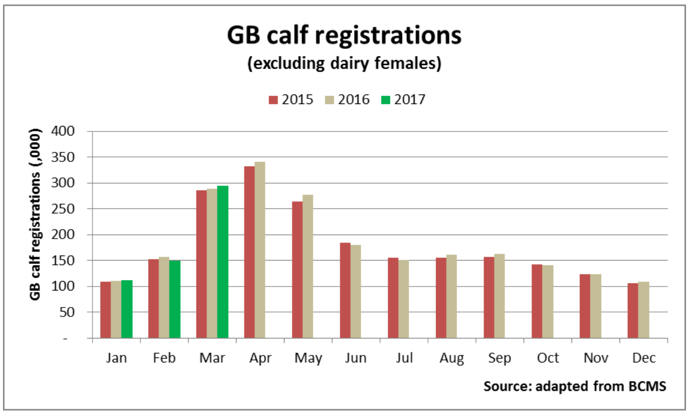
Finished cattle prices remain strong at around 386p/kg dwt across Scotland by week ending 23 June, which will be around £1,450 – 1,500/hd. This is 40p/kg dwt (circa £150/hd) higher on the year. Scheme cattle are also performing very well with Aberdeen Angus up to around 405p/kg dwt.

The expectation is for price to stand-on or even improve slightly but this largely depends on the strength of demand – either for the retailer to absorb or for the consumer to accept a small increase in cost before turning to other proteins.

- The producer share of the carcase retail price is currently around 51%. That is 4% higher than the May average over the last three years.

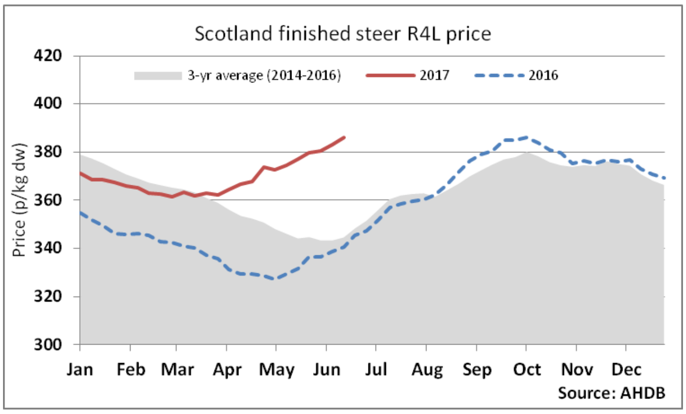
Finishers margins will be much improved just now. Cattle were bought at a slight discount in autumn, knowing the spring prime cattle price has been poor for three consecutive years. That clearly did not happen this year, thanks to domestic demand – much needed after recent years difficult trading.

Why the shortage?



- Calf births across Scotland and GB are only down marginally on the same point last year.

Overall birth registrations have been on a year on year rise since 2013, therefore availability of prime cattle is high. However, imports are 2% lower for the first quarter of this year. Furthermore, average carcase weights are 4kg lower for the same period.



- While the trend demands a reduction in carcase weight, do not be complacent when selecting cattle for sale. The national dataset may show a reduction but this includes more beef from the dairy herd coming through the system just now.

Domestic volume of cull cow beef is reducing but numbers were actually slightly higher for the first quarter of the year. Counter intuitively, considering the competitive exchange rate with the euro, exports actually reduced 15% for the first quarter.

Fortunately, there is strong domestic demand encouraged by (what has been) an excellent early summer for BBQ's. The price may soften slightly as the balance of supply increases slightly when more grass-finished cattle come online but there is confidence that strong prices can be sustained.

More expensive cereals

Every expectation is that cereals will be more expensive this autumn. The cost of feed barley has been up to £145/t delivered recently. This will add to the cost of finishing cattle this winter, therefore, it is important to make the most of growing good quality grass leading into the latter half of the summer. Growing cattle have benefited from excellent conditions so far but average summer daily liveweight gain can be quickly reduced if left on stale, headed, grazings.

On the plus side, higher cereal prices could make poultry slightly less competitive against beef rump mince on the retail shelf this winter.

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Prime cattle prices (p/kg dwt) (Source: drawn from AHDB data)

	E&W			Scotland			E&W		Scotland
	South R4L Steers	North R4L Steers	North -U3L Y. Bull	R4L Steers	R4L Heifer	-U3L Y. Bull	South -U4L Steers	North -U4L Steers	All -U4L Steers
3 June	362.7	368.3	355.6	380.5	378.5	373.4	365.7	362.6	378.4
10 June	369.6	366.8	355.7	383.1	384.2	374.4	368.9	366.2	380.0
17 June	367.5	373.3	358.0	386.0	384.9	377.2	372.2	369.4	379.3

Market summary

- For the w/k ending 16 June the AHDB's Weekly Average GB price for all ware potatoes was unchanged at £198.84/t. The Weekly Average Free-buy price (excluding forward contract material) was also unchanged at £206.67/t.

Crop development ideal

An excellent start has been made to the season from the point of trouble-free planting to crops emerging early and the prospect of higher yields.

The weather in June has also been ideal for growth with crops now making good progress following the driest spring since 2011. Warm, humid weather with sunny spells and showers have prevailed with blight spraying taking place on earlier planted crops. In Ayrshire lifting of Epicure and Casablanca continues with some Vivaldi and Maris Peer being harvested as well. Salad crops including Maris Peer have been burned down in preparation for lifting. Forward crops of Maris Piper are in flower and roguing has now started on some seed crops.

Movement light

For those growers and merchants that held on to stocks in the hope of better prices as the season ended there will be disappointment. As the graph across the page illustrates, there has been a steady drop in free-market prices since early March and there is a feeling that the drop in price may reflect the prospect of an over supplied market in 2017.

In the Scottish packing sector free-buy movement is light with stocks of old crop material now low. Some Charlotte salads are trading at £340/t. Grade 1 Maris Piper is trading within the £170-£200/t price range although quality and supply are reported to be variable. Grade 1 whites including Estima, Cultra, Osprey and Saxon are trading around the £170/t mark but with little free-buy stocks available.

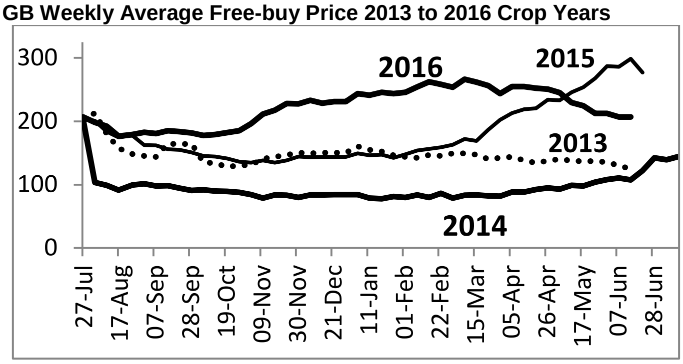
In the bag market, there is light movement for chipping. This includes Wilja, Maris Piper and Estima all within the £140-£180/t price range. New crop Ayrshire Epicure is moving mainly to local outlets at £400-£750/t with Casablanca trading around the £150-£160/t mark ex farm.

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

Crop Year	16 Jun	9 Jun	2 Jun	26 May
All potatoes 2016	198.84	NA	202.91	206.84
All potatoes 2015	258.15	249.88	239.66	225.01
Free-buy 2016	206.67	NA	212.63	224.46
Free-buy 2015	286.05	287.08	268.07	253.62

Source: AHDB

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



Source: AHDB

GB planting up 4% on 2016

AHDB Potatoes estimates the total GB planted area this season is 121,000 hectares. This is up by 4% on the previous year, the same as 2014 and at a similar level to the area planted in 2012 and 2013. The increase in area in GB matches similar estimates from northern Europe. The North-west European Potato Growers (NEPG), which covers Belgium, the Netherlands, Germany, France and the UK, currently estimates a combined increase of 3.6%. Clearly final production figures will depend on the average yield of potatoes per hectare. Using a five-year average yield of 44.7t/ha would see a production increase of 4%. This average includes 2012, which was an extremely low yielding year due to poor weather. If the low production year of 2012 is excluded from the average it becomes a 46.7t/ha, harvest and at that rate would result in an 8% increase in potatoes on the market compared to the 2016/17 season.

The average price (contract and free-buy) for potatoes, in the 2013 and 2014 seasons, which each had similar planted areas to the 2017 estimate, was £154/t and £127/t respectively. It is early days and there is still much growing time ahead hence the figures are speculative. Weather can change dramatically and harvest can either be straight-forward or problematic so look out for further up-dates to follow.

Thank you and farewell

I have had an interest in potatoes since roguing (Up-To-Dates in Aberdeenshire) and inspecting potatoes as a student and that was not yesterday! I have enjoyed maintaining my interest in this vibrant industry and contributing to the Agribusiness News over the years but the time has come to hand the baton on as I retire from SRUC. I wish the industry well and have every confidence that it will remain a strong and dynamic part of Scotland's agri-food sector in the future.

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Exceptional lamb price rise

Early lambers' were recommended to keep lambs moving to benefit from a strong forecasted trade but this has been an exceptional start by anyone's standard. The new season lamb (NSL) trade roared into life by the third week in May and rose to a peak of around 515p/kg dwt within the first 10 days of June. Hot demand for lambs saw even higher prices in local auction markets as agents scrabbled to fill orders. The liveweight trade peaked at around 250p/kg, which was an astonishing 50p/kg lwt (25%) higher than the same (albeit poor) point last year. The result was that lambs reached £100/hd, with a few headliners going past £115 or £15-20/hd better on the year – the reason it climbed so high was because there were few lambs to sell and benefit from such prices.

A high national average price extending into June has only happened once before, 2014 – which, incidentally, was an excellent trading year.

This was the culmination of demand from Ramadan coinciding with the seasonal gap in supply between new and old season lamb – accentuated by a slow start to spring sales.

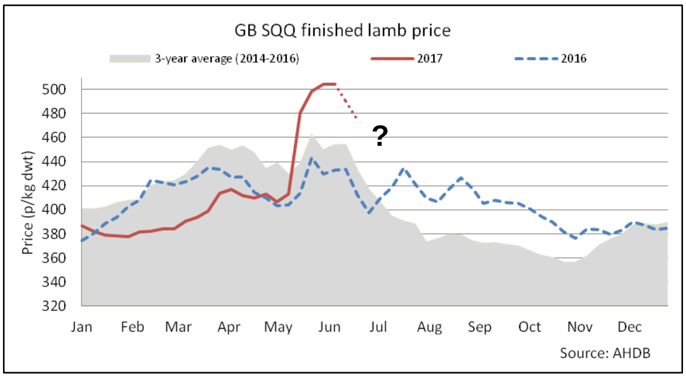
- It was a dry but slow spring – particularly if exposed to easterly winds – but are we also now seeing a slight shift towards later lambing, to better coincide with grass growth, after a series of late, cold or wet springs?

That slow start to NSL sales has, however, now been corrected as producers drew lambs to lighter weights to benefit from these high prices.

A strong lamb trade has been reflected in the cull ewe market with heavy ewes reaching £130/hd. The average cull price increased to £70/hd and marginally higher on the year. Even the last remaining heavy hoggets have excelled.

What goes up must come down

At the time of writing, the observation of Ramadan was about to end with the festival of Eid al-Fitr on 25 June. Demand will now reduce and prices ease. Early mart reports for week commencing 19 June saw prices down from 250 to nearer 230p/kg lwt.



While the price might be returning to a more typical level for the time of year, it still presents a window to achieve a higher price for a few lambs.

Certainly at a Scottish level, throughput tends to slow again during the Royal Highland Show week.

Still a year to get lambs away early

Hopefully, retail lamb sales benefits from a good BBQ season. However, the next major period of demand is Eid al-Adha on 1st September (procurement from mid-August). This is before the peak in lamb supply, typically October/November. August lamb sales should benefit from this market.

Eid is also a target market for cull ewes. Again, as the festival is earlier this year, it is before most producers have weaned and drawn-out cull ewes. It is therefore worth considering identifying culls for sale early. Many ewes are in good fettle and may not need much recovery time to get into saleable condition.

There are likely to be more lambs on the ground (across the UK this year), therefore, more sold early will also take some pressure off main season sales.

Making good even better

The exchange rate favours exports and there is also a likelihood of reduced imports meaning the trade outlook is favourable. The comments above are about making the prospect of a good year just that bit better.

Note that an additional 10p/kg lwt on the prime lamb sale price could increase the gross margin of an upland ewe by over £5 per ewe.

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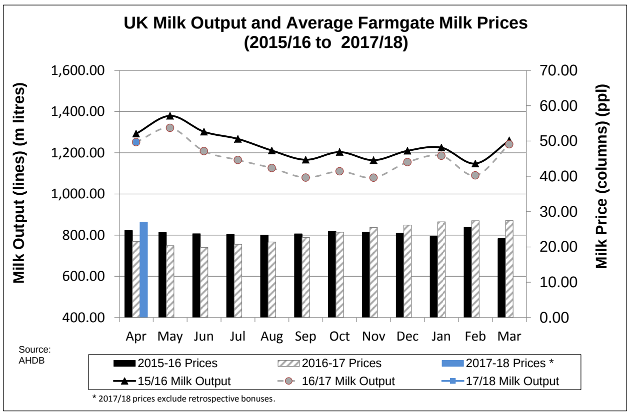
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
3 June	504.2	504.3	495.4	238.80	241.50	232.40	67.27	66.34
10 June	504.8	504.0	496.6	241.90	251.60	243.60	70.94	67.70
17 June	509.5	509.4	500.9	236.80	243.40	236.00	71.97	72.51

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

Low spring output impacting on prices

DEFRA figures for UK milk production during April 2017 are estimated at 1,251.12m litres (before butterfat adjustment). Milk output for April 2017 was only 0.21m litres below April 2016 production and this suggests that UK output remains well below full capacity, owing to the lack of any clear production stimulus within the market.

Although the UK average price level dropped slightly between March and April, UK farm-gate milk prices remain buoyant with the chart below showing the average price for April 2017 estimated at 27.03ppl (before addition of retrospective bonuses). This represents an increase of 5.46ppl on the average price for April 2016 (21.57ppl).



- *UK milk prices averaged 27.03ppl during April 2017 – up 5.46ppl on April last year.*
- *Spring milk production in 2017 was tight and this, coupled with rising commodity prices, is likely to impact positively upon UK farm-gate prices in the months ahead.*

World milk supply update

EU milk production for 2016-17 milk year has been finalised at 147,169m litres which is 2,583m litres down on the 2015-16 total (149,752m litres) - confirming that supplies are tight on the continent as well as within the domestic market. However, improved price prospects has brought about something of a turnaround during April 2017, as milk production for the EU-28 has increased to 13,154m litres from the April 2016 figure of 13,137m litres.

It's a similar story in New Zealand where cumulative milk production for the current year (June '16 to May '17) is running behind last year's level of output. Cumulative production for the first eleven months of the year (June '16 to April '17, inclusive), stands at 19,931m litres compared against an eleven month total for June '15 to April '16 of 20,146m litres – this reflects a drop of 215m litres. It should be noted, however, that New Zealand milk production has increased considerably during recent months, with monthly production totals for March and April 2017 being 155m litres and 84m litres higher than the same months in 2016.

The USA finished the 2016/17 milk year with a cumulative total of 93,819m litres – one of its highest production years on record. Production for the first month of the current year (April 2017) is off to a flying start with 8,064m litres output recorded.

Latest milk prices – July 2017

Price announcements for July 2017 include:

- Arla Foods – will increase on-account member milk price from 1st July 2017. Milk price will increase by 1.38ppl to 28.03ppl (liquid standard litre) or by 1.44ppl to 29.17ppl (manufacturing standard litre – 4.2% b/f, 3.3% protein).
- Müller M&I – The retailer supplement for May 2017 is confirmed at 0.275ppl for non-aligned suppliers.
- First Milk – FM price changes from 1st June 2017 are summarised as follows:
  - Mainland Scotland – reduction of 0.35ppl taking the standard litre price down from 25.84ppl to 25.49ppl (see table below).
  - Lake District – reduction of 0.28ppl taking the standard litre price down from 26.76ppl to 26.48ppl.

Annual Average milk price estimates for July 2017 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Balancing- A price (90% of production). [1,2]	25.49
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1, 2]	26.48
Müller Wiseman- M&I - Müller Milk Group [1, 3]	26.19

[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] *June 2017 prices stated. July 2017 prices awaiting release.*
[3] *No monthly supplementary payment included in the price estimate.*

Demand for fats helps lift butter price

May 2017 has seen unprecedented demand for fats which has triggered substantial price increases for both cream and butter within the domestic market. UK butter prices are now at their highest level on record at £4,300/t. Based on these elevated price levels, AMPE jumped to 30.99ppl for May 2017.

UK dairy commodity prices (£/ tonne)	May 2017	Apr 2017	Dec 2016
Butter	4,300	3,725	3,700
SMP	1,550	1,500	1,850
Bulk Cream	1,960	1,730	1,800
UK milk price equivalents (ppl)	**May 2017**	**Apr 2017**	**Dec 2016**
AMPE (2014)	30.99	27.67	30.97
MCVE (2014)	33.30	31.79	33.54

Source: AHDB

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Sector Focus: Autumn Cropping

Autumn cropping for harvest 2018

Cereal crops sown this autumn may end up being marketed in a post-Brexit market environment beyond March 2019. Forward grain prices for harvest 2018 are higher than last year and variable costs are little changed meaning a decent potential rise in forward gross margins for autumn sown crops compared to a year ago. Crop prices could change quickly so longer term objectives such as lengthening rotations, improving soil health, minimising costs, retaining flexibility in marketing and meeting CAP greening should be considered.

Input costs

Fertiliser prices are slightly higher than levels seen this time last year for example; ammonium nitrate is at £180/t compared to £175/t this time a year ago. Seed prices are expected higher due to the higher base for cereals.

Grain price & margins for harvest 2018

Forward grain prices for the harvest 2018 are at very similar levels to those for the forthcoming harvest 2017. LIFFE wheat futures for November 2018 are currently £153/t versus £153.50/t for November 2017. Forward grain prices for 2018 are £20/t higher than equivalent futures at the same time last year. Variable costs are little changed from a year ago. The net effects is a strong increase in estimated gross margins for cereals of between +£58/ha (winter feed barley) and +£197/ha (first wheat). Oilseed rape and winter beans are also both expected to see a strong rise in gross margin. In most cases it is the increase in forward prices compared to a year ago that is boosting forward gross margins so much. Actual gross margins will be determined by weather, yield, quality and price.

Milling wheat – Soft wheat varieties Group 3 and 4 perform well under Scottish conditions meeting the needs of both the milling and distilling sectors.

Barley – Winter malting barley remains a small market in Scotland so high yielding/low input feed varieties remain the main focus.

Oilseed rape – Oilseed rape prices have fluctuated wildly but recent price rises make the crop more attractive.

Winter beans – Markets are small and erratic in Scotland. Some compounders use them otherwise they will trade farm-to-farm for cattle feed.

Whatever the crop selling a safe proportion of the 2018 harvest crop before or as it is going in the ground helps justify the planting decision.

Notes on CAP greening

The EU has proposed a number of changes to Greening rules for the 2018 harvest year. These changes include; banning the use of pesticides from nitrogen fixing crops under EFA. Confirmation of these rule changes is not expected until winter of 2017/18, too late to plan autumn sowings. The up shot is that farmers should not rely on nitrogen fixing crops or catch crops to meet their 2018 EFA requirements. More details on Scottish Government's web site.

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£ per ha	Winter wheat - 1st	Winter wheat - 2nd	Winter barley - malting	Winter barley - feed	Winter oats - milling	Winter rape	Winter beans
Grain price **(£/t)**	150	150	143	120	153	317	180
Yield **(t/ha)**	10	8	8	8	6	4	5
Straw	130	130	168	168	224	0	0
Output	**1630**	**1330**	**1241**	**1068**	**1203**	**1268**	**900**
Seed	85	85	80	80	74	50	105
Fertiliser	186	186	175	175	134	155	42
Sprays	135	135	120	120	85	140	125
Other	13	13	14	14	16	28	40
Drying	60	48	30	30	38	12	30
Variable costs	**479**	**467**	**420**	**420**	**347**	**384**	**342**
2018 Gross Margin	**1151**	**863**	**821**	**648**	**856**	**884**	**558**
2017 Gross Margin	*954*	*700*	*673*	*590*	*734*	*718*	*356*
Change	*+197*	*+163*	*+148*	*+58*	*+122*	*+166*	*+202*

Management Matters: Modern Apprentices

The growing need for trained staff

With an aging profile in the agricultural industry and a lack of new entrants into the industry finding suitable staff for your business can often be a challenge with experienced labour highly sought after. Hiring someone with a non-agricultural background or little experience can often be perceived as a risk with a high requirement for training.

Turning to overseas EU staff with suitable experience has been a path increasingly followed by many farm businesses in recent years. However, given the uncertainty over future freedom of movement arrangements between the UK and the EU following Brexit, now is a good time to understand and develop alternative routes to filling staff requirements.

To plug the skills gap many industries have turned to Modern Apprenticeships (MA's) as a way of training and developing the next generation of workers themselves. There is now a potentially growing role for agricultural business to use this programme to train staff

Modern Apprenticeships

A Modern Apprenticeship (MA) works as a partnership between trainees, employers and a training provider (like SRUC). The apprenticeship provides a mix of practical work and classroom based learning to equip the trainee with the skills required for employment in the agricultural industry.

MA's are ordinarily full time positions which are usually undertaken by people between 16 and 24 years of age though a small number are available for those over this age bracket. As a business you can choose to put an existing member of staff through a Modern Apprenticeship or you can recruit a new employee as a Modern Apprentice.

A Modern Apprenticeship provides practical on farm learning working alongside experienced staff members. Most of the trainee's time will be spent at the workplace though some of the training may take place within a classroom environment at the selected college.

The Modern apprenticeship combines a competence based Scottish Vocational Qualification (SVQ) with cores skills such as team working, communication and numeracy. Additional qualifications such as sprayer or first aid certificates can also be included to tailor to the role.

Apprentices are entitled to the same benefits as any other employee with wage, holidays, overtime and sick leave. Minimum wage for an apprentice varies, however, at £4.40/hour for the first 12 months compared to £7.50/hour* for general workers. Following the first 12 months minimum wage rises in line to £7.50/hour. On completion of a qualification to SVQ level 3 or above or an apprenticeship certificate, apprentices are entitled to a minimum additional £1.14/hour over and above the minimum agricultural wage.

Skills Development Scotland normally make a financial contribution towards training costs though in some cases either the trainee or employer may also be asked to contribute. The training provider can help complete the necessary paperwork as well as applying for funding.

Other incentives which may be available to business' taking on an apprentice include £2,000 towards wage and recruitment cost if you can take on an apprentice who has been made redundant in a previous role or £4,000 if you can take on an apprentice who has faced significant barriers to employment. There may be additional local funding available in your area towards training costs for Modern Apprentices. You can search for these at; www.ourskillsforce.co.uk

Next steps

If you are interested in taking on a modern apprentice you should first contact a training provider (such as SRUC), who can talk you through the process.

More information can be found at Lantra; www.lantra.co.uk/scotland/modern-apprenticeships or at www.apprenticeships.scot

Note - * minimum wage values taken from the Scottish Agricultural Workers Board 2017 http://www.gov.scot/Topics/farmingrural/Rural/business/18107

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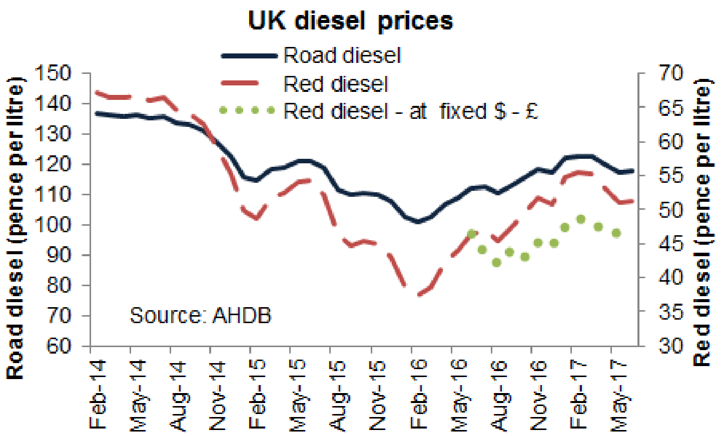
Crude oil prices stable despite OPEC and Russian production cuts

On the world market, crude oil prices in dollars are almost unchanged in the last year at $45.21/barrel in June 2017 compared to $45.84/barrel in June 2016. This comparison hides some fluctuations month to month but overall crude oil prices have been pretty stable and well down on the highs seen in 2014. This stability comes despite OPEC and Russia agreeing to cut production. So far it appears that any oil price rise that results from lower production simply encourages increased output from US shale oil producers. In the UK fuel prices in pounds have risen due to the weakness of sterling (see below).

UK red diesel and road fuel prices up 5ppl – Red diesel prices in the UK have risen 10% or 5ppl to 51ppl in the year to June 2017. Almost all of this increase can be attributable to the weakness of sterling following the Brexit vote as global values in dollar terms are almost unchanged (see comparison with red-diesel at an exchange rated fixed $ - £ in June 2016). Road diesel prices have also risen and are also up 5ppl to 117.86ppl in June 2017 compared to 111.76ppl in June 2016.



Assuming average red diesel usage of 150l/ha on cereal farms the 5ppl price rise in the last year has added costs of £7.50/ha or £1/t of grain at 7.5t/ha average yields. On intensive potato and vegetable units where diesel use could be 3 to 4 times higher, these price rises will be more like a £20/ha to £30/ha increase. Whilst noticeable these increases are less than the rises seen in grain and potato prices seen in the last year and not a major threat to profitability.

Longer-term oil price projections – Traditionally several years of low oil prices would lead to lower oil output as fewer exploratory wells were drilled and a rise in demand as buyers responded to lower prices. This would then be followed by a price rebound. So far however any rise in oil prices has been met by a recovery in production, particularly of US shale oil where producers have learned to cut costs quickly. The uptake of more efficient vehicles is also slowing demand growth while electric car use is now growing, albeit from a low base. Improvements in technology are lowering the costs of oil extraction as well as lowering the costs of alternatives (efficiency, batteries and renewables). Major oil companies expect world oil demand will peak within 15 to 25 years. Middle Eastern countries sitting on 100 years of oil reserves may keep pumping when prices are low to raise cash now as longer term oil could ultimately be worth even less. While a rebound in the price of oil remains a possibility, technology appears to be reducing the risks and severity of any oil price rebound that may occur.

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Key economic data

General Indicators		Price indices for April 2017 (Defra 2010 = 100)			
		Output Prices		**Input Prices**	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	121.0	Seeds (all)	100.1
		Barley	121.2	Energy	103.3
ECB interest rate	0.00% (0.05% Mar '16)	Oats	136.6	Fertiliser	92.7
UK (CPI) inflation rate	2.9% (target 2%)	Potatoes (Main Crop)	164.8	Agro-chemicals (all)	106.3
		Cattle and Calves	125.1	Feedstuffs	113.4
UK GDP growth rate	0.2% (Q1 '17)	Pigs	109.3	Machinery R&M	114.0
		Sheep and Lambs	107.5	Building R&M	114.3
FTSE 100	7,347 (6 July '17)	Milk	109.6	Veterinary services	108.4

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