



March 2017

## News in brief

### Farm gate prices and sterling – Article 50 looms

As far as farm gate price trends go, it is a bit of a mixed bag at the moment. Although the beef price is higher than the same time last year, it is down on the previous three year average and is expected to continue to decline for a further couple of months. Lamb prices are also lower and due to supply and demand factors are unlikely to reach the highs of last year. On the other hand prices for milk, potatoes and cereals are more favourable, will this be sustained?

The price for potatoes is expected to continue to rise, which is good news for growers. However, there is the concern that this will lead to an increase in plantings, which could drive down prices again. Although the milk price has continued to rise there are fears it may ease slightly towards the spring.

Some of these price changes are a result of Brexit related currency effects. Theresa May is expected to announce the UK's formal withdrawal from the EU by triggering Article 50 in March. This could lead to further swings in the value of sterling – up or down. Once negotiations with the EU commence further impacts on trade, hence prices may be seen bringing further challenges.

As well as improving business efficiency, many farm businesses will need to identify new markets or land uses to ensure they remain viable. Could forestry be an option?

### Further support for forestry industry

The forestry industry has recently been reaffirmed as being high on the Scottish Government's agenda. Increased woodland plantings and timber use target's, increased funding, mechanisms to reduce the regulator barriers to woodland creation and improved integration of forestry and agriculture are just some of the latest announcements to help the sector and encourage new plantings. See this month's *Management matters* article for more information.

### Next month...

- Economics of finishing cattle
- Feed price update

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# Policy Briefs

## Planned greening changes for 2018

Plans to introduce changes to greening rules for 2018 have recently been announced by Rural Economy Secretary Fergus Ewing. The planned changes include:

- Hedges will be able to count as a separate type of Ecological Focus Area (EFA).
- Agro-forestry supported under the Forestry Grant Scheme and located on temporary grassland will be able to count as EFA.
- The period during which maintenance of field drains is prohibited on land declared as EFA fallow is to be shortened.

These changes are intended to help provide increased flexibility for farmers while still improving the impact farming has on the environment. Details on the implementation rules for the planned changes are expected to be published shortly.

Further to this, the simplification greening review that is being undertaken by the European Commission is expected to be concluded in April. The proposals under consideration in this review include banning the use of plant protection products on productive EFA areas, providing more flexibility in sowing dates of green cover and catch crops, changing the weighting factors and extending the EFA fallow period; a bit of a mixed bag in terms of appeal. The Scottish Government are keen to see the outcome of this review and have indicated they will consider it quickly. Let's hope there are more favourable changes to come.

## Greening rule clarity

The Scottish Government has provided clarity that all restrictions on the land use of EFA green cover ends at midnight of the claim year. This basically means that farmers are free to utilise their EFA green cover land as they see fit following the end of the scheme year, including grazing if desired. If however the land is being entered into another EFA option the relevant rules applicable to that option have to be met.

## CAP consultation

At the start of last month the European Commissioner launched the first phase of his intention to modernise and simplify the Common Agricultural Policy (CAP) by opening a three month public consultation. The intention is that a modern and simplified CAP will address the social, political, environmental and economic challenges that agriculture and rural areas face.

The public consultation is open until 2 May 2017 and contributions received will be used to support the Commission's work to define the agricultural policy priorities for the future. The results of the public consultation will be published online and presented by Commissioner Hogan at a conference in Brussels in July 2017. A report will also be published including details of the current performance of the CAP and potential policy options for the future.

All stakeholders and those interested in the future of food and farming in Europe are encouraged to participate. More information about the consultation can be found on the European Commission website at:

[https://ec.europa.eu/agriculture/consultations/cap-modernising/2017\\_en](https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en).

## SRDP update

### AECS

The Agri-Environment Climate Scheme (AECS) which provides funding to protect biodiversity, support organic farming, improve water quality and public access and reduce greenhouse gas emissions will close to applications on 31<sup>st</sup> March. The main changes to the scheme for this round is that payment rates for some of the options, namely retention of winter stubbles, cutting rush pasture and wader grazed grassland are lower.

To help the acceptance of applications when they are first submitted the Scottish Government have published some guidance on common application mistakes. This also includes some top tips on submitting an AECS application and can be found on the Rural Payments and Services website at: <https://www.ruralpayments.org/publicsite/futures/top-ics/all-schemes/agri-environment-climate-scheme/agri-environment-climate-scheme-full-guidance-menu/aecs---common-application-mistakes/>

## Food Processing, Marketing and Co-operation

This scheme provides start-up grants for new businesses and development grants for existing businesses to develop or create food processing facilities, market products, run co-operative ventures and improve supply-chain efficiency.

The current funding round closes for applications on 5th March with applicants being notified of the outcome in June or early July 2017.

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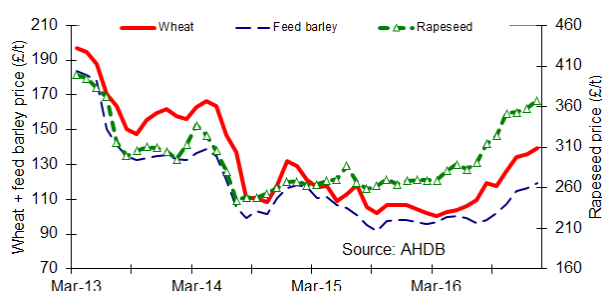
# Cereals and Oilseeds

## UK and world markets diverge

UK wheat prices rose around £2/t in the last month as official data showed a further tightening of domestic supply and demand.

World prices remained subdued due to more than adequate stocks and no major crop problems seen so far. In their latest forecast the USDA estimate a small reduction in world 2016/17 grain output, down 3.1mt, higher demand, up 5.4mt and a small decline in ending stock, down 7.8mt. However world grain ending stock estimates remain at record levels.

### UK spot ex-farm grain and oilseed prices



## UK wheat balance sheet tightens

In their March estimates of 2016/17 UK cereal supply and demand AHDB expect a tightening of the UK wheat balance sheet on lower supply and rising usage. UK wheat availability estimates fell 141kt to 18.78mt due to lower production and imports. UK domestic wheat usage rose 232kt to 15.70mt. The export surplus was cut 373kt to 1.48mt, the lowest in 5 years. UK wheat export pace slowed sharply in December at 93kt, down from 170kt in November. Total exports to end December were 1.09mt or 73% of the annual total.

The small estimated size of the remaining wheat surplus may enable further UK price rises. At the same time if UK wheat prices climb too high relative to overseas higher feed grain imports may arise.

- Domestic wheat shortfall could boost UK prices further subject to global factors and currency.
- Lower new crop prices discourage holding grain.
- However, unless UK wheat yields are above average this harvest the UK could have an even greater net trade deficit of wheat in 2017/18.

## UK wheat supply and demand estimates

'000 t	2015/16	2016/17	2017/18
<b>Open Stocks</b>	2,434	2,792	1,600
<b>Production</b>	16,506	14,383	14,400
<b>Imports</b>	1,509	1,600	1,500
<b>Available</b>	<b>20,449</b>	<b>18,775</b>	<b>17,500</b>
Human Use	7,357	8,094	8,000
Animal Feed	7,091	7,248	7,000
Seed etc	364	355	365
<b>Domestic Use</b>	<b>14,812</b>	<b>15,697</b>	<b>15,365</b>
<b>Exports/surplus</b>	<b>2,845</b>	<b>1,478</b>	<b>684</b>
<b>End Stocks</b>	<b>2,792</b>	<b>1,600</b>	<b>1,451</b>
<b>Net trade</b>	<b>1,336</b>	<b>-122</b>	<b>-816</b>

Source: AHDB, DEFRA and SAC

## US soyabean plantings to rise in 2017?

The USDA released their first estimates of US grain and oilseeds production and use for 2017. A favourable price ratio for soyabeans of 2.6:1 (soya:maize), the highest in 20 years is likely to drive a shift from grain to soyabeans. Total wheat-maize-soya plantings to fall 1.5mha (2%) to 90mha.

**US maize** – harvested area down 1.74mha (5%) to 33.4m ha, yields down 0.25t/ha to 10.7t/ha leaving production 27.5mt lower than 2016's record 385mt crop. Domestic demand seen stable to a little lower on lower feed and residual use and higher ethanol use. Exports to fall 8.3mt to 48.2mt in the face of rising competition from S. America, Russia and Ukraine. Stocks to use falling from 15.9% to 15.6%.

**US wheat** – harvested area down 2.0mha (11%) to 15.8mha, yields down 0.4t/ha to 3.2t/ha leaving production down 12.8mt at 50mt. Domestic demand to fall 0.8mt as feed use falls. Exports to fall 1.4mt to 26.5mt. Stocks to use falling from 50% to 41%.

**US soyabeans** – harvested area up 1.8mha to 35.2mha, yields down 0.3t/ha to 3.2t/ha leaving production down 3.5mt at 113.8mt. Exports to rise 2mt to 57.8mt. Stocks to use stable at 10%.

Full details of the US forecasts can be found at: <http://www.usda.gov/oce/forum/>

- Lower US grain and oilseed crop expected in 2017 but stocks still high. Plantings and yield remain at the mercy of the weather until harvest.

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Indicative grain prices week ending 24 February 2017 (Source: SAC/AHDB/trade)

# Ex-farm England spring max 1.85%N, \* Before oil bonus, ~ nominal

£ per tonne	Basis	Feb / Mar 17	May 17	Nov 2017	Nov 2018
Wheat	Ex-farm Scotland	146.00	148.00	134.00	138.00
Feed barley	Ex-farm Scotland	121.00	120.00	110.00	114.00
Malting barley#	Ex-farm England	138.00	141.00	140.00	143.00
Oilseed rape*~	Delivered Scotland	346.00	349.00	316.00	308.00

# Beef

## Scotch premium under pressure

The finished price for Scottish cattle has slid since the New Year, as it has in the north of England. But go further south and the finished cattle price has been relatively stable. As a result, the highest grading steers (-U4L) are now making more in southern Britain than Scotland, very rare!

The suggestion is that cattle supply is tight down south, but plentiful in Scotland. Of course, supply must be seen in the context of demand, with the key battle ground in the supermarkets seemingly steaks. Problem is that steak cuts form but a small part of the carcass, so the less popular bits of a beast are ending up in the chill.

By comparison, the cull cow trade has improved sharply almost everywhere since the turn of the year. A much improved milk price (and large cull last year), means that far fewer cull cows are coming from dairy farms. Though it also suggests that even at this price, mince is cheaper from culls than prime animals.

## Store sales soon

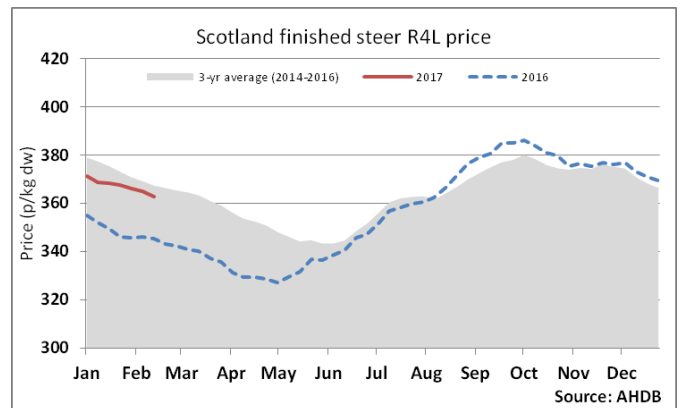
The decline in the Scottish finished price is expected to continue for a month or so yet. As the price chart suggests, this trend typifies recent years. The good news is that 2017 prices remain well above year earlier levels. Will this mean higher suckled calf/stores cattle prices this spring?

As ever, beauty is in the eye of the beholder. The bid price will depend on the finisher's view of likely output (future price level x grade x carcass weight less deaths) minus estimated cost of production. Feed, fertiliser and fuel costs are all up, which has obvious implications for the cost of production unless the finishing system becomes more input efficient.

As for the finished beef price, domestic production should be lower, therefore helpful, yet much will depend on a weak currency to make Irish imports more expensive and our exports more attractive. The Irish predict their 2017 kill will reach 1.72 million head, 172,000 up on last year. On the plus

side, more expensive feed should reduce the competitiveness of poultry meat.

That leaves carcass weight and grade. Not an issue for heifers and smaller breeds that finish easily within processor targets. But regarding continental cross steers, the finisher will be far more selective, with younger, quicker grown animals likely to be favoured. Certainly suckled calf producers should be reviewing their growth targets and marketing strategy for 2017 born calves given the market demand for finishing steers at lighter weights without harming grades.



## Will they miss us?

When the UK joined the common market in 1973, Europe's farmers were very thankful. As Britain, a small country with a large population was a very big importer of food. Even in the early 1970's the CAP was beginning to cause overproduction on the continent hence joining the club released the pressure for several years.

Leaving the EU potentially means the loss, at least in part, of this big, largely protected British market. The Irish in particular are heavily dependent on Britain for their beef and dairy exports (their mushroom industry has already been hit), so fear a messy Brexit. In addition, without the UK's net financial contribution to the coffers, the EU budget will be 15-17% smaller. Unless remaining countries contribute more, post Brexit EU farmers will notice a sharp drop in their subsidies and grants.

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

Week Ending	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
4-Feb	347.5	350.3	310.4	360.7	363.6	320.7	368.9	359.5	364.1
11-Feb	342.2	350.8	309.6	358.2	360.5	324.8	368.0	364.3	369.7
18-Feb	346.2	347.4	311.1	357.8	360.1	329.8	364.9	357.3	361.6

# Potatoes

## Market summary

- For the week ending 17 February the AHDB's Weekly Average GB price for all ware potatoes was £211.95/t down by £2.18 (1.0%) over the previous week. The Weekly Average Free-buy price which excludes all forward contract material was £262.19/t up £7.71 (3.0%) over the week. The mood in the industry appears to be upbeat with free-buy prices in the ware market steady or rising. On the basis of past history this is likely to lead to an increase in planting this season.

## Storage and planting update

Stocks in store are reported to be in good condition although wide swings in temperatures across the country are keeping store managers busy. There are no major storage issues being reported but as temperatures rise keeping sprouting under control will clearly be the challenge. Minimal wastage is reported apart from some growth faults, greening, and the odd case of wet rot.

In Ayrshire, some more planting has taken place on fields next to the shore. Early varieties planted to date include Epicure, Casablanca and Maris Peer.

## Prices continue to ease upwards

The general view is that supplies will be tight as disposal of the 2016 crop draws to a close. Free market stocks particularly for salads and general ware are being held in store by some growers in the hope of still better prices to come.

In the Scottish packing trade movement is mainly for contracted stocks but also a good proportion of free buy material as well. The underlying trend shows that prices are mostly on the rise with supply and demand in balance. Quality is reported to be good.

Grade 1 Maris Piper is trading within the £230-£240/t price range with general pack material at £200/t and value pack at £150/t. Grade 1 whites are making £230-£240/t with general pack at £200-£230/t and value pack seed tops at £120/t. Reds including Desiree and Mozart are making £230-£280/t.

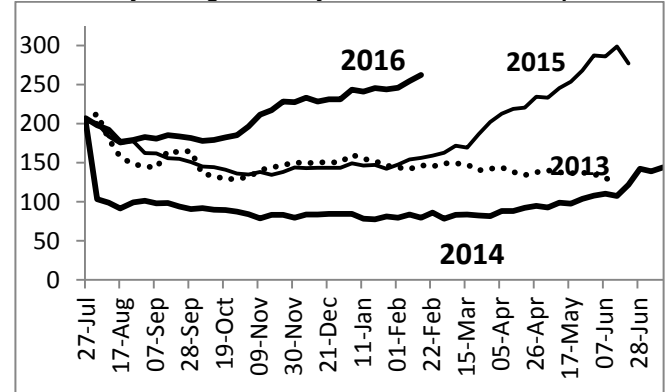
In the bag market demand and prices for chipping material remains steady with some supplies being sourced from England. Prices are within the £210-£220/t range. General bagged ware is within the £150-£200/t price range with seed tops down at £130-£140/t.

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

Crop Year	17 Feb	10 Feb	3 Feb	27 Jan
All potatoes 2016	211.95	214.13	213.40	201.30
All potatoes 2015	160.32	160.54	156.57	150.33
Free-buy 2016	262.19	254.48	245.90	243.86
Free-buy 2015	156.31	154.08	147.77	142.06

Source: AHDB

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



Source: AHDB

## Seed trade

There is no problem in finding a market for seed tops this season. Seed growers believe that almost all certifiable seed will be sold this year. As a result, there may be an attraction of selling seed set aside for multiplication for next year's stock if the price is right and planting 'brock' instead. This is a concern that has been expressed by some in the industry.

## Export update

Scottish Potato Exports to non EU Countries

Export Year	Seed	Ware	Total
2016-17	79762	5654	85416
2015-16	72941	5453	79394
Change %	+7.9	+3.7	+7.6

Export season July to June. Source: SASA

Egypt remains the most important export market for Scottish seed by far having received 55,394t this season to date. The main variety exported to Egypt is Hermes with many producers growing this crop specifically for the Egyptian market. Other key geographic markets for Scottish seed include: Morocco 8,490t, The Canaries 4,891t, Saudi Arabia 3,125t, Thailand 3,050t and Israel 3,009t.

Current export movement includes Nadine ware to Ireland at £220/t. Export movement to the Canaries includes Banba and Wilja seed tops at £205-£220/t, also Osprey and Harmony ware at 250/t.

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# Sheep

## Hogg trade depressed

So much for a cheap currency. Despite sterling trading very favourably in the mid 80p's, the hogg price has had a terrible start to the year. Last week (w/b Monday 20 Feb) here in southern Scotland, 365p/kg DWT is typically available, meaning a supermarket spec 19kg carcase is returning just £70 gross: at least £10 a lamb down on the same time last year.

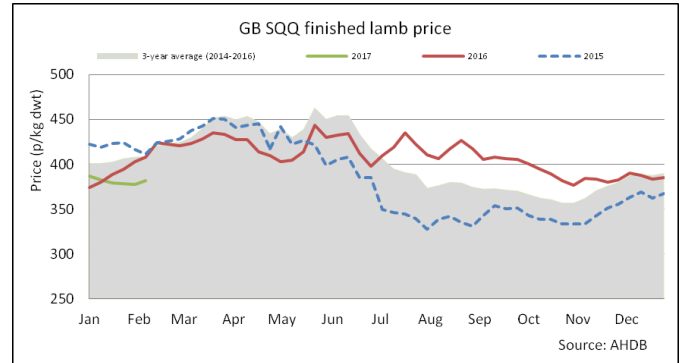
Too much supply is the obvious factor to blame. All those home lambs carried over from the autumn; those nasty Kiwis with their imports. Yet domestic supply is not that great and imports of New Zealand lamb have been back so far this winter. Indeed, the tonnage of sheep meat imported into Britain in December was the lowest since 2012 according to the AHDB.

The unfortunate truth is that given stagnant lamb consumption, even a small lift in supply means a big drop in the farm gate price. Lamb production crashed between 2002 and 2009 owing to Foot-and-Mouth disease and decoupling of support. Though consumption also fell, the balance between supply and demand has been largely in the producers favour since. And while it is understandable that the UK flock has recovered some of its former size since 2009 thanks to better ewe margins, consumption has flatlined despite appreciable population growth. In short, the UK sheep industry is in a corner and that's before you mention Brexit.

The cull ewe price is also struggling with the Scottish average also £10 a head back on last February at around £56. With no Muslim festivals until late April, any improvement will be driven by fading supply as empties following scanning are eventually cleared out.

## Easter hopes

Easter is late this year (Good Friday is 14<sup>th</sup> April) so the consumption benefits from the normal supermarket price promotions are still some way off. Nevertheless, the price of hoggs should gradually improve through March as supply dwindles. Here's hoping!



## Those creative Irish!

If you farm in the Irish republic you can now apply for a €10 (£8.50) per ewe payment (set on 2014 and 2015 ewe numbers for most producers). The Animal Welfare Sheep Scheme aims to reduce lamb deaths by making sheep farmers adopt two welfare improving flock measures. The choices differ slightly between hill and lowland flocks with one measure required from each category.

### Category A

- Mineral supplementation of ewes post-mating (all)
- Lameness control (lowland only)
- Meal feeding lambs post-weaning (hill only)

### Category B

- Scanning (all)
- Parasite control (faecal egg counts with slight variation between hill and lowland)
- Flystrike control (lowland)
- Mineral supplementation of lambs pre-weaning (hill)

The sceptic would argue that this is a headage subsidy by the back door. The good farmer who already applies these measures will say thank you very much, though may swear long term when his price drops as more lambs hit the market. And the balance of farmers will curse the red tape!

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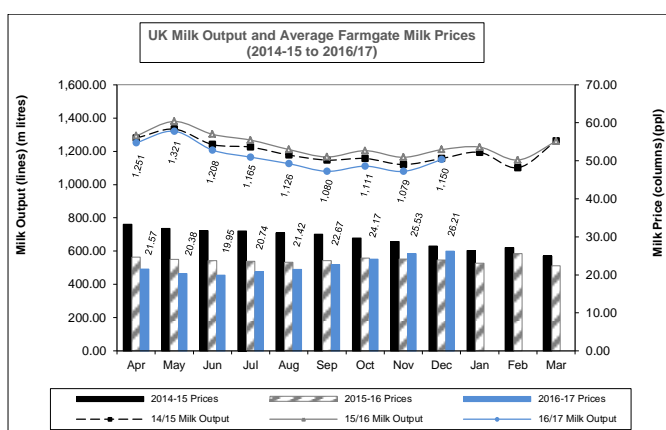
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
4-Feb	380.5	381.2	379.1	168.9	172.6	162.0	57.0	59.2
11-Feb	385.2	385.3	381.0	167.0	170.1	159.3	57.3	57.6
18-Feb	383.2	385.6	382.3	164.2	171.2	162.1	56.2	57.3

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

Source: AHDB.

## UK farm gate prices still rising

The latest UK milk production figures show that milk output for December 2016 is estimated at 1,150.47m litres (before butterfat adjustment). This production figure is 59.33m litres lower than one year earlier (December 2015). UK cumulative production up until the end of December 2016 is estimated at 10,490.39 litres which is 706.14m litres lower than the cumulative total at the same point last year. During December 2016 the average price level across the UK increased to 26.21ppl - an increase of 0.68ppl on the previous month, this being 2.33ppl higher than the UK average price for December 2015.



Although UK farm gate milk prices continued to rise during December 2016, there has been a definite softening to spot market milk prices since that point. One only has to look at the change to bulk cream prices to see further evidence of this easing effect (see table opposite). The big question is what will happen during the next couple of months with respect to the volume of UK milk produced during the spring flush.

## EU milk reduction scheme uptake

AHDB report that UK dairy farmers applied for the third largest reduction volume across the EU at 109m litres during the first reduction window (October to December 2016). Only France (176m litres) and Germany (278m litres) applied for larger reduction volumes during the period. As a whole, farmers across the EU applied to reduce milk volume by 1,029m litres during the same period.

## Milk price update for March 2017

**Arla Foods amba** – member's on-account milk price is to increase by €0.50 cent per kg from 1 March. In the UK, this equates to an increase of 0.38ppl, which takes the standard litre price up to 27.45ppl. The Arla Tesco milk price will increase from 28.49ppl to 28.87ppl.

**Müller** – no change to the price for non-aligned suppliers, price is held at 26.69ppl before any retail supplement. Müller's supplementary payment for January is 0.98ppl, whilst the supplementary payment for February is estimated at 0.82ppl.

Annual Average milk price estimates for March 2017 (ppl)	
Milk Buyers – Scotland	Standard Ltr*
Lactalis (No profile or seasonality) (3 month contract) <sup>1</sup>	27.50
First Milk Balancing- A price (90% of production). <sup>1,2</sup>	26.09
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). <sup>1,2</sup>	27.11
Müller Wiseman- M&I - Müller Milk Group <sup>1,3</sup>	26.69

<sup>1</sup> 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.  
<sup>2</sup> February 2017 prices stated. March 2017 prices awaiting release.  
<sup>3</sup> No monthly supplementary payment included in the price estimate.

## Commodity prices reduce

Fonterra's latest online GDT auction (21<sup>st</sup> Feb) produced a slight decrease. The weighted average price across all products fell to US \$3,474/tonne – a decrease of US \$63/t from the previous auction on 7<sup>th</sup> February. The decrease has impacted upon wholesale prices across dairy markets. The table below illustrates how UK prices have eased since December.

UK dairy commodity prices (£/ tonne)	Jan 2017	Dec 2016	Aug 2016
Butter	3,600	3,700	3,250
SMP	1,850	1,850	1,570
Bulk Cream	1,620	1,800	1,470
UK milk price equivalents (ppl)	Jan 2017	Dec 2016	Aug 2016
AMPE (2014)	30.48	30.97	26.01
MCVE (2014)	33.71	33.54	28.02

Source: DairyCo

## Holland's phosphate reduction plan

Having submitted a proposal to the EC to reduce phosphates, the proposal has now been approved. There are five different component parts to Holland's phosphate reduction plan. The proposed plan for the dairy sector is to have the largest effect with a planned reduction of 4m kg phosphate. It is expected that the plan as a whole will reduce phosphate emissions by 10.8m kg.

Dairy farmers will be required to reduce either their milk output or their herd size to a 2015 reference figure with those failing to reduce sufficiently paying a tax, whilst those that reduce by more than the requirement will earn a bonus. According to the USDA, the scheme has the potential to reduce cow numbers by 6.60% or milk output by 6-10%. If targets are satisfied, the Dutch will retain their nitrates exemption for the year ahead.

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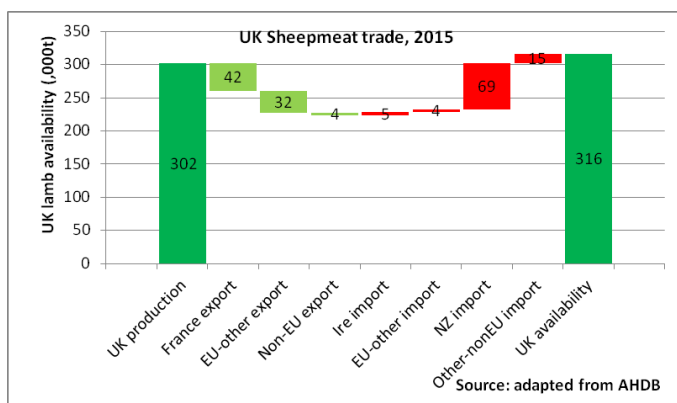
# Sector Focus:

## Sheep meat trade and tariffs

### Exports are positive for UK lamb prices

The UK lamb price is highly reliant on strong trade links. UK sheep meat exports are around 30% of production, with 25% of production heading into the EU. The EU is a valuable trading partner; a high value market & neighbour with no barriers to entry.

While there is perpetual concern surrounding exchange rate competitiveness, timing of supply, and their impact on the farm gate price, the volume of UK sheep meat exported is equivalent to having another large supermarket competing for lambs.



Furthermore, while the UK is only typically 95% self-sufficient in sheep meat Scotland is around 165% self-sufficient and production is highly seasonal, and does not mirror demand. Without exports (and, conversely, imports) to smooth supply, the sector risks adding substantial cost, keeping lambs for longer until demand allows.

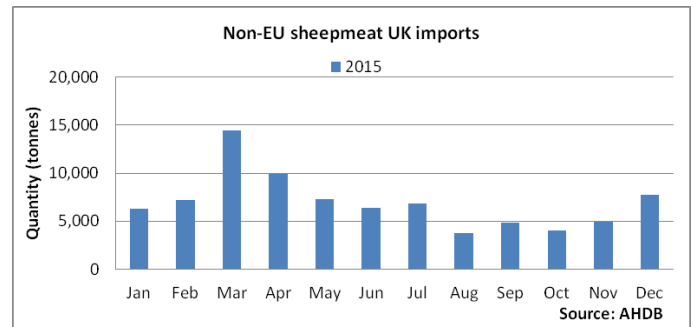
In terms of Brexit and the EU it may be that a similar working relationship to the current one can be agreed and new trade opportunities may open elsewhere. Nonetheless, prevailing circumstances mean a high reliance on EU markets leaves the producer price in a precarious position.

### UK is a massive producer in the EU

The UK produces around 300,000t of sheep meat each year, which is around 40% of EU production. Spain sits in a distant second place producing 16%, then France 11%, Germany 10% and Ireland at 8% of EU production. UK sheep meat exports to the EU, alone, are equivalent to over 10% of EU production. This means the UK and EU are currently equally reliant on each other.

However, if sheep meat trade were to become a casualty of EU negotiations, the UK lamb price risks collapse. This would necessitate producers holding lambs for longer to better match demand.

Presumably, the need for the UK's current c.80,000t share of the 190,000t EU sheep meat imports from New Zealand and Australia would fall to almost niche levels.



If so, there would be scope for this antipodean lamb to reroute into the remaining EU trading block – predominantly filling the void left by UK sheep meat. This may (or may not) oversimplify the issue of carcass balance and matching supply with demand but politics also risks ignoring such things.

- With already strong historic links to the UK, Beef & Lamb New Zealand has already concentrated their overseas (European) staff in Brussels.

Reduced availability of sheep meat on the continent could also encourage EU flock expansion. For example, this is viewed as an opportunity in Ireland if their beef succumbs to restrictions into the UK.

### Incurred costs

- Anything other than a free trade agreement with the EU will add direct or indirect cost in the absence of an alternative and equivalent market.

EU imports are also required to meet a production standard equivalent to that within member states (the 'equivalence' test). This means that even if a deal is achieved, bureaucracy surrounding sheep production may not lessen.

Canadian beef is an example where an EU quota system applies, incurring a 20% tariff by value. Meanwhile, resorting to WTO conditions (the 'hardest Brexit') would result in a tariff amounting to £2/kg dwt knocked off the producer price.

Other markets, such as the USA, South Africa, Saudi Arabia and China have potential, but there is no existing agreement let alone the ability to take our current export volumes anytime soon – one for the future. In the meantime, the only certainty is uncertainty – it has never been more important to review business performance.

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# Management Matters: Woodland and timber markets

## Softwood prices

The average price for standing conifer timber was £17.31 per cubic metre overbark for the year to September 2016. This is now £0.93 per m<sup>3</sup> lower in nominal terms than last year. Is this random variation or are stronger forces coming into effect?

Globally, timber prices rose in 2016 and importing countries are showing increased demand. In the UK over 70% of sawn softwood is imported from just three EU countries: Sweden, Latvia and Finland and in the last year Sterling has fallen from 12.1 Swedish Krona to 10.9, particularly since the Brexit vote. As existing stocks work through the system, imports will become noticeably more expensive. Coupled with a steadily increasing demand, especially for good quality logs, prices are expected to rise in the coming year. The high price paid for sawlogs is a reminder of the need to thin young plantations regularly to ensure a high proportion of sawlogs in the final crop.

## New planting targets

The Scottish Government has made several statements recently reaffirming its long term support for the forest industry. In the draft Climate Change Plan the ambition to increase woodland cover from 18% to around 21% by 2032 is confirmed. New woodland creation targets in the Plan are:

- 12,000 hectares per year from 2020/21
- 14,000 hectares per year from 2022/23
- 15,000 hectares per year from 2024/25

The plan also sets out targets for the use of Scottish timber in construction rising from the current level of 2.2 million cubic metres to:

- 2.6 million cubic metres by 2021/22
- 2.8 million cubic metres by 2026/27
- 3.0 million cubic metres by 2031/32

Last summer Fergus Ewing commissioned Jim Mackinnon to review the current regulatory barriers to woodland creation in Scotland. His report was published in December and its recommendations have been accepted in full and include:

- Streamlining the process to approve sustainable planting schemes, for example by appointing accredited, experienced agents to help certify some woodland planting schemes and by giving FCS local offices more responsibility to approve lower value applications.
- Earlier engagement between tree-planting businesses and communities, in a way that is

proportionate to the scale and impact of the planting scheme.

- A dedicated national Forestry Commission Scotland team to deal with complex proposals including all projects where an Environmental Impact Assessment is required.

In 2018/19 the government proposes to develop further targeted grants for forestry and has increased the budget for woodland creation to £40 million for 2017/18.

In a debate in the Scottish Parliament in January there was also support for forestry and recognition of the challenges. This includes the need to achieve better integration with agriculture, especially sheep farming, and for greater recognition that forestry can support farm businesses rather than being a substitute land use.

## Current planting figures

Current planting is well below these targets and the dip last year can be attributed to a hiatus associated with the introduction of the new Forestry Grant Scheme in 2015. Indications are that planting in the current season is however higher and the scheme has been successful in increasing the proportion of productive conifers to ~65% of the area planted.

New Planting in Scotland – thousand hectares				
Year ending 31/3	Conifer	Broadleaf	Total	% Conifer
2011-12	3.3	507	9.0	37%
2012-13	1.7	5.3	7.0	24%
2013-14	2.0	6.3	8.3	32%
2014-15	2.5	5.1	7.6	33%
2015-16	1.9	2.7	4.6	41%

Source: Forestry Commission Forest Statistics 2016

## Woodland & Land Values

The IPD UK Forestry Index for the year to 31 December 2015 showed a rise of 10.8% in woodland values reflecting the continued increase in timber prices for mainland Britain. Again, forestry continues to compare favourably with bonds (up 1.0%), equities (down 2.2%) and commercial property (up 13.1%) over the last year. Over three years the annualised return from forestry is 14.7%.

Within Scotland the North region just out-performed the South Scotland region with an annualised return of 18.6% over the period 2012 – 2015. All three Scottish regions showed double digit growth and out-performed Wales and the north of England.

# Woodland & timber (cont.)

Woodland values by region are shown below:

Valuation region, £/ha, Weighted average value	North Scotland	Mid Scotland	South Scotland
2012	3,011	4,148	4,947
2013	3,867	5,658	7,060
2014	5,679	6,997	8,108
2015	6,616	7,747	9,428

Source: IPD UK Annual forestry Index to 31/12/2015

In Scotland sales of woodland were estimated to be about £53 million with an average cost of a forest property of £1.18 million. (Source: UK Forest Market Report 2016, John Clegg & Co, Tilhill Forestry).

## Forest Certification

Certification of forest products under either the FSC (Forest Stewardship Council) or PEFC (Programme for the Endorsement of Forest Certification) schemes is increasingly demanded by timber purchasers. There were some shortages of certified

timber this year, which were reflected in a differential of up to £2.00 per tonne in the price paid and also delayed uplift for non-certified wood from harvesting sites.

56% of the woodland area in Scotland is certified. This proportion has barely changed over the last six years. Efforts are being made now to simplify the scheme and reduce costs to encourage owners of smaller woodlands to become certified.

Year	Private Woodlands Scotland		Forestry Commission Scotland Woodland	
	Total Area Ha	Area Certified Ha	Total Area Ha	Area Certified Ha
2014	954,000	335,000	478,000	478,000
2016	965,000	336,000	471,000	471,000

Source: Forestry Commission Forest Statistics March 2016

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## Coniferous Standing Sales price Index – Great Britain

Year to:	Average Price per cubic metre overbark		Five yearly index
	Nominal Terms £	Real Terms 2016 prices in £	Nominal Terms year to Sept 2016 = 100
30 <sup>th</sup> September 2011	14.77	15.78	86.1
30 <sup>th</sup> September 2012	14.03	14.77	84.5
30 <sup>th</sup> September 2013	13.93	14.35	82.5
30 <sup>th</sup> September 2014	17.90	18.14	105.7
30 <sup>th</sup> September 2015	18.24	18.37	108.2
30 <sup>th</sup> September 2016	17.31	17.31	100.0

Source: Forestry Commission Timber Price Indices to September 2016, 10 November 2016

## Key economic data

General Indicators		Price indices for December 2016 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	113.1	Seeds (all)	101.4
ECB interest rate	0.00% (0.05% Mar '16)	Barley	117.3	Energy	113.3
UK (CPI) inflation rate	1.8% (target 2%)	Oats	120.3	Fertiliser	95.8
UK GDP growth rate	0.7% (Q4 '16)	Potatoes (Main Crop)	151.5	Agro-chemicals (all)	95.4
FTSE 100	7,256 (28 Feb '17)	Cattle and Calves	136.1	Feedstuffs	107.8
		Pigs	106.7	Machinery R&M	113.4
		Sheep and Lambs	100.1	Building R&M	110.7
		Milk	106.3	Veterinary services	108.5

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