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June 2023

News in brief

Competing land use goals high on agenda

May saw the EU vote against a proposed nature restoration law, due to the "lack of clarity on the potential impact of the proposed regulation on farmland and production". As nature-based targets become a part of mainstream agricultural debates, this signals that though there is existing action and indeed willingness to further incorporate nature restoration into agriculture, greater detail on how this may impact production and be compensated for is needed to reach agreements to benefit all stakeholders. This month's article on biodiversity explores options for biodiversity land use on farms.

A recent report published by SRUC highlights the challenges to rural land use of meeting multiple targets of carbon sequestration, nature diversity, and rural economic (e.g. farming) support, as well as evidence on the impact of investments on rural land prices and their unintended consequences. Expansion of specialist expertise in this area, as well as boost to the rural land fund to support community ownership of rural land, reflect competition for land as a major and growing concern in industry and policy.

In economic news, fresh food inflation has reduced slightly, although a further interest rate rise in expected, to be announced on 22nd June. While slowing of food inflation has helped the pound reach it highest value to the Euro in 6 months (beating predictions in January), its current strength is as much to do with weakening Euro linked to the German recession.

Key upcoming events:

- The National Beef Association's Scottish Beef Event – Tuesday 6th June, Dalswinton, Auldgirth, Dumfries and Galloway.
- National Sheep Association's North Sheep Event – Wednesday 7th June, Bradford House Farm, Ponteland, Northumberland.

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Anna Sellars

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- All about the bees

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Seasonal Workers

The UK Government has announced plans to allow more seasonal workers into the UK. An extra 10,000 visas will be made available for the agricultural sector, on top of the current allocation of 45,000. However, as part of the overall policy of reducing net immigration, the UK Government is keen for UK workers to be trained, despite limited interest for this type of work during the Covid pandemic when many peopled were furloughed.

Moveable Transaction (Scotland) Bill

Under the new Moveable Transactions (Scotland) Bill, businesses will be able to borrow more easily against assets such as vehicles and goods including whisky stores, and to borrow against intellectual property such as trademarks and patents. The aim of the Bill is to bring benefits to all Scottish businesses, no matter their size or profile.

Under Part 1 of the Bill, the law will be reformed in relation to the assignation of debt. A new Register of Assignations will be introduced which will provide an alternative to intimation as a means of assigning debt. Part 2 of the Bill deals with security over moveable property; paving the way for moveable property to be offered as security against loans/mortgages.

Food Security Unit

Following the recommendation of the Short-life Food Security and Supply Taskforce, the Scottish Government is setting up a new Food Security Unit. The new unit's remit is to monitor the food supply chain to build resilience in the wake of Brexit, Covid and the ongoing war in Ukraine. The overarching aim is to anticipate shocks and where possible, to develop policies to reduce their likelihood or mitigate their effects.

National Insurance Contributions

As a result of increases in life expectancy, the current State Pension Age (SPA) of 66 years will rise to 67 between 2026 and 2028. To be eligible for the current full state Pension of £203.85 per week, you need ~35 qualifying years.

The National Insurance checker on the UK Government website (www.gov.uk/check-national-insurance-record) will tell you if you have any gaps, whether you can pay voluntary contributions and how much this will cost. Equally, if you think there are any errors in your national insurance record, contact HMRC well before the deadline of the 31st of July 2023 to allow for any errors in your record to be rectified.

Affordable Housing Supply Programme

Up to £25 million is being made available from 2023-2028 to help councils identify affordable homes for key workers in rural communities. The five year initiative, set out in the Scottish Government's priorities for the next three years, will enable local authorities and registered social landlords to acquire or lease underused or empty properties which can then be used to provide homes to meet the needs of their communities.

June Census 2023

Following a pause last year, the June Agricultural Census will be live online from the 1st of June.

In order to help support more informed decision making around farming, the Scottish Government have been making changes to the format of the June Census.

In addition to the Census being accessible online, instead of answering many questions on land use, farmers and crofters will just be asked to provide summary figures. In addition, in an effort to ensure that the census data reflects farming in Scotland today, a new section will be introduced to allow tailored questions relating to current and developing topics, e.g. tillage and manure management.

Completing the census is a legal requirement under the Agriculture (Retained EU Law and Data) (Scotland) Act 2020. The census can be accessed at: https://account.ruralpayments.org/publicsite/login

If you are not already registered, you can register for an online account at:
https://account.ruralpayments.org/publicsite/futures/register/

All sections should be completed based on information relevant to the business on the 1st of June 2023 unless otherwise directed.

Further guidance on completed the June 2023 census can be found here: https://www.gov.scot/publications/scottish-agricultural-census-how-to-guide/

Key dates

Date	Action
1 June 23	June Census 2023 opens online.
7 June 23	AECS – application deadline for Organic Conversion and Maintenance.
7 June 23	AECS – application deadline for 2023 Agri-Environment plans.

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No current incentive to sell

Markets continue their downward trajectory post extension of the Black Sea export corridor to mid-July. For a brief period leading up to the extension, markets priced in the risk of non-renewal. It was short-lived however, with sentiment soon returning to one of unrestricted global supply of cheap wheat, with Russia and Ukraine being aggressive sellers of cheap grain and the market remains anchored by big corn crops across the world. It could be argued that traders are currently ignoring the longer-term Black Sea risk. Were Ukraine to strike Crimea for example, geopolitics and war could still impact markets again.

The market continues to expect record supplies going forward; 2022/23 ending stocks are massive in many regions and the recent USDA Supply and Demand report is expecting a strong restocking season in 2023/2. This highlights the importance of Australia, Brazil and Russia as having record volumes and cheap surpluses of wheat.

South America, in its totality, is developing into a powerhouse regarding maize export capability for 2023/24, anticipated to be in the region of 95Mt and priced to undercut most other origins for both wheat and maize around the world. Markets will be looking ahead to the size of the Brazilian Safrinha maize crop (forming its yield now), plus US maize and soyabean crops. These are expected to be very large crops too, but the critical window for US yield formation is still ahead of us in July and August.

UK Position

A large carryout is expected here in the UK. Export business is stagnating, late season domestic demand sporadic and the 2023 new wheat crop expectation is currently falling within the 15.7 to 16.2Mt range which would give a very large exportable surplus for 2023/24.

Old crop malting barley markets are disappointing as buyers are all covered. Ex-farm new crop sales remain slow as domestic consumers remain uninterested. New crop feed barley is equally inactive, and prices continue to fall in line with wheat futures.

China may lift the import tariff sanctions they placed on Australian barley back in 2020. Whilst France previously filled this gap in supplying China, not having this market going forward is likely to impact on the UK's malting barley export competitiveness.

UK oilseed rape values are currently at half of their level a year ago. An expansion in oilseed rape area (Europe's planted oilseed area has increased by 7%) and a lower-than-average commitment to forward contracts, plus large EU opening stocks and a high yield expectation for this year's harvest are pressurising prices.

If there can be any consolation at all, one could consider the new season N prices (at time of writing, £330/t for 34.5%N) a step in the right direction. Grain marketing currently appears to favour the long holder.

Wider Oilseed Complex

Concurrently, US Soyabean plantings are progressing a pace and ahead of the 5-year average.

As planting continues, the record crop estimated at 122.7Mt becomes increasingly likely. This will have the potential to continue weighing on oilseed markets towards the end of 2023, which inherently will feed into rapeseed prices too.

Concerns have also been raised this week by the oilseed crushers European organisation FEDIOL, that huge volumes of biodiesel imported as 'of waste origin' has had an unprecedented bearish impact on rapeseed markets, a downward trend that could not be explained by other market developments. Calling for proof of legitimacy of these imports, FEDIOL illustrated that prices paid to farmers for new crop rapeseed, based on August 2023 Euronext prices, have gone down from about €600/tonne in early Jan 2023, to just over €400 by mid-May.

On the upside this week, rapeseed futures followed gains in the wider vegetable oils complex with the news that India's palm oil imports are expected to fall to their lowest in 27 months and will be replaced by soya oil and sunflower oil.

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Indicative grain prices week ending 27th May 2023 (Source: SAC/ADM/AHDB)

£ per tonne	Basis	May'23	**Harvest'23**	**Nov'23**
Wheat	Ex farm Scotland	172	172	189
Feed Barley	Ex farm Scotland	155	155	169
Malt. dist. Barley	Ex farm Scotland			
Oilseed Rape	Delivered Dundee	345	370	377

Beef price steadies

The Scottish finished beef price has steadied in May to 511p/kg deadweight, whilst prices have started to drop slightly south of the border and ROI prices are significantly less than Scotland at around 460p/kg. Numbers available in Scotland have been tighter this spring partly due to the numbers of store cattle that went south last year and the ongoing beef cow herd reduction.

Processors will be glad to see the young bulls coming onstream now which will help lift numbers over the next couple of months, whilst steer and heifer availability looks to remain tight.

Traditionally, prime cattle availability drops in the summer months, with a lift in the beef price usually seen August and September when numbers are especially tight. With the current record high beef price, it is an unknown how much it can or will rise over the summer.

With expensive store cattle bought this spring and fed on higher priced cereals over the last few months, it may be difficult for these cattle to leave much of a margin, with some finishers needing 540p/kg to breakeven. They will be hopeful of a price lift during the summer.

With the big spring store cattle sales now behind us, numbers are dropping at weekly sales with less short keep cattle available. Recent grass growth has improved the demand for grazing types.

Cull cows

Cull cow prices remain high at around 440p/kg for R4L cows (making prime cattle look cheap!). However, numbers available will fall in line with seasonal trends but demand looks to remain high as we move into BBQ season.

Optimism returns to breeding herds?

The returns some breeders have received for their calf crops this spring should have put a bit of enthusiasm back into the breeding job, even with the higher input costs experienced last winter.

Thankfully, both cereal and fertiliser prices have fallen this spring and cattle prices have remained high which should provide more optimism for the sector.

Breeding cattle sales throughout May have shown a strong demand for replacements with large price increases on the year, especially for heifers with calves at foot. This is unsurprising considering the value of cull cows and those keen on keeping cows are willing to reinvest considerably in what they want.

Future food supplies

The UK farm to fork summit held at Downing Street in mid-May was an opportunity for the Government to show that they took the food industry and farming seriously and that after recent food shortages in supermarkets there is a need to focus on the importance of domestic production to ensure a sustainable supply of food. It will be interesting to see what, if any, measures are put in place to assist food producers with this.

New importation rules for all meats and cheeses come into force in November 2023 which require vet approvals on all imports which will increase the costs on these products and so may reduce the levels of imports.

Focusing on Sustainability - Events

Scottish Beef Association – 6th June

Scotland's Beef Event 2023 will be hosted by the Landale Family, Dalswinton Estate, Dumfries, DG2 0XZ. Schedule of Events here.

Chewing the cud on cows and carbon - 15th June

Funded by the University Innovation Fund, SAC consulting is organising a technical beef day at Upper Raddery Farm, Fortrose by kind permission of Andrew and Mary-Jo Grant. To book a space call SAC Consulting Elgin office 01343 548787.

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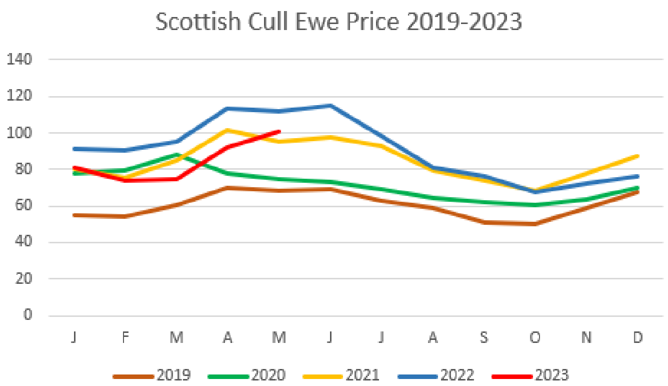
Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB and IAAS data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bulls - U3L		Cull cows	
		Change on week	Diff over North Eng.		Change on week	Diff over North Eng.		Diff over North Eng.	R4L	-O3L
06-May-23	**507.7**	3.3	7.0	**508.2**	2.8	2.8	502.2	5.5	441.4	413.8
13-May-23	**509.3**	1.6	9.0	**511.8**	3.6	5.9	505.5	4.6	444.0	408.5
20-May-23	**511.8**	2.5	7.0	**513.4**	1.6	11.1	505.7	2.9	441.0	412.4

All Classes Trading Fantastic

The trade for all classes of sheep is currently exceptional, with new season lambs starting to come forward while there is still demand for well fleshed hoggs. However, there are many leaner unfinished types being marketed to offload them from holdings.

Culls ewes have seen week on week rises for the last number of months, which is demonstrated below.



Consumer Easter behaviour

Consumer trends and habitats have now been issued for April, which makes interesting reading for any sheep producer. In the two weeks before Easter, 9.7 million kg of roasting joints were sold in the UK, showing a year-on-year increase of 6%. The most popular roasting joint was lamb, which saw a 25.5% rise on the year, while pork and beef saw decreases on the year. 63% of the lamb sold in this period was leg roast which is priced at an average of £11.64/kg compared to beef roast at £10.02/kg.

This increase demand for lamb may have been due to both Easter and Ramadan/Eid being held at similar times. In addition to which, supermarkets were promoting lamb heavily over the Easter period, as well as the weather leaning people more towards an indoor roast than an outdoor gathering. It may also be that more people are choosing to celebrate Easter, which may be proven by five million extra easter eggs being bought this year in the week before Easter than last year, making 38 million eggs traded the week before Easter (Source: Kantar).

Exports and imports

The export data for the first quarter of 2023 is now available with imports to the UK being back 33% on the year, with meat from NZ reducing substantially while they target markets closer to home. The three top imports were frozen legs, frozen boneless lamb, and fresh legs. This reduction of imports is largely due to the reduced consumption of lamb in the UK out with Easter.

Exports are a different story, with a 22% (3,800 tonnes) increase on the year. This reflects the change of lower domestic consumption and the reaction to the tight supply, due to the reducing numbers of sheep in the continent. Whole carcases have accounted for 82% of exports in this first quarter.

Last month, I wrote about the declining European sheep flock - which has decreased by 1.5 million head, with production reduced by 1.2%. With this in mind, our exports to France have increased 20% from Q1 in 2022, with March showing the highest level in five years.

The declining European flock is a huge opportunity for the UK. However, we need to ensure our lamb is traded at an attractive price for our European customers. The latest data available from the European Commission shows the French light lamb at €9.82/kg and the Spanish light lamb at €7.42/kg (week ending 15th May). Our lamb is currently cheaper than the French but not the Spanish lamb, which has an impact on the export potential at the moment.

SAC are holding a ***Sheep in the Uplands*** *event on the 4th of July at Ballindalloch Home Farm, Morayshire where we will be hosting a panel debate, on "How does the sheep industry prepare for the future"* Register here: [Sheep in the Uplands Tickets, Tue 4 Jul 2023 at 10:15 | Eventbrite]

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The chart at the foot of the page shows the change over from old season SQQ to new season for the week ending 13th May.

Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
06-May-23	**678.6**	13.6	2.6	3.3	**303.60**	1.3	23.2	4.8	97.70	106.80
13-May-23	**727.4**	48.8	0.2	0.1	**340.40**	36.8	15.8	6.2	101.71	107.02
20-May-23	**741.4**	14.0	-2.2	0.6	**347.80**	7.4	14.8	18.5	102.14	107.27

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

Why consider mixed species swards?

Mixed species swards (MSS), often called herbal leys, are becoming increasingly popular with livestock farmers. They typically contain a number of species of grasses, legumes and herbs and have many benefits over traditional perennial ryegrass/clover swards. As our changing climate and drier summers have made it more challenging to manage grass in recent years, it is worth considering these more diverse leys and the benefits they can bring to livestock, soil health and the environment.

The following table shows the various species that can be included in a MSS:

Grass species	Legume species	Herb species
Perennial ryegrass	White clover	Chicory
Timothy	Red clover	Ribwort plantain
Festulolium	Alsike clover	Salad burnet
Cocksfoot	Lucerne	Sheep's parsley
Meadow fescue	Birdsfoot trefoil	Yarrow
Tall fescue	Sainfoin	
Smooth stalked meadow grass	Vetch	

While many farmers will be familiar with the higher protein and nitrogen fertiliser saving benefits of red and white clover, other legumes such as sainfoin and birdsfoot trefoil have natural anthelmintic properties, potentially reducing wormer usage (this also applies to chicory). Lambs grazing MSS have been shown to use up to 50% less wormer inputs.

Other benefits of MSS over perennial ryegrass swards include:

- **Deep rooting** so are more drought tolerant (good examples are plantain, chicory and yarrow which have a strong tap root). Also improves soil aeration and drainage. Water can percolate into the soil more easily, so there is less run-off.
- **Carbon capture,** carbon is sequestered deeper into the soil, allowing a longer-term accumulation of carbon and organic matter.
- **More even growth**, with less of a growth surge in May and more growth in late summer, giving an opportunity to extend the grazing season.
- **Similar dry matter yields** but with significantly less nitrogen fertiliser requirement.
- **Improved animal performance**, with higher growth rates and lambs reaching slaughter weight on average two weeks earlier.
- **Higher mineral content**, which may reduce supplementation requirements or improve animal performance.
- **Supports pollinators**, as flowering species provide a food source for butterflies and bees.

Given the wide range of species available, take advice from your seed supplier on what would be the most appropriate mix for your system, soil type and climate. Is the sward to be used primarily for grazing or silage? Also, what would you like to achieve i.e., higher protein silage, drought resistance, reduced N fertiliser requirements, better soil structure etc? The more functions you want from a MSS, the more species that should be included.

Tips on managing MSS for grazing

- During the first year after establishment, light grazing will help control weeds and encourage tillering to increase sward density. Do not graze too early - allow good leaf cover to build up, helping strengthen root development and persistency. Ideally wait until there are six leaves on plantain and seven on chicory before grazing.
- Rotational grazing is recommended as persistency will be better when the sward has a rest period (around 7-10 days longer than the rest period for a perennial ryegrass ley). Continuous grazing will reduce persistency of legumes and herbs and encourage preferential grazing of certain species (i.e., clover).
- Avoid overgrazing and leave a minimum residual of 6cm. The optimum grazing height is around 3,200kg DM/ha – slightly higher than traditional grass leys.
- Be careful when grazing during wet periods. Poaching can damage herbs so manage grazing in the shoulders of the grazing season to limit sward damage.

Tips on managing MSS for silage

- Include species that can withstand regular cutting i.e., red clover, lucerne (best on high pH sandy soils), and plantain.
- Chicory has a tough stem which can pierce silage bale wrap and goes to head quickly, so it is more suited to grazing.
- Include species with similar growth rates so that slower growing species are not out-competed and shaded by faster-growing ones.

In order to gain maximum benefit of nitrogen fixation, root growth and forage yields, MSS should be down for at least four years. As their cost will be greater than ryegrass/clover mixes, the longer they can be maintained, the better the financial return.

For more information see:
https://www.fas.scot/downloads/grassland-and-herbal-leys-species-guide/

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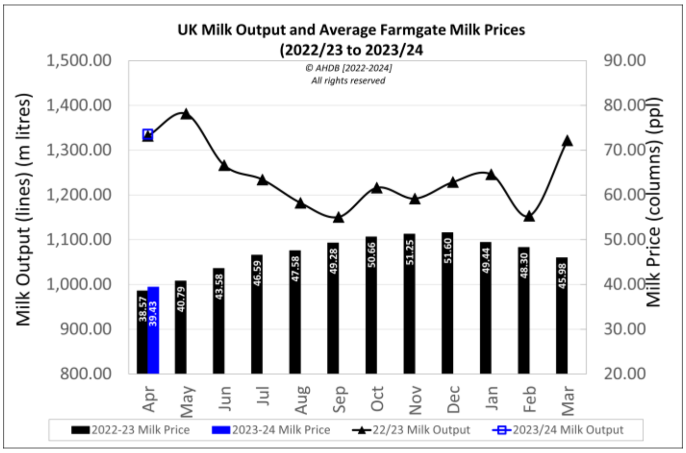
Milk prices continue to fall for June

- *Milk volumes are now past their peak and falling, however, further price cuts for June have been announced.*
- *Farm-gate milk prices are now in the region of between 35-40ppl from the main Scottish milk buyers, depending on the type of supply contract, with supermarket aligned contract faring better and over 40ppl.*

Milk production data

Milk production data shows that UK milk output for April 2023 was 1,335.4m litres - an increase of around 3.5m litres on a year-on-year basis (+0.3%) and 1.1% higher than March 2023.

April was a cold, wet month with UK milk production running below AHDB forecasted volumes. The spring flush, where production peaked at the end of the first week in May at 45.22m litres (7-day rolling average), was very similar to the peak in the previous year, with an average daily volume of 45.3m litres.



Farmgate prices: June 2023

The UK average milk price for April 2023 was 39.43ppl – down 4.15ppl from March 2023 but 2.2% higher than April 2022. The main Scottish milk buyers have either reduced their price for June or held at the May price.

Milk Prices for June 2023 Scotland	Standard Ltr ppl
Lactalis / Fresh Milk Co.[1]	35.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	37.89
Müller - Müller Direct - Scotland [1, 2]	39.75
Arla Farmers Manufacturing (4.2% Butterfat & 3.4% Protein)	35.21
Grahams[1]	36.00
Yew Tree Dairy[1,3]	38.00

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 Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.
3 Liquid standard litre price for A volume litres.

Dairy commodities and market indicators

There was very little movement in UK wholesale prices of dairy commodities from April going into May, with prices now back significantly on where they were six months ago. Trade was fairly quiet on the back of buyers holding off purchasing, keen to see what milk volumes would do with the approaching spring flush, and sellers not looking to generate sizable sales, waiting to see how supplies might be affected by the extent of peak milk production.

The milk market indicators AMPE and MCVE showed little change for the month of May. With AMPE representing the processors' factory-gate value of one litre of milk to produce butter and skim milk powder, the May value is still well below the lowest liquid standard litre price for June in Scotland.

UK dairy commodity prices (£/tonne)	May 2023	Apr 2023	Nov 2022
Butter	3,910	3,920	5,280
SMP	2,040	2,020	2,610
Bulk Cream	1,490	1,518	2,357
Mild Cheddar	3,550	3,550	4,760
UK milk price equivalents (ppl)	**May 2023**	**Apr 2023**	**Nov 2022**
AMPE	32.01	31.81	44.69
MCVE	37.26	37.56	52.29

The latest Global Dairy Trade (GDT) auction held on 16th May returned a negative price index, with the GDT price index down on average 0.9% to $3,488/t from the previous auction two weeks ago. The previous two auctions resulted in positive price movements.

Looking forward

According to AHDB's most recent survey of milk buyers, there were 7,500 dairy farmers in GB as of April 2023. Despite this being 380 fewer than in April 2022, milk production has not fallen, with the high milk prices in the latter half of 2022 stimulating production growth which has been maintained over the winter months.

Recent announcements by supermarkets to reduce the cost of milk and other dairy products, combined with post-peak declining volumes, mean that supply and demand may come more into balance, adding some stability to the markets. For farmers, cost of production will slowly start to decline as feed prices have been falling, and looking forward, the prospects of lower energy and fertiliser prices mean that the economics of milk production should be more favourable as we head into the autumn and winter period.

Going by the futures markets, milk prices are looking like they will settle around the mid-thirties so there is perhaps some further reductions in price to come yet. Along with the strong beef prices, there is little incentive at the moment for farmers to push for milk volumes. Weather events will likely play a part, especially if last year's drought conditions are repeated, reducing output, which may help prevent milk prices falling further.

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Why is biodiversity important?

Biodiversity, the diversity of biology, refers to all the living things on earth, and the complex relationships they have with one another, which we refer to as the web of life. In this complex web of life is the human who co-evolved alongside these other species, becoming co-dependent for survival. As the human population has grown, many other species have declined, to the point that one in eight species on earth are now threatened with extinction. There are many factors driving the decrease in biodiversity, but one of the main ones is the change in land use and land management practices. To preserve biodiversity and the web of life we are in, humans need to reimagine the way we use land and produce food.

COP15 and Scotland's Biodiversity Strategy

To address the decline in biodiversity, at the recent UN Biodiversity Conference COP15 countries from all over the world, including Scotland, pledged to halt the decline in biodiversity by 2030. To do this, a number of goals and targets were agreed; most notably, was the aim to conserve and manage 30% of the world for the importance of biodiversity by 2030 (termed 30 by 30), and the phasing out of subsidies that harm biodiversity.

Within Scotland, the Scottish Biodiversity Strategy highlights how by 2030, Scotland will have halted biodiversity declines, and by 2045, will have restored biodiversity. To achieve this, it sets out the aim of transforming 50% of agricultural subsidies from unconditional to conditional, targeted toward biodiversity improvement. Furthermore, Scotland looks to increase its Nature Networks, which will increase the connectivity between nature-rich sites.

To share or to spare?

For agriculture, the question of how we can produce food whilst enhancing biodiversity often brings on two answers. The first is that we should farm in a more nature friendly way, where our farming methods can deliver food, albeit at a potentially lower yield, while increasing the biodiversity in the surrounding landscape. The second, is to put more land aside for nature and make up your losses in food output in these areas by intensification in more productive parts. This dilemma has been around for decades and was picked up the name 'Land sparing vs Land sharing'. Do we share our land with nature and farm with it in mind, or do we farm as productively as we can, so less land is needed for agriculture and therefore leaves more to nature? Each answer throws up a whole host of further questions and problems.

Land sharing will benefit species found in semi-natural ecosystems that can tolerate a moderate level of disturbance and increase soil and ecosystem health that deliver services for humans. However, its reduction in yields will require more land to meet demand and may require some habitats rich in rarer biodiversity to be converted to agriculture. This would benefit species that can thrive on agricultural land but would be detrimental to more specialist species that require undisturbed habitat.

Land sparing would benefit these species and could allow for a larger area to be set aside for biodiversity through an increase in efficiency on productive land. However, as most farmers on productive land are being as efficient as they can for economic reasons, increasing productivity is easier said than done. Furthermore, pockets of isolated 'spared' habitat may isolate the species within them if the land between is all intensive agriculture. This could fail to capture the importance of connectivity for preserving biodiversity.

The current understanding favours the land sparing, to allow areas of unproductive land to be preserved for natures' sake, which the 30 by 30 policy will help deliver, if the mechanisms are in place to drive it. That said, land sharing is still required, for the benefits it delivers to generalist species, its connectivity between habitats, and its ability to improve soil quality. Furthermore, movements such as regenerative agriculture are finding innovative ways where working with nature can reduce impacts to surrounding nature without drastically reducing yields (ecological intensification) where the best of both worlds is achieved. These look to be supported though the governments ambitions to become a leader in sustainable and regenerative farming.

How to improve biodiversity on a farm?

The best way to improve biodiversity on a farm is to understand what you have already got. Doing a baseline estimate or measurement of the biodiversity gives an idea on what can be built on, and where creation would benefit the surrounding landscape best.

The creation and management of biodiversity rich habitat can be funded through sources such as the Agri-Environmental Climate Scheme. Habitats such as peatland can be restored through funding from Peatland Action, with the possibility of obtaining carbon credits through the Peatland Code. Other carbon credit schemes such as the Woodland Code can provide an income for woodland creation.

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The farm adjustment problem

The cornerstone of micro-economics is that market forces efficiently allocate resources to their best use. That is, the size of farms and the balance of labour, machinery, buildings, crops, and livestock on them will evolve based on the cost of inputs and price of outputs. The trouble is that agriculture has a long-known '(resource) adjustment problem', that in simple terms means that too many farmers persist in the industry and farmer incomes suffer as a result.

Meanwhile, some sectors point to growing labour shortages and the next generation complain about the lack of opportunities to farm. What is going on?

Why do farmers keep on farming?

Farms have generally got bigger over time due to the cost-price squeeze and availability of new technologies. However, when the annual farm income figures are released, the headlines typically highlight that farm incomes are low relative to other industries. Of course, there is variation between agricultural sectors with dairying and crop farming consistently averaging higher incomes than beef and sheep farming.

Asset-fixity was the traditional explanation for low farm incomes. In short, the labour and capital used in farming was difficult to reallocate to other industries because farm equipment and farmers' skills and knowledge were not readily transferable.

As a result of this low asset salvage value, farmers keep on farming so long as what they sell covers the direct costs of production. Often only forced to change when faced with a major reinvestment need like, for instance, the dairy complex becoming unmaintainable or failing compliance rules.

More recent research has revealed other important forces are at work. Farms are often a base for more than farming (pluri-activity) plus off-farm income often bolsters farm household income. Historical ties and joy of country living are also barriers to change.

Farming is also unique, owing to the importance of the land resource; yet the value of land generally far exceeds its agricultural productivity.

Favourable tax and policy support have been particularly influential. Scottish, and British, agriculture that a century ago was largely farmed by tenants, is now mostly run by owner-occupiers with balance sheets anchored by land values. With land now in demand for carbon farming this has inflated the value of upland and hill land considerably.

The term "asset-rich, cash poor", still captures the essence of why farming on this island has evolved to its current structure.

What can government do?

Given that future Scottish agricultural policy is in the melting pot, what might government do to better help the industry adjust?

The emerging English agricultural policy appears to be supportive of letting market forces shape the adjustment process. Area support payments are being phased out; indeed, farmers can speed up the process by selling their entitlements for an upfront lump sum. Grant support will also be available to help transition via the Farm Investment and Skills & Training Funds.

For the dairy and cropping sectors where profitability is less dependent on the area payment, structural change is unlikely to differ much from the current trajectory with contract farming a key mechanism used to achieve business growth. However, for the livestock rearing sector mainly in the hills and uplands, the loss of area support may prove a major disruptor. Structural change in such farming areas could be more dependent on how environmental, diversification and socio-economic policy works.

The active farmer conundrum

Scotland will not follow England in phasing out area payments. Yet it is likely that a significant drop in this vital farm income stream is coming in Scotland given overall budget constraints and the need to fund environmental schemes. As drystock farming is relatively more important north of the border, even a small drop-in direct support could trigger significant structural change.

In some areas, explicit socio-economic policy may be needed to prevent a breakdown in the agricultural eco-system. But such is the extent of livestock rearing across Scotland, managing structural adjustment may be the best means of avoiding a destructive chain-reaction. That may mean a more nuanced definition of "active farmers" than what many in the industry are calling for.

A good place to start would be to explore how to better connect "older" farmers with capital that wish to continue farming with younger farmers with drive and energy. Like England, contract farming will have a place, but is there more scope to develop more flexible, joint-venture mechanisms like equity partnerships?

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Farm tours – a problem or profit?

Farm tours are a form of diversification that both tenanted and owner occupier farmers should consider as a means of promotion of the farm story, brand and produce, and also as another means of revenue.

Farm tours can take many forms, with the size of groups, time length of tour and farmer involvement varying across the country. With the success of projects like 'Open Farm Sundays', farm tours have taken off, although it is still an untapped market in some areas.

Tours are often seasonal and will naturally be more popular in the spring and summer months, but some farms carry out all year-round tours. Some farmers employ others to do the tours on behalf of them, other farmers prefer to do the tour themselves so farmers can take either a passive or active role. The farm tour experience and income will vary according to farm type, location and the market segment targeted: e.g., students, young families, interest in food origins, conservation, and biodiversity etc.

Some farms make very successful income from simple walk and talk tours as well as more sophisticated tractor tours and hands-on lambing shed experiences. In general, the public are fascinated with what goes on in farming and are always looking for unique experiences and to better educate themselves on real farming practices.

Personal experience

I, personally, have run several farm tours and found it a rewarding experience. The model that we operated depended on group size and group type and included a drink and sandwich. A filled coach visit for example with 56 people was £700 for 1.5 hour tour. In our situation, the customers on tour ended up at the farm shop and purchased further refreshments and produce.

However, it is important to bear in mind that farm tours should be (in most cases) a secondary objective to the farm enterprises. The tours must be managed in a way that they do not disrupt performance of the existing farming enterprises directly or indirectly. Good communication, management of time and resources and planning are essential to running a farm and a tour business enterprise concurrently.

Return on Income

Some smaller bespoke farm tours can be lucrative, and many customers are looking for unique high quality personal experiences and happy to pay a higher price for that (£30-£100). A cursory review of farms that offer tours in Scotland suggests that group tour prices range from £10-£30 per head with headage discounts offered to larger groups. Children's prices range from £5-£15 with higher prices for more hands-on experiences. Children go free with a paying adult in some cases. Trailer tours as a stand-alone option can start at £20 but can rise to upwards of £60 per person. Costs involved with the inputs and the additional overheads such as insurance and infrastructure must be considered in the pricing in order to ensure a good profit margin.

Farm tours may be the last thing on many farmers' minds but in the right location and with careful management there can be benefits on both sides. Tours are a personal and powerful way farmers can educate the public on their local farming practices, culture, and history, with opportunity to dispel many myths, showcase quality sustainable food, and at the same time demonstrate the stewardship and hard work that goes on to keep the nation fed.

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Key economic data

General Indicators	
Base interest rate	4.5% (4.25% 11 May 23)
ECB interest rate	3.25% (3.0% Mar 23)
UK (CPI) inflation rate	8.7% (target 2%)
UK GDP growth rate	0.1% (Q1 2023)
FTSE 100	7,505.10 (31 May 2023)

Price indices for February 2023 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	140.1	Seeds (all)	109.0
Barley	157.1	Energy	180.6
Oats	158.9	Fertiliser	215.1
Potatoes	140.9	Agro chemicals (all)	126.0
Cattle and Calves	141.4	Feedstuffs	152.8
Pigs	133.3	Machinery R&M	115.1
Sheep and Lambs	114.5	Building R&M	140.0
Milk	156.4	Veterinary services	104.9

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