SRDP Farm Advisory Service

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March 2018

News in brief

‘Beast from the East…’

As the weather system named ‘beast from the east’ continues to cause havoc across much of Scotland and the UK its impact is being felt by all. While, over the past few days the public have been advised to stay at home and some places of work have closed, farmers still need to attend to their livestock. But the impact on farmers does not stop there.

Due to snow blocking roads, milk tankers have not been able to get to some farms to collect milk, forcing farmers to appropriately dispose of it, which will have financial impacts. Forage and straw supplies were already low following last year’s poor harvest and while some farmers had put in place contingencies to reduce usage i.e. using alternatives, out-wintering cattle, selling stores early there are concerns that the shortages will be amplified by the weather. Many farms will have been forced to house cattle or provide them with extra forage, and feed supplies could be delayed getting to farms. As for the longer term impact the weather will have on sowing, growing crops, lambing and calving, we will have to wait and see and will probably depend on how long this cold, snowy weather front is going to last. In the meantime ‘be safe’.

Future of Agricultural Support

Michael Gove has not hidden the fact that he wants subsidies to be more focused on the environment, with this being confirmed in a recent consultation published by DEFRA. Although focused primarily on England and will have an impact on future policies in Scotland, there does appear to be scope for devolved regions to diverge on policy, which it is hoped will give the Scottish Government the ability to tailor a system that best suits Scotland’s needs.

Next month….

- Sector focus: Circular economy/food waste
- Input costs: Feed price update

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

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Removal of CAP negative list

Under proposals to simplify administration of the Common Agricultural Policy (CAP), the Scottish Government is to remove the 'negative list', an element of the Basic Payment Scheme (BPS) active farmer requirement.

Although the activity question asking about 'the nature of your business' will still be in the 2018 Single Application Form (SAF) and needs to be answered, it will not be assessed by RPID.

Until now, claimants who operate railway services, airports, waterworks, real estate services, or permanent sport and recreational grounds have not been eligible for direct support over €5,000. That is, unless they met at least one of the three re-admission criteria i.e. their Direct Payments were at least 5% of their total receipts from non-agricultural activities; at least one third of their total receipts were from agricultural activities, or their principal or companies objectives involved exercising an agricultural activity.

The removal of the negative list will at least reduce the administrative burden on those businesses that had to provide evidence of re-admission. However, it will also mean that claimants that were previously excluded may now be eligible to make a BPS claim in 2018, assuming they meet all the other eligibility criteria i.e. hold entitlements, have eligible land, meet the minimum activity requirements, etc. Despite these changes, hopefully the remaining 'activity' rules will continue to ensure that non-agricultural businesses are not eligible for support.

LFASS update

The Scottish Government have announced that they will be offering hill farmers and crofters the opportunity to apply for a loan of up to 90% of their LFASS payment, with payments to begin in April.

The scheme has been designed so the payment farmers and crofters receive under NLFASSS17 is less than the amount they should be due. The sum will then be automatically deducted from their LFASS payment when it is fully processed and the balance paid. In the event that loans are fully recovered, the Scottish Government will meet interest costs in compliance with state aid rules. The payment process is the same as the 2016 LFASS loan scheme.

NLFASS17 'opt-in' offer letters will be sent out in batches once claim eligibility has been confirmed, with the first offers having already landed through farmers letter boxes.

Although the Scottish Government have stated that they are making good progress in their handling of the 2017 LFASS scheme and are on track to make payments earlier than previous years, the offer of a loan will help to elevate any cash flow issues.

If you have not already received a letter further information can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-loan-schemes/national-lfass-2017-18/.

A further announcement recently made by Fergus Ewing is that the Less Favoured Area Support Scheme will also remain unchanged for 2018, providing further certainty for many.

Land for new farmers

Over 1,000 hectares of public land across Scotland is to be made available to new farmers, with the aim of attracting people into farming. Forestry Enterprise Scotland, Scottish Water, Highlands and Islands Enterprise, East Lothian and Highland Councils will shortly be releasing land with the hope that this will accommodate 50 new farmers.

The plan is to offer small farms for a defined period with the intention that successful applicants will be able to build their business experience and capital in that period and then move on to a bigger unit at the end.

Details of the farms that will be up for tender are expected to be published soon. Although individual organisations will advertise them in their normal way, details will also be available on the land opportunities page within the Farming Opportunities for New Entrants (FONE) section of the Scottish government website at: http://www.gov.scot/Topics/farmingrural/Agriculture/NewEntrantsToFarming/InformationforLettingOrganisations.

The Scottish Government has recognised that one of the primary barriers to attracting new entrants to farming is the availability of land, which prompted the launch of the FONE group in December 2016. Since then the group have worked to release land with the specific remit of developing farming opportunities for new entrants and so far 20 units have gone to New Entrants across the National Forest Estate.

With the average age of Scottish farmers being 58 years of age, attracting new entrants to farming is essential for sustainability of the industry therefore initiatives like this are welcomed.

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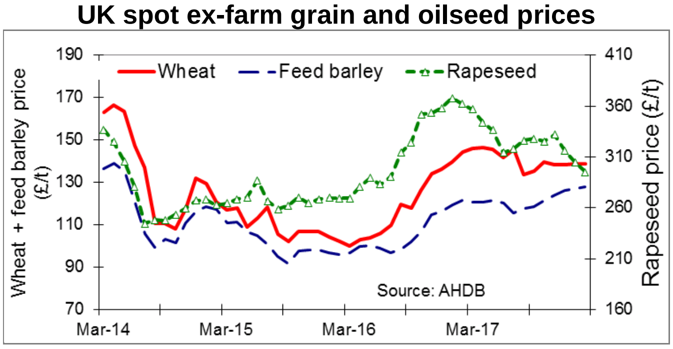
Weather concerns boost world prices

Chicago wheat futures have risen £9/t and soyabean prices £16/t in the last month. Drought in the US plains and Argentina continues from last month and there are further concerns from Europe, Russia and Ukraine over severe winter conditions.

The impact of the severe cold from the "Beast from the East" is unclear so far; the level of crop damage depends on the level of snow cover. Livestock feed demand is likely to rise. EU wheat exports continue to lag well behind the required pace with 14.0mt exported to 23rd February, 3.3mt (19%) down on the same time last year. With Russian wheat prices now rising, the EU export pace may start to pick up, otherwise EU prices may be at risk.

In the last month, Scottish ex-farm prices rose; +£4/t for wheat (£148/t), +£5/t for feed barley (£135/t) and +£5/t for rapeseed (£295/t del.).

UK spot ex-farm grain and oilseed prices



UK cereal usage trends

UK animal feed production rose strongly in January for pigs +6.2%, beef cattle +5.6% and using 4.2% more wheat and 14% more barley. So far this season the UK has used 60kt more wheat and 154kt more barley in feed production. The late, cold winter will only increase feed use further into March.

UK human and industrial (H&I) use of wheat in January saw a 7.4% (39kt) fall in wheat use in milling with total season wheat milled down 4.1% (-179kt). Wheat use in distilling rose 17.4% in January and is up 12.3% (55kt) for the season so far. Overall the UK appears to be losing demand for ethanol but gaining much of this back through higher feed use in livestock and distilling. Importantly for Scotland, the extra wheat distilling demand is almost entirely here in Scotland due to a move away from maize.

Barley malting use rose 6.8% in January and is up 3.4% (+36kt) in the 7 months of the season to date. UK whisky exports hit a new record in 2017, up 9% by value to £4.36bn & up 2% in volume led by malt.

End of season price - bite or boost?

UK ex-farm wheat prices have been remarkably stable since the autumn, hovering around £138/t and near £145/t in Scotland. What factors could affect wheat prices towards the end of the season?

Bearish – negative

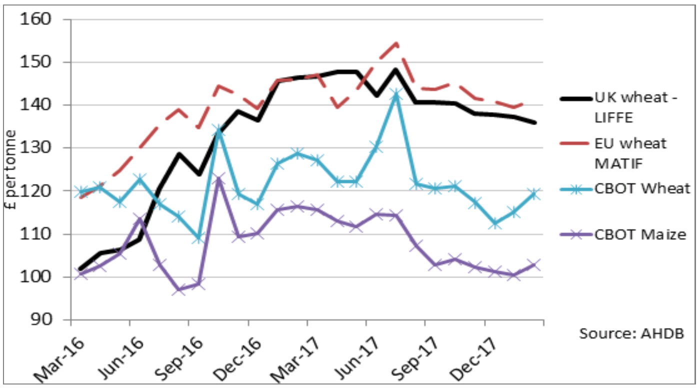
- UK and EU wheat prices are at a strong premium to world values
- EU wheat exports are well behind schedule
- UK ethanol demand is falling

Bullish – positive

- Scottish distilling demand up strongly
- US winter wheat/Arg. maize in poor condition
- Late winter looks likely – extra feed demand

Short term the situation looks positive for sustaining Scottish and UK wheat prices. Price development Apr-May-Jun will depend heavily on progress of spring planting and crop conditions globally. At some point the gap between EU and world wheat prices will have to narrow – if world prices don't rise, EU values will have to come down.

World grain futures prices



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Indicative grain prices week ending 23 February 2018 (Source: SACC/AHDB/trade)
Ex-farm England spring max 1.85%N,'* Before oil bonus, ~ nominal,

£ per tonne	Basis	Feb 2018	Mar 2018	Apr/May 2018	Nov 2018~
Wheat	Ex-farm Scotland	148.20	148.20	150.60	150.00
Feed barley	Ex-farm Scotland	135.10	131.70	134.00	130.00
Malt. barley – distil.	Ex-farm Scotland	-	-	-	166.00
Malting barley#	Ex-farm England	-	-	160.00	150.00
Oilseed rape*	Delivered Scotland	-	~295.00	-	~290.00

A steady start to 2018

As normal, the finished cattle price has ebbed away since the turn of the year. Nevertheless, as the chart shows, the Scottish steer price, at 373p/kg dwt, remains around 10p above the five year average for February. By comparison, the GB cull cow price is 30p higher at 252p/kg dwt. The preference for cow beef for processing post Christmas is normal, hence the relatively better trade for culls over prime cattle.

Bulling the focus for spring calvers

Prospects for the finished cattle price and, by implication, store and suckled calf prices will be secondary importance on most Scottish suckler farms this spring. The poor weather affected most Scottish herds in 2017, especially in the west.

While the immediate concern is to get live calves on the ground, the fear is that cows turned out in low condition onto bare fields will struggle to cycle. Next year's calving % and pattern would reflect these adverse conditions. Good management over the next few months can help minimise the problem and hard pressed farmers are advised to seek help now to put a suitable action plan in place.

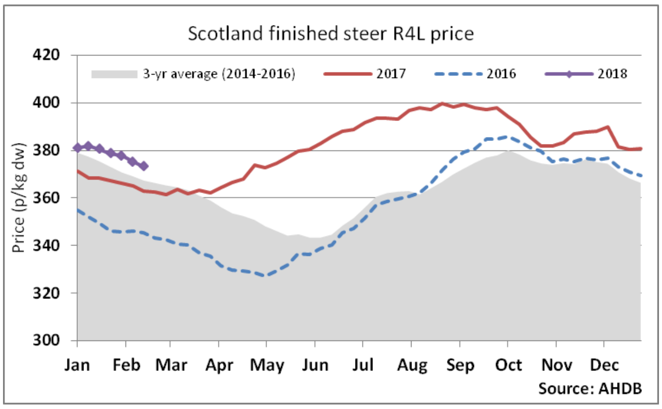
As for the price outlook, will the finished price pick up in the next month or so? Perhaps, but last year looks pretty good compared to previous years and there are more cattle in the pipeline. It may be prudent to budget on the cautious side.

Rock between Irish and hard place

Excuse the play on words, but a recent report highlights how the UK's vote to leave the EU puts the Irish republic in a desperate position. Paradoxically, their dilemma might help bring some sense to the Brexit negotiations.

The report written by Copenhagen Economics for the Irish government, details how thanks to history and geography, Ireland is deeply integrated with the UK. Below the focus is on beef, but the fact that 53% of Irish goods exports are transported via the UK "land bridge" indicate the scale of the problem for the Irish.

Around 40% of Irish agri-food exports come to the UK. We take 47% of their beef, 60% of their cheese and 90% of their mushrooms. Notably, 73% of Irish beef imports come from the UK, including cow beef from mainland Britain. Irish owned beef processors operating in Ireland and Britain make this two way flow of beef work seamlessly. In effect, the British beef industry benefits from Irish investment and expertise. The introduction of any trade barriers if it occurs will have massive implications.



The report modelled four different trade deals ranging from least radical (staying in the single market) to most radical – trading using WTO rules – with a free trade agreement similar to that recently agreed between the EU and Canada in between. Even the least bad option (a Norway type deal) is forecast to cut beef exports to the UK by 29%, and 53% under the worse case WTO option. Irish beef production is estimated to drop by 11% and 23% under the best and worse scenarios. In short, the Irish beef industry would suffer given any change from the current arrangement.

The Irish government therefore has a major interest in brokering a future trade deal as close to the current arrangement as possible. It will be interesting to see if their stance in steadfastly backing the European Commission position will persist if the UK government doesn't blink. One hopes that they will use their renowned negotiating skills to broker a deal that helps meet the demands of all sides.

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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 Feb	363.2	372.1	351.2	377.8	376.4	371.9	370.9	370.2	373.5
10 Feb	359.9	371.8	344.0	375.2	375.1	366.9	365.1	376.7	373.3
17 Feb	363.7	370.2	357.2	373.1	372.6	365.4	367.6	365.9	370.7

Market price update

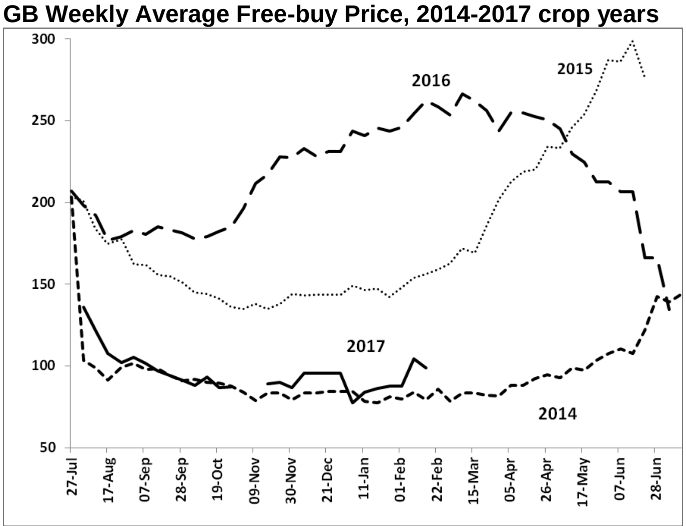
- The GB Weekly Average prices for the week ending 17 February 2018 were £155.42/t for free-buy and contract purchases and £98.81/t for free-buy purchases.
- Compared to the previous week free-buy and contract was up slightly by £0.35/t and free-buy was down by £5.41/t.
- A high volume of potatoes are still in store across the UK and continued slow demand in some markets is keeping prices down.

GB Weekly Average Price 2017 and 2016 Crop (£/t)

Crop Year	17 Feb	10 Feb	03 Feb	27Jan
All potatoes 2017	155.42	155.07	145.63	145.63
All potatoes 2016	211.95	214.13	201.30	201.30
Free-buy 2017	98.81	104.32	87.72	87.72
Free-buy 2016	262.19	254.48	243.86	243.86

Source: AHDB

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



Source: AHDB

In Scotland, free-buy trade for the packing market continues to be slow. Grade 1 Desiree and King Edward are trading around £100/t, grade 1 Maris Piper £115-£190/t and grade 1 whites around £40-£55/t. Bakers (including Osprey) are trading around £80/t. Most movement, including salads have mainly been on contract.

In England, free-buy trade is also tame, with high available volumes either keeping prices steady or pushing them further down. Bagged trade volume also saw little change, however, there have been reports that premium quality frying material is harder to source, which could slightly increase prices.

Storage and planting update

Crops are reported to be storing well for most, however, there have been reports of some storage issues i.e. silver scurf, black dot and sprouting of some Maris Piper.

The cold weather has delayed planting of earlies across the UK, although a start has been made on planting Epicure in Ayrshire.

Despite the cold weather delaying planting in some areas, it has been agronomically beneficial. The cold winter will have reduced groundkeepers and pests, such as aphids, and has helped to ensure that stores were maintained at target temperature more easily and economically.

New AHDB UK fertiliser price series

A new series of monthly UK fertiliser prices has been launched by AHDB, aimed at increasing transparency in the market and helping levy payers understand price trends.

The prices cover ammonium nitrate (UK produced and imported), liquid nitrogen (UAN), potash and phosphates. Further information can be found at: https://ahdb.org.uk/publications/UKFertiliserPriceSeriesArchive.aspx. Also see this month's 'Inputs Costs' article for an update on prices.

Scottish potato processing awarded grant

A Food Processing, Marketing and Co-operation (FPMC) grant of £4 million has been awarded to Scottish potato processing firm Albert Bartlett. The grant will help the company to diversify into the convenience and chilled potato market.

The developments planned by Albert Bartlett include investment in a major building extension and installation of new processing equipment to facilitate the introduction of new product lines, primarily chilled potato products. The development is expected to create 35 new jobs and will be able to process 50,000 tonnes of potatoes per year, of which 90% will be grown in Scotland, therefore benefitting Scottish growers.

Dates for your diary

Spot Scotland results Day is being held at the Red House Hotel, Couper Angus, near Blairgowrie on Thursday 8 March 2018. Results from AHDB's on-farm demonstrations on cultivations, seed spacing, nutrition and cover crops will be presented.

For further information, or to register go to: https://potatoes.ahdb.org.uk/events/spot-scotland-results-day.

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Good cheer for finishers

The hogget price is zooming with the chart showing the deadweight price around 80p/kg dwt higher than this time last year. For the w/b 26 February, the co-operative procurement group Farm Stock (Scotland) is quoting 460-475p/kg dwt with organic up to 500p. At these finished prices, store lamb finishers are getting a turn and few would begrudge them some good fortune.

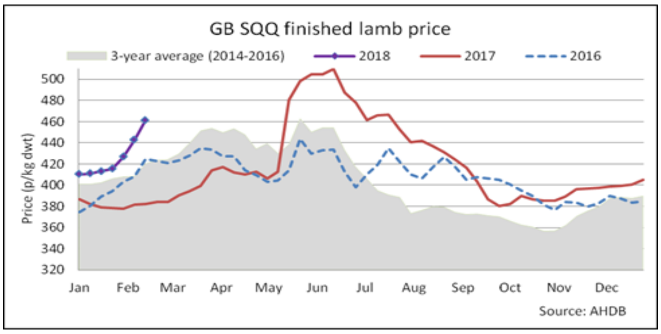
The cull ewe trade is also looking buoyant with the GB average about £62, up £5/ewe on this time last year. With scanners reporting empty rates of up to 25% here in the west of Scotland, there'll be plenty of, albeit thin, culls going to market. With feed desperately short in west Scotland and fears of a cold, late spring, cutting feed demand is a priority.

The strong climb in sheepmeat farmgate prices seems to owe more to global than local factors. In particular, strong Chinese demand. As a result, New Zealand lamb and especially cull ewe prices are excellent. This suggests that the Kiwis (and Australians) are switching non-contracted product from Europe to China thereby helping the market here. A weak pound is also a factor. For 2017, the UK imported just 80,200t, the lowest tonnage in 20 years. Of course, booming prices here in Europe might be expected to draw in more antipodean product in quarter two of the year, which includes Ramadan.

But weren't we budgeting on more British lambs being carried into 2018? Yes and the good news is that strong prices are drawing numbers out with 11% more hoggs killed in January 2018 than a year earlier. Easter is expected to help demand in the next couple of weeks. However, don't be surprised if hogg prices stabilise, as retail demand could struggle post Easter once lamb comes off promotion in the supermarkets.

A view of NZ

A recent trip to New Zealand found Kiwi sheep farmers in fine fettle despite droughty weather and several poor seasons. Though recently they have enjoyed decent rain, means that even the weather is working in their favour boosting pasture growth in what is late summer there.



The Kiwis tailed 1.9% more lambs this season (23.7m) but estimate that the number available for export will be unchanged at 19.27m as more ewe lambs are retained. A record lambing rate of 127% (plus more lambs from ewe lambs) accounts for the bigger lamb crop, as the number of ewes tupped was down by 1.9% to 17.8m (just over a million more than the UK).

Early season producers (lambing late June) did particularly well with one noting he averaged NZ$150 (£79) per lamb. One main season South Island business with three-quarters of its lambs still to sell (as at the start of Feb) had budgeted on NZ$100 (£53) per lamb back in the winter, but was now hopeful that this price would be well beaten.

Part of the reason for their optimism is that the early season drought resulted in more lambs killed earlier at lighter weights. Now that recent rains have bolstered pasture growth, farmers will look to take remaining lambs through to heavier weights before slaughter. No doubt, they will also be adding weight to cull ewes, as prices for fleshy culls are extraordinary.

Some other observations of the NZ sheep industry: Firstly, travelling through the South Island in particular, it is noticeable how much more lamb finishing is based on specialist forage crops grown under irrigation. Secondly, how quickly the Kiwis acted when the drought hit in late spring to cut feed demand. Feed budgeting is a critical skill there, unlike here. Thirdly, how high country farmers have transformed the economics of Merino production through centre pivot irrigators plus development of branded meat and wool products. And finally, how the processing sector has upped its game thanks in part to Chinese investment.

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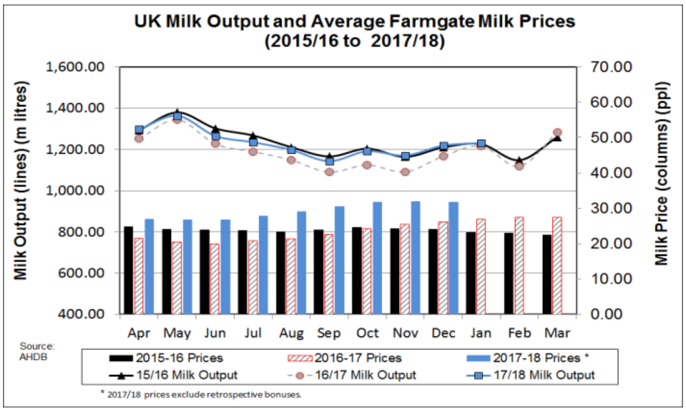
Week ending	GB deadweight (old season) 16.5 – 21.5kg			Scottish auction (new season) (p/kg LWT)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
3 Feb	428.7	430.2	427.2	184.9	200.9	192.7	56.68	59.99
10 Feb	444.3	446.5	442.4	187.1	207.6	199.5	58.09	62.59
17 Feb	462.7	466.5	461.2	194.3	210.8	201.3	58.31	62.50

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

Farmgate milk prices reduce in Dec '17

According to the latest DEFRA production estimates, UK milk output for January 2018 increased to 1,230.83m litres (before butterfat adjustment). This represents an increase of 14.33m litres against January 2017 production. Cumulative production from 1st April 2017 up until the end of January 2018 now stands at 12,313.97m litres. This is 465.15m litres above cumulative output for the same period last year.

The UK average milk price for November 2017 has been revised upwards to 31.94ppl (from 31.88ppl). The average milk price for December 2017 is estimated at 31.66, down 0.28ppl from the revised November 2017 price. Nonetheless, the December 2017 average price is 5.44ppl higher than the December 2016 average.



Price reductions for March '18

The main price announcements for March 2018 are outlined below:

- Müller – 1.00ppl reduction from 1st March 2018. See table opposite.
- Graham's Dairies – 1.00ppl reduction from 1st March 2018. This takes the standard litre price to 28.25 ppl.
- First Milk – 1.25ppl reduction from 1st March 2018. See table opposite.
- Arla Foods (Direct) – 1.20ppl reduction to its direct milk price from 1st March 2018. This follows on from 1.00ppl reductions during January and February 2018. The standard litre milk price for March 2018 is estimated at 25.80ppl.
- Arla Foods amba – A reduction of €2.50 cents per kg applies from 1st March 2018. This takes the manufacturing standard litre down by 2.16 ppl to 27.11ppl, whilst the liquid standard litre reduces by 2.08ppl to 26.08ppl.
- Yew Tree Dairy – 1.00ppl price reduction from 1st March 2018. This takes the standard litre price down to 28.00ppl.

Annual Average milk price estimates for March 2018 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	29.00
First Milk Balancing. [1]	26.84
First Milk Manufacturing (Lake District) - 4.0% Butterfat & 3.3% Protein. [1]	27.19
Müller - Müller Direct [1, 2]	28.00

[1] Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.
[2] No monthly supplementary payment included in the price estimate.

World production rising

According to AHDB data, cumulative production for the EU-28 (April to the end of December 2017) stands at 114,253m litres. This represents an increase of 3,524.97m litres (3.18%) on the same period last year.

Elsewhere, US milk output is ahead of last year. Production for the period April to the end of December 2017 is estimated at 71,305.86m litres - an increase of 1,071.76m litres (1.53%) on the previous year. Production in New Zealand is also running ahead of last year with June to December 2017 output estimated at 12,605m litres – an increase of approximately 116.00m litres (0.93%).

The figures above suggest that a tightening of world market product stocks may be unlikely in the short term. With continued growth in world output there is a risk of further downward pressure on price levels.

UK wholesale prices reduce further

AMPE is now at its lowest point since July 2016, when it was down at 23.35ppl. The latest AMPE figure of 24.02ppl for January 2018 reflects continuing reductions to butter and SMP prices on the world market. Having experienced a period of relatively positive average milk prices (above 25.00ppl) in the UK since November 2016, the tables have turned and most farmers are now wondering "How far will prices drop?" Much will depend on spring production peaks – both here in the UK, and abroad.

UK dairy commodity prices (£/ tonne)	Jan 2018	Dec 2017	Aug 2017
Butter	3,660	4,000	6,150
SMP	1,160	1,230	1,550
Bulk Cream	1,550	1,800	2,850
Mild Cheddar	2,850	3,000	3,425
UK milk price equivalents (ppl)	**Jan 2018**	**Dec 2017**	**Aug 2017**
AMPE (2014)	24.02	26.38	40.12
MCVE (2014)	30.10	31.87	38.70

Source: AHDB

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Sector Focus: Woodland & Timber Markets

Woodland and timber markets

It has been a strong year for the forest industry with increasing prices for timber, increased woodland values, rising woodland creation figures and strong public support.

Farm woodland timber sales

The table below shows prices received from a sample of timber sales managed by SAC Consulting. Even first thinnings are keenly fought over – one sale of only 600 tonnes received four offers while one of the clearfells had a remarkable eight offers. In many areas timber prices have benefited strongly from fuelwood demand; providing a buoyant local market with significant savings in transport costs.

Recent farm woodland timber sale examples

Standing sale, net income to owner after harvesting and haulage costs	Borders mixed clear fell & thin. 2,400 tonnes	Aberdeen shire First thin spruce 2,300 tonnes	Aberdeen shire Mixed clear-fell 5,500 tonnes	Aberdeen shire Spruce clear-fell 2,700 tonnes
	£/tonne	£/tonne	£/tonne	£/tonne
Spruce logs, green	39.30	32.00	42.50	41.50
Mixed conifer logs	28.30			
Larch logs, green			39.50	
Douglas Fir 30cm min TD	32.15			
Pallet wood	15.35	17.50	28.50	26.50
Hardwood firewood	24.50			
Pine or larch chipwood	11.80	10.00	14.50	
Spruce chipwood	6.35	10.00	14.50	14.00

Source: SAC Consulting

National softwood prices

The average price for standing conifer timber in Great Britain was £20.74/m^3 overbark for the year to September 2017, £3.43/m^3 higher in nominal terms than last year.

The fall in the value of sterling worked through the system and higher costs for imported timber led to a rise in prices paid for home grown material. Increases have been further boosted by the strong market for woodfuel with high prices now being paid for what has historically been a low value product. This is a reminder of the benefits of timely thinning in young plantations to ensure a high proportion of sawlogs in the final crop.

Coniferous Standing Sales price Index – GB

	Average Price per cubic metre overbark		Five yearly index
Year to	Nominal Terms, £	Real Terms, 2016 prices in £	Nominal Terms year to Sept 2016 = 100
30 Sep '13	13.93	14.35	82.5
30 Sep '14	17.90	18.14	105.7
30 Sep '15	18.24	18.37	108.2
30 Sep '16	17.31	17.31	100.0
30 Sep '17	20.74	20.23	118.40

Source: Forestry Commission Timber Price Indices to September 2017

Woodland values

The IPD UK Forestry Index for the year to 31st December 2016 showed a rise of 10.7% in woodland values reflecting the continued increase in timber prices. It is important to note that this index is based on a relatively small number of predominantly Sitka spruce woodlands and does not fully reflect the whole range of woodland properties. Woodland values by region are shown in the table below:

UK IPD Forestry Index

Weighted average value £/ha	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
2016	7,720	8,213	10,106

Source: IPD UK Annual Forestry Index to 31/12/2016

Nationally the market for woodlands is active and a majority of woods sold at more than the guide price. Sales increased by 39% to £111.04 million; 78% of this was in Scotland. (Source: UK Forest Market Report 2016, John Clegg & Co, Tilhill Forestry)

A combination of buoyant timber prices and good returns from thinning and felling makes managing even smaller farm woodlands much more worthwhile than just a few years earlier. Timber sales also benefit from tax-benefits. Now is therefore a good time to contact your woodlands consultant and to have the management and timber value of your woodlands assessed.

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Management Matters: Tenant Improvements

Amnesty on Tenant's Improvements

The Land Reform (2016) Act overhauls Scotland's existing tenancy legislation and introduces some significant changes, including a time-limited amnesty on tenant's improvements.

Short Limited Duration Tenancies (SLDTs), Limited Duration Tenancies (LDTs), Modern Limited Duration Tenancies (MLDTs) and '1991 Act tenancies' (secure heritable tenancies) are all potentially eligible.

The legislation regulating the right to compensation for tenant's improvements is complex and frequently poorly understood. It often isn't clear to either tenants or landlords if a given investment will be subject to compensation at waygo. The amnesty provides the opportunity for clarification, as well as potentially allowing qualification of some improvements that would be otherwise ineligible.

Note: Improvements are not valued at this stage, nor is there any immediate financial transaction.

The deadline for making use of the amnesty is 12th June 2020.

How does it work?

The tenant compiles a schedule of the improvements they believe are eligible and then agrees this with the landlord.

A formal route exists whereby the tenant formally notifies the landlord of the proposed list – this could be useful if the landlord chooses not to engage in a less formal discussion. If the landlord does not respond with a formal objection within two months then the improvements detailed in the notice will be qualified for compensation. There are limited grounds for objection by the landlord, for instance that it was the landlord who carried out an improvement, or that it would not be fair and equitable for the tenant to be compensated. In the event of a dispute that cannot be resolved informally the Land Court can be asked to decide the case.

What improvements are eligible?

The list of potentially eligible improvements is extensive and includes everything from agricultural buildings, drainage and fences to modernisation of farmhouses and cottages, etc. In some circumstances it may include diversifications. The key to eligibility of any individual item depends on:

- **When the work was carried out**. To be eligible any improvement must have been completed by 13 June 2017.

- **When the tenancy commenced.** The improvement must have been carried out under the current tenancy. This has implications where, for instance, a new generation taking over the farm are granted an entirely new lease rather than taking over the existing one.

- **Whether consent or notice was required.** Where an item required consent to be given but this wasn't obtained *using the correct formal process*, then the item is not eligible. Similarly where a tenant was required to give notice, the landlord objected, but the tenant went ahead anyway – then the item is not eligible. However, where a tenant *ought to have given notice but didn't,* the amnesty can be used to qualify those improvements.

Other considerations

Although the amnesty is important to qualify improvements for compensation at waygo, the 2016 Act introduced a change to the way rents will be calculated at review (at the time of writing this has not yet been implemented). This will base the rent on the productive capacity of the holding using the fixed equipment *provided by the landlord*. Therefore identifying and agreeing which fixtures are tenant's improvements and will be 'black patched' is worthwhile regardless if you plan to give up the tenancy in the foreseeable future or not.

I think this impacts me, what should I do next?

1. Take advice. Find out more about your own lease and how its content might impact on your use of the amnesty.

2. Start making a list of all the potential improvements on your farm – your agricultural consultant is well placed to help with this.

3. Once you understand your own position, open a dialogue with your landlord.

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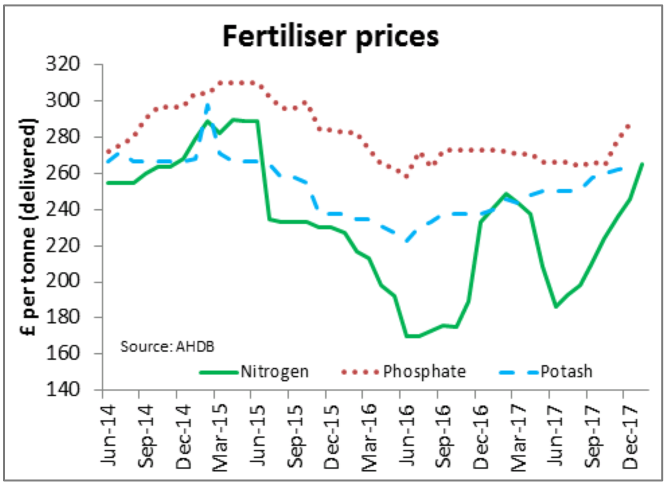
Input Costs : Fertiliser

Fertiliser	Price for bulk delivery (£/t) (May 17)	Price for bulk delivery (£/t) (Mar 18)	Change (£/t)	Average price per unit of nutrient (£/kg)
Nitrogen - AN (34.5%)	£185	£245	+£60	0.71
Nitrogen - Urea	£210	£240	+£30	0.53
Phosphate - TSP	£280	£285	+£5	0.62
Potash - MOP	£265	£260	-£5	0.43

Source: SAC Consulting and trade

Ammonium nitrate and urea

Nitrogen fertiliser prices have firmed in recent months with UK made ammonium nitrate quoted at around £245/t delivered in bulk bags for March 2018 with imported product around £10/t cheaper when available. Urea prices have been very volatile and are currently at a similar level of £240-250/t but these could change quickly.



The strong rise in nitrogen fertiliser prices reflects a tighter global situation and rising energy prices. According to FAO the growth in world ammonia production capacity (nitrogen equivalent) is expected to slow sharply in 2018 and 2019. In 2015 this capacity was 174mt rising by 11mt in two years to 185.2mt by 2017. Global production capacity growth is expected to be just 1.7mt in the next two years to 2019 and this is contributing to higher prices.

UK made ammonium nitrate has been well priced in recent months relative to limited supplies of imported product. Ammonium nitrate prices are expected to hover around current levels into the spring though may pick up on seasonally rising spring demand.

Farmers who forward bought and took delivery of ammonium nitrate in the £170-180/t range during summer 2017 will be pleased with the savings they have achieved. It is expected that a similar pattern will continue this season as manufacturers seek to sell a share of production early to provide income stability for their manufacturing operations.

To help track fertiliser price movements see AHDB recently launched price series:
https://ahdb.org.uk/publications/UKFertiliserPriceSeriesArchive.aspx.

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Key economic data

General Indicators		Price indices for December 2017 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.50% (0.25% Nov '17)	Wheat	119.2	Seeds (all)	99.1
		Barley	128.7	Energy	122.8
ECB interest rate	0.00% (0.05% Mar '16)	Oats	120.5	Fertiliser	98.2
UK (CPI) inflation rate	3.0% (target 2%)	Potatoes (Main Crop)	106.1	Agro-chemicals (all)	95.3
		Cattle and Calves	135.5	Feedstuffs	112.0
UK GDP growth rate	0.4% (Q4 '17)	Pigs	105.8	Machinery R&M	116.2
		Sheep and Lambs	103.0	Building R&M	116.6
FTSE 100	7,194 (1 Mar '18)	Milk	128.4	Veterinary services	111.9

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SAC Consulting, Rural Business Unit publication
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