SRDP Farm Advisory Service

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March 2019

News in brief

Farming gets on with the job

Today, processors slaughtering lamb and beef in Scotland, England, Wales and Ireland are relying on markets that may entail crossing the UK-EU border after the end of March. Today, surplus wheat and barley sitting in UK grain stores today cannot be committed to export because of the risk of tariffs applying in a no-deal situation after March. Today, seed potato growers are committing to planting varieties for export and do not know if these markets will be open to them come the autumn. These are just some examples where UK and Scottish farmers, food processors and traders are having to make decisions and commit to production without knowing whether their intended markets will be accessible come slaughter or harvest time.

For many industries, Brexit has already happened in a practical sense and they are now having to make decisions based on the new reality without actually knowing the details. The costs and risks individuals and businesses are taking to keep their businesses going in the face of lack of political agreement are tangible. The good news is that this pressure is getting through to many politicians who in the interests of their constituents and their jobs are not prepared to allow a no-deal to pass. It is expected that parliamentary votes in the week of 11th March will be critical to deciding whether Teresa May's EU withdrawal deal finally passes or Parliament takes the process out of her hands to seek an extension to Article 50, an EU renegotiation or even a second referendum.

Brexit events and webinar

To help provide updates on the Brexit situation and the impacts on agriculture, in the last few weeks of March, SRUC and partners supported by Scottish Government are holding local events and also a webinar - for more details see this month's Management Matters Section on page 8.

Next month …..

- Farm diversification
- Feeds update

Contents

This month's editor:
Julian Bell

Single Application Form

The Single Application Form (SAF) opens on 15th March 2019 and is used to claim payments under the following schemes - Basic Payment Scheme, Voluntary Coupled Support Schemes, LFASS, Beef Efficiency Scheme and annual recurrent options for Rural Priorities, AECS and the Forestry Grant Scheme. The deadline for submitting the SAF and EFA greening map is 15th May 2019.

Although a signed paper SAF application can be submitted to your local RPID Area Office, the easiest way to complete the SAF is online via Rural Payments and Services.

For the 2019 scheme year there are no rule changes. Further information about submitting a SAF and its associated schemes can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/basic-payment-scheme/

Land Parcel Identification System

Over the past year or so the Scottish Government has been updating the Land Parcel Identification System (LPIS) on Rural Payments and Services aimed at delivering more accurate mapping and improved functionality. The mapping facilities are still being developed further but once launched (after the SAF deadline) will have more layers of data available to overlay on the maps. Further information is expected to be available about this shortly.

LFASS update

NLFASS18

The Scottish Government are offering hill farmers and crofters the opportunity to apply for a loan of up to 90% of their 2018 LFASS payment, with payments beginning in April 2019.

The scheme has been designed so the payment farmers and crofters receive under NLFASSS18 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, Scottish Government will meet interest costs in compliance with state aid rules. The payment process is the same as the 2017 LFASS loan scheme.

Loan letters were issued at the end of February, if you have not received a letter contact your local RPID Area Office.

LFASS 2019

LFASS rules for this year will remain unchanged but under EU rules, LFASS funding should drop to **80%** of the current rate in 2019 and to **50%** in 2020. The Scottish Government however recognise the significance of this payment to Scottish Farmers so are trying to find an alternative way of replacing any lost funding to ensure this payment is not reduced, even in the wake of any Brexit scenario.

Brexit latest

It is highly likely that by the time this article is published further events will have happened but below is a brief summary of some of the recent headlines.

At time of writing 8 Labour and 3 Conservative MPs have quit to join the new Independent Group. Although they have not yet formed a political party, the group has more MPs than the Democratic Unionist Party and the same number as the Liberal Democrats. Despite the loss of three Conservative MPs reducing Theresa May's effective majority, increasing her reliance on the DUP, this in itself is unlikely to sway the course of Brexit.

Due to ongoing talks with the EU and uncertainty of getting a deal through Parliament, the date for the final vote has been put back and is now scheduled to happen on the 12th March. Pressure is being put on Theresa May both from the EU and from within her party to extend Article 50 and delay the departure date rather than crashing out with no deal. It is possible that there will be further resignations if no deal continues to remain on the table, which could have more of an impact. In fear of this, Mrs May has promised MPs if her vote on the 12th is rejected she will offer them a vote on delaying the UK's departure from the EU or ruling out a no-deal Brexit.

Cross compliance – March and April key dates

Date	Action
1 March	NVZ fertiliser and manure management plan must be prepared and implemented before this date
1 March	Hedges must not be trimmed or branches lopped off trees from this date (except for road safety reasons)
1 April	Hedge laying must not be carried out from this date
16 April	Muirburn must not be carried out from this date (except is a licence has been granted for out of season burning

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Grain prices fall sharply

Slow export pace in the US and the EU have been weighing on cereal and soyabean prices. Whilst Russian cereal export prices are now relatively uncompetitive this has not resulted in a major increase in export sales from the EU and US. This has left traders concerned about global demand.

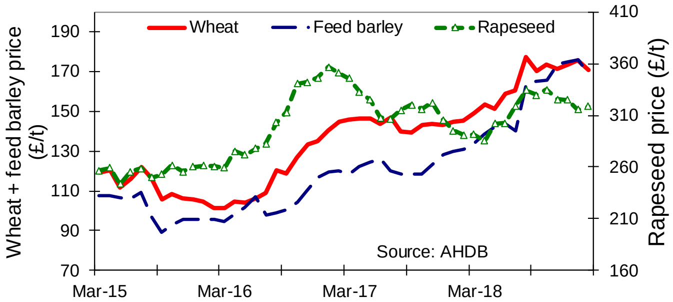
In the UK, cereal prices have fallen further due to a rise in the value of sterling up around 1% against the euro and US dollar in the last month as markets "think" a no-deal Brexit may be avoided.

The market's focus is now moving towards new crop prospects. Analysis by AHDB indicates the world's major wheat exporters could see a 7% (27mt) increase in wheat production to 395mt in 2019. This is based on estimated changes in wheat sown area and current crop conditions. The EU is expected to see the largest wheat crop increase, up 12% to 154mt. Currently winter wheat crops in most regions are in good condition though time remains for crop problems to emerge. The dry winter remains a concern in the UK and other parts of Europe. If not the world is on course for a larger wheat crop than last year.

Oilseed rape prices have fallen driven by closure of a major EU crushing plant, the impending arrival of new crop Australian rapeseed and a weak US soyabean market.

Since last month's edition, Scottish ex-farm wheat prices have fallen -£9.50/t to £162/t and barley prices are down -£16.00/t to around £155/t. Rapeseed prices fell -£2/t to £305/t delivered central Scotland for harvest 2019.

Scottish spot ex-farm grain and oilseed prices



Brexit uncertainty curbs UK exports

Feed barley prices have fallen by around £20/t since the start of 2019. Feed use in the UK has fallen 14% in the first six months of the season with maize replacing barley in many rations due to the more competitive price. In addition the mild winter has cut cattle feed requirements further still. Feed demand usually peaks in March and the recent colder weather may encourage additional usage. Nonetheless, the UK faces a surplus of feed barley towards the end of the season and export pace has been slow to date.

With a no-deal Brexit still on the table, all UK barley exports to the EU past 29th March are on hold until the state of the negotiations with the EU becomes clear.

UK wheat exports face a similar predicament with any surplus from 2018 harvest and prospects for the much larger expected crop in 2019 clouded by the lack of clarity over trading arrangements with the EU. Both wheat and barley exports are vulnerable to EU tariffs in the event of a no-deal Brexit.

If a deal can be agreed forward prices may recover but may also be accompanied by a stronger pound.

Whisky export growth continues

In 2018 exports of Scotch whisky grew by 7.8% in value to £4.7bn according to analysis of HMRC data by the Scotch Whisky Association. The volume of exports also grew but at a lower rate, up 3.6% to 1.28 billion bottles due to the growth in sales of higher value malt whisky up 11.3% to £1.3bn compared to £3bn of blends. The US exports broke the billion £ mark with sales of £1.04bn last year. The European Union remained the largest export region at 30% of global value and 36% of volume.

Strong whisky exports have so far underpinned robust demand for malting barley. Whisky demand is highly dependent on global economic growth and a slowing world economy may impact in 2019. Overall however, prospects for whisky exports remain positive, supporting malting barley use.

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Indicative grain prices week ending 1 March 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Feb/Mar 2019	May 2019	Hvst 2019	Nov 2019	Mar 2019
Wheat	Ex-farm Scotland	162.00	163.00	142.00	144.00	150.00
Feed barley	Ex-farm Scotland	155.00		122.00		
Malt. barley - distil	Ex-farm Scotland			165.00		
Malt. barley - brew	Ex-farm England#	170.00	172.00		155.00	162.00
Oilseed rape*~	Delivered Scotland	317.00		305.00		

Unsustainable price

Prime cattle prices have slipped back by 2p as the week's trading began on 18th February. The price for R4L grades in Scotland's abattoirs in the previous week was in the region of 352-355p/kg deadweight. It is a similar story across GB but it has not softened as much across Northern England. As we approach the commencement of store cattle sales, buyers may be cautious ringside as it has been a costly winter with increased fodder costs and reduced returns. The price is down £50/hd while costs are up by a similar amount, with some higher depending on location.

With cash flow very tight and general upheaval at present, prime cattle prices need to show some promise sooner rather than later. Store cattle sellers hope that too!

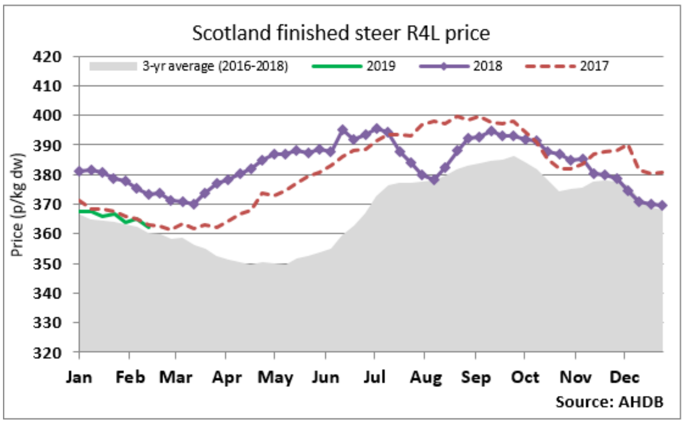
Imports pose current problem

Consumer demand for beef has been uninspiring which is not unusual at this time of year. However, with processors filling up chiller space when supply was readily available late last year and as a contingency for a hard Brexit, it leaves little to no storage space for further stocks.

Imports from Ireland are also much higher. It is an interim solution for Irish processors against unprecedented uncertainty. It is competitively priced too. Irish R3 steers are around 330p/kg dwt, some 15p lower on the year, but Irish processors and finishers alike recognise the benefit of a 'bird in the hand'.

Grass offers short-term relief

With GB prime cattle finishers currently yielding an unsustainable margin, confidence is low. The kind winter and recent unseasonal temperatures have set grass growing with some early applications of fertiliser being applied. Finishers are likely to look for lighter cattle to go to grass. That offers a short-term solution to high production costs.



- A saving grace might be the sound of growing grass to get buyers ringside at 'grass cattle' sales.

Selling short-keep prime cattle into the hiatus of Brexit may also be an opportunity for finishers. Everyone is hanging on the expectation of the prime market recovering into summer as Scotch and Red Tractor origin cattle supply will tighten.

Bright point in cull cows

Cull cow prices fortunately remain firm and are sharper now than late 2018 with cows averaging 250p/kg deadweight. Liveweight prices are around 120p/kg with big, well-fleshy, beef bred cows commanding the highest prices – meeting the demand for processing cuts. Demand is steady for beef mince.

Note re cleanliness of cattle:

Markets have commented on cull cows being sold in a dirtier condition. Sellers should be mindful to present cattle in a clean condition to achieve the best price possible.

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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
02 Feb 19	**363.7**	-3.2	-2.4	**364.1**	0.4	-1.4	355.4	16.0	249.6	226.1
09 Feb 19	**365.2**	1.5	0.3	**363.8**	-1.4	2.2	353.6	12.9	250.5	230.7
16 Feb 19	**362.2**	-3.0	-4.4	**361.5**	-0.7	0.6	357.0	13.3	250.9	237.1

The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

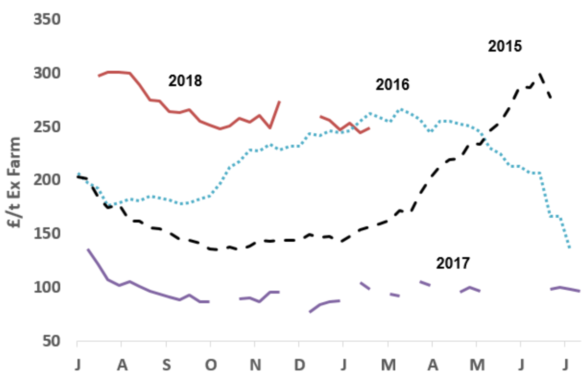
Market price update

- The GB Weekly Average Prices for the week ending 16th February was £202.61/t for free-buy and contract purchases, and £248.42/t for free-buy purchases.

- Compared to the previous reported figures on 9th February, contract and free-buy purchases were up by £5.84/t and free-buy purchases were up by £4.15/t.

Crop Year 2018/19	16 Feb	9 Feb	2 Feb
Average Price (£/t)	202.61	196.77	198.26
AVP change on week (£/t)	5.84	-1.49	-0.34
Free-Buy Price (£/t)	248.42	244.27	253.19
FBP change on week(£/t)	4.15	-8.92	6.78

GB Weekly Average Free-Buy Price (2015-2018 crop years)



Trading Season July - July Source: AHDB

Prices in the Scottish packing market have eased slightly due to a slowdown in demand for free-buy supplies. Grade 1 Maris Piper remains firm and is trading around £300-360/t ex farm, with lower quality stocks being purchased for around £260/t ex farm. Some secondary quality piper stocks continue to be sold into English markets. Grade 1 Whites are trading around £180-220/t ex farm, down by around £20/t on last week. Lower quality whites stocks are being purchased around £140-170/t ex farm. There are also reports of some Desiree stocks being sold into English markets for around £180-200/t ex farm.

Potato movement in the English packing market has largely been for contracted stocks. Any shortfall has been made up by local free-buy supplies with some additional Scottish material. Prices remain firm with good quality stocks continuing to demand a premium price. Grade 1 Maris Piper is trading between £330-375/t ex farm with exceptional quality stocks reaching £400/t ex farm. Grade 2 piper is trading around £265/t ex farm. Grade 1 Whites are trading between £240-280/t ex farm, with some stocks of whites with high baker content being purchased for £320/t ex farm. Due to the dry weather conditions this summer tuber size is smaller than average years. This is driving demand for whites stocks which have a higher baker fraction. Sized bakers (60mm+) are being purchased for around £300-330/t ex farm. Desiree is trading between £200-250/t ex farm and Mozart is trading around £250-260/t ex farm.

Trade in the chipping sector remains steady for the time of year. In the East, Maris Piper is being purchased between £250-360/t ex farm depending on quality and high/low bag count. Agria is trading between £340-380/t ex farm, and Markies is trading around £350-380/t ex farm. In the West, Piper is trading around £300/t ex farm, Markies around £300-330/t ex farm, and Sagitta around £320/t ex farm. In the South of England, Piper is trading around £290/t ex farm, Agria around £340/t ex farm, and Sagitta around £320/t ex farm.

Early Planting Underway in South

Reports suggest that early planting of new crop in Cornwall is well under way and has continued to make good progress this week with favourable weather conditions. Planting has also started in Pembrokeshire and some growers in the East of England are reported to be putting new crop under fleece. Has spring sprung early for Scottish growers? Many cereals growers will be itching to get onto the land to start sowing spring crops and potato growers will be servicing their planters ready for the season ahead. Average rainfall across Eastern Scotland was only 41.4mm in January, the lowest level recorded since January 1997 (29.7mm) source: Met Office Statistics 2019. This is considerably lower than the same time last season where an average of 112.5mm of rain fell after New Year. During late February last year, the 'Beast from the East' also hit many parts of the UK bringing low temperatures and high levels of snowfall between 22nd Feb and 4th March. Although there is no data for February this year, many parts of Scotland have remained dry and relatively mild for the time of year. If dry weather continues, this may encourage cereal farmers to start sowing earlier than normal, and in turn will lead to earlier potato planting.

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It will happen but not yet

The hogget base price is nearer 410-415p/kg deadweight at week ending 22nd February. That is slightly lower on the month (down 3-4p), which makes a 45kg hogg, £87/hd but £11 lower on the year. This reflects in the live ring. While white-faced hoggets may still reach £100 headline the average is nearer 192p/kg or £86/hd @ 45kg. Bearing in mind, last year was exceptional.

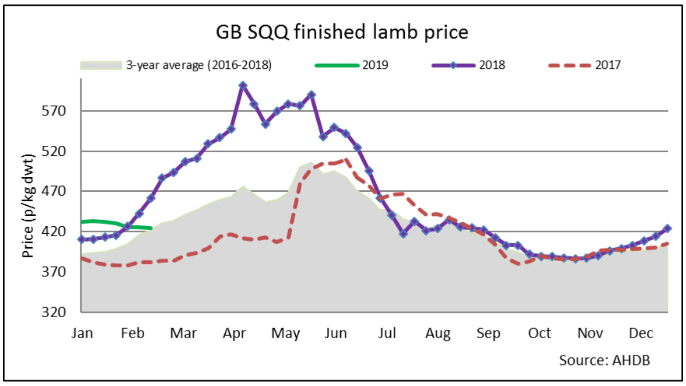
- Demand remains soft, seemingly a consequence of lower exports. With the exchange rate only showing minor fluctuation, this is not an issue of competitiveness, so is it that continental food supply chains contingency plans are slowly kicking into gear?

Throughputs were 8% (c.110,000hd) lower for the first 6 weeks of 2019 compared with the same period last year. Carcase weights are heavier so total availability of sheepmeat is not as low. Nonetheless, this highlights the lack of market reaction resulting from reduced supply is a problem at the demand end.

Despite a slow spring, quick disposal off dry, slow growing autumn pasture meant overall processor throughput from May to December was similar to the same period in 2017. Total UK lamb crop for last year was projected 2% lower (although 8% lower for Scotland) or just shy of 200,000 lambs. This equals less carryover, as widely expected.

Store producers are banking on things improving with very keen prices for store sheep and light lamb. There is every expectation that, with 8 weeks until Easter and only a further 2 weeks until the start of Ramadan demand will lift, but it is a matter of time.

Cull ewe supply hits a seasonal low as lambing approaches. GB national data is not yet available for cull throughputs in February. The current average is around £52-57/hd. However, with good grass availability, holding final sales for a few weeks will be a tempting inconvenience.



Sustainably tasty hills

It is estimated that some 75% of what we eat derives from only 12 crops and five animal species. Maybe there is a need to reimagine alternative (or additional) production from our hills and uplands for the sake of – those slightly vague terms – sustainability and diversity. But accepting the challenge of sheep farming, in complement to hill cows, few commercial species present such a high degree of environmental stewardship as the humble sheep. Meanwhile, food bloggers pithy anecdotes and tales of emerging food trends add texture to what may indicate the future accompaniments and narrative of the lamb dish, lest it be forgotten. So, while the stories of hard working farmers on TV programmes adds resonance to city dwellers, far removed from the actual reality, it is the need to measure the broader benefits of livestock in areas unsuitable for 'faba beans et al' that is required. That is what's missing and that's the opportunity.

Let us not forget the need for a good eating experience to encourage repeat sales. A weekend straw poll saw lamb rated highly on the menu of choice but the likelihood of selecting it was much lower, with fear of a disappointing and expensive dish. Extrapolate this sentiment to the wider consumer base and barriers to increased consumption are easily identified, if harder to address.

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd)	
									Scottish	Eng & Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
02 Feb 19	**426.3**	-6.0	2.3	1.7	**198.30**	0.0	1.8	15.5	55.10	58.40
09 Feb 19	**427.6**	1.3	-1.6	2.5	**193.70**	-4.6	0.4	15.3	57.17	58.81
16 Feb 19	**426.8**	-0.8	-2.5	3.6	**193.20**	-0.5	-0.7	14.6	53.52	57.38

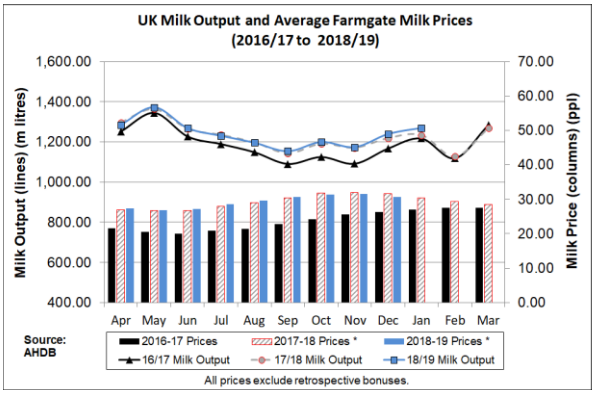
Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. Source: AHDB

UK production increase for Jan '19

UK monthly milk output for January 2019 is estimated at 1,269.46m litres (before butterfat adjustment). This is 35.46m litres above output for January 2018. Cumulative UK production from 1st April 2018 to 31st January 2019 is currently estimated at 12,388.29m litres. This is 70.76m litres ahead of last year, when the cumulative total was 12,317.53m litres.

DEFRA statistics show that the UK average milk price reduced by 0.91ppl between November and December 2018 taking the average price for December down to 30.69ppl. The UK average milk price figure for December 2018 is 0.93ppl below the average price for December 2017 (31.62ppl).

- *January 2019 production is estimated at 1,269.46m litres*
- *Cumulative production for 2018/19 is up 70.76m litres on last year*



Rising output sparks further price cuts

The following price movements are confirmed for March 2019:

- Arla Foods amba - No change for March 2019 The (liquid) standard litre price remains 29.06ppl
- Graham's Dairies – 0.75ppl reduction from 1st March 2019. This takes the standard litre price down to 26.75ppl
- Müller – 1.25ppl price reduction from 1st March 2019 (see table below)
- First Milk – No change for March 2019. (see table below)
- OMSCo – 1.00ppl reduction from 1st March 2019

Annual Average milk price estimates for Mar 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	27.50
First Milk Liquid [1]	27.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	28.43
Müller - Müller Direct [1, 2]	26.75
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. Includes 0.50ppl Müller Direct Premium.	

Arla - global milk supply agreement

- *Arla is to issue a single supply contract which will be common to all its milk suppliers across Europe*
- *The deadline for signing the new supply contract will be 30th April 2019. Those who do not sign by this date will have membership terminated by 30th April 2020*

Milk purchaser, Arla, has announced that it is to issue a new supply contract to supplying members in GB, Germany, Holland, Belgium and Luxemburg which will see all members operating under the same rules as existing Arla members in Sweden and Denmark. This will bring around 10,000 Arla members under a single set of rules. Arla members will have up until 30th April 2019 to sign the new contract. Those who do not sign up will have their membership terminated after 30th April 2020.

Müller bid to improve profitability

- *Müller has launched a two-year business transformation programme which aims to deliver £100m of cost savings*

Müller has launched a new two-year project, called Project Darwin, which is set to involve a review of all aspects of the Müller Milk & Ingredients business. The project aims to deliver a £100m cost saving by focusing on all activities beyond the farm gate such as logistics, administration, processing and customer relationships.

Grahams renew Aldi supply contract

Grahams Dairies have agreed a 5 year deal to extend their current supply arrangement with Aldi stores in Scotland. The deal is thought to be worth around £55m.

UK wholesale prices rise in Jan '19

- *Although prices increased during January 2019, product prices remain constrained by rising UK milk production*

UK product prices increased across the board during January 2019, with prices for butter, cream, skimmed milk powder (SMP) and cheddar cheese all showing an increase between December 2018 and January 2019. Although this marks a positive turnaround, the combination of strong domestic milk supplies, on-going Brexit negotiations and the impact upon currency movements all mean that it is difficult to predict where the market is heading.

UK dairy commodity prices (£/ tonne)	Jan 2019	Dec 2018	Aug 2018
Butter	3,900	3,680	5,080
SMP	1,670	1,500	1,380
Bulk Cream	1,710	1,700	2,230
Mild Cheddar	2,880	2,850	3,050
UK milk price equivalents (ppl)	**Jan 2019**	**Dec 2018**	**Aug 2018**
AMPE (2014)	30.19	27.44	33.18
MCVE (2014)	31.58	31.04	33.62

Source: AHDB alastair.beattie@sac.co.uk, 07771 797491

Management Matters: Tariffs in a "No deal" Brexit

Prospects of a No Deal

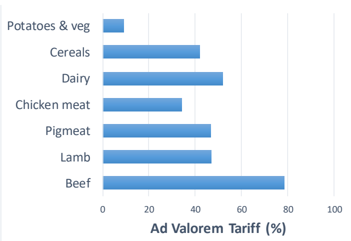
The potential for a No deal Brexit remains on the table though a number of developments in the UK Parliament may have reduced the risk. Currency markets seem to think so anyway given how the pound has appreciated against the euro and the US dollar in recent weeks. On the 12th March MPs will have another meaningful vote and a chance for May's deal to finally pass. If not, following that MPs will be able to vote to extend Article 50. While there is a good chance this could help the UK to avoid a no-deal scenario come March 29th it may not actually buy much more time given that the UK is not expected to be allowed to remain an EU member past 1st July. This is when the new EU MEPs sit in the European parliament and unless the UK also holds European Parliament elections in May (and it currently has no plans to do so) it is unlikely the UK would be able to remain an EU member state past this date. This means that even if a no-deal is avoided in March this may only buy the UK three more months and it may face the same situation come July. Therefore it is important to understand what trading conditions could be expected in a no-deal scenario, whether that be on 30th March or 1st July.

Bound tariffs

As soon as the UK leaves the EU in the absence of a deal it will be treated as a third party and all UK goods exports to the EU will be subject to the EU's WTO schedule of tariff.

For imports the UK has agreed to replicate the EU's WTO schedule of tariffs. This means the UK will be able to apply tariffs to imports up to the same level as the EU does. These bound tariff levels are the maximum level that can be levied under WTO rules. The following table illustrates the relatively high (10%-80%) average level of these EU bound tariff levels across a range of agricultural products.

EU Effective Ad-Valorem Tariff levels – average by sector (source (AHDB



While the UK is planning to adopt the same level of bound tariffs as the EU across all sectors of the economy, it will retain the right to lower tariff levels that it applies in practice on selected goods, as it sees fit. This is known as the applied tariff level.

Applied tariffs

Why might the UK vary its tariffs? The high level of effective tariffs on many imported products would mean, if fully applied, a sharp rise in inflation. Therefore, the UK government is planning to vary or reduce the applied level of tariff on many goods. The UK government were meant to have released these applied tariff levels for many months but now say they will only release this information in the event of a No-Deal Brexit.

Michael Gove has stated that the UK will vary its applied tariffs to reduce or minimise any effects of tariffs on cost price inflation for consumers and industry. It has been suggested that the UK government has a target to keep any impact on food price inflation of a no deal Brexit to below 5%. At the same time Michael Gove has pledged to retain tariffs at a level to protect sensitive domestic industries which in terms of agriculture could include meat and dairy products. There have also been suggestions by others in government for large reductions in tariffs for some sectors. If Michael Gove is true to his word and gets his way then tariff reductions will be made with an eye on minimising disruption to domestic UK agriculture, at least in the short to medium term. It also appears highly unlikely the UK will reduce tariffs to zero as it will then have nothing to negotiate away in its trade discussions with trading partners, such as the US, Argentina, Australia etc. The truth is we have no idea what effect the government's plans for tariffs will have on different sectors until we know what they are. The lack of information currently simply adds to the uncertainty surrounding the outcome of Brexit and its effect on agriculture.

Farming and Brexit - events & webinar

During March, SRUC are holding events and hosting a web seminar with partners supported by Scottish Government. For more details and to register - contact: janis.forrest@sac.co.uk Tel: 0131 603 7525.

Evening Brexit meetings 19.00-21.15pm; 13th March Thainstone Centre, 14th March Golf View Hotel, Nairn, 18th March Airlie Arms Hotel, Kirriemuir. Brexit webinar – date to be announced.

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Sector Focus: Timber Market

Woodland and Timber Markets

This has been another strong year for the forest industry. Timber prices continue to increase and we are also seeing increased woodland values and rising woodland creation figures.

Softwood prices

The average price for standing conifer timber was £30.26 per cubic metre overbark for the year to September 2018. This is £9.52 per m^3 higher in nominal terms than last year, an increase of 45.9%. This covers all classes of timber, thinnings and fellings, from all over the UK and does not reflect the considerable local variations that can occur.

Coniferous Standing Sales price Index Great Britain

	Average price per cubic metre overbark		Five yearly index
Year to:	Nominal Terms £	Real Terms 2016 prices in £	Nominal Terms Year to Sep 2016 = 100
Sep 2014	17.90	18.14	105.7
Sep 2015	18.24	18.37	108.2
Sep 2016	17.31	17.31	100.0
Sep 2017	20.74	20.23	118.4
Sep 2018	30.26	29.02	177.5

Source. Forestry Commission Timber Price Indices to September 2018

In 2017 UK home production of roundwood was 10.3 million m3, compared to 50.3 million m3 of imports, with only 4.2 million m3 of exports. The UK will always be heavily dependent on timber imports and we are one of the world's largest importers of timber at a net cost in 2017 of £6.1 billion. Exchange rates therefore are an important factor in timber prices.

For sawn timber where the UK is only 38% self sufficient, three countries - Sweden, Finland and Latvia account for 72% of the sawn timber imports into the UK. The Sterling/Krona exchange rate has bounced around 11.5 for much of the year, up from a low of 10.35 in Sept 2017, but still far less than the high of 13.6 in August 2015. That was when timber prices started to rise sharply to their current levels and there is no immediate pressure for them to fall.

Sawlogs sold at roadside follow a similar trend of steadily rising prices.

Softwood Sawlog Price Index Great Britain

	Average price per cubic metre overbark felled		Price index 6 months to Sep 2016 = 100
6 months to:	Nominal Terms £	Real Terms 2016 prices in £	Nominal Terms Year to:
30 Sep 2014	40.4	41.29	111.8
30 Sep 2015	29.15	29.65	80.7
30 Sep 2016	36.13	36.13	100.0
30 Sep 2017	41.83	41.05	115.8
30 Sep 2018	56.11	54.02	155.3

Source. Forestry Commission Timber Price Indices to September 2018

Woodland Values

The increase in timber value at harvesting is also reflected in the value of woodlands. It is no surprise therefore that the IPD UK Forestry Index for the year to 31 December 2017 showed a rise of 13.9% in woodland values over the UK as a whole. The three year annualised rate, 2014-17, is 11.6%. 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.

Weighted average value £/ha	North Scotland	Mid Scotland	South Scotland	North England
2013	3,867	5,658	7,060	9,115
2014	5,679	6,997	8,108	8,380
2015	6,616	7,747	9,428	10,210
2016	7,720	8,213	10,106	11,571
2017	5,183	8,133	9,758	12,012

Source : IPD UK Annual Forestry Index to 31/12/2017

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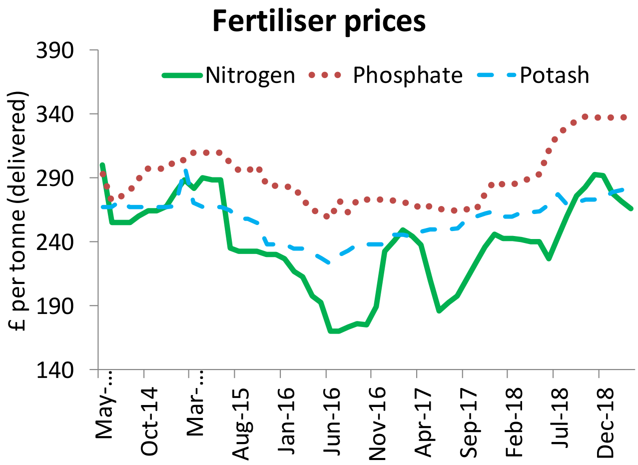
Input Costs - Fertiliser

Fertiliser prices delivered	Price for bulk delivery (£/t) (Mar 18)	Price for bulk delivery (£/t) (Mar 19)	2019 vs 2018 change (£/t)	Current price per unit of nutrient (£/kg)
Nitrogen - AN UK (34.5%)	£242	£266	+£24	0.77
Nitrogen - AN Import (34.5%)	£232	260	+£28	0.75
Nitrogen – Urea Granular (46%)	£253	£275	+£22	0.60
Diammonium Phosphate - DAP	£368	£408	+£40	-
Phosphate - TSP	£287	£338	+£51	0.73
Potash - MOP	£263	£283	+£20	0.47



Source: AHDB, trade sources

UK fertiliser prices had been rising throughout late 2018 but nitrogen prices (ammonium nitrate and urea) have fallen back since the start of 2019. Compared to a year ago fertiliser prices remain between 10% (ammonium nitrate) and 20% (phosphate) higher. Price swings in global markets and changes in the sterling exchange rate with the US dollar have been important factors.

In recent weeks, sterling has strengthened against the US dollar; the currency in which global commodities such as fertiliser are traded. A stronger pound has made imported fertiliser cheaper. This follows developments in the UK parliament which traders think will lower the chances of the UK crashing out of the EU without a deal. Energy costs, as well as global demand will also impact the future direction of the market. DAP (Di-Ammonium Phosphate) is particularly good value at the moment offering an additional 180kg of nitrogen per tonne which at 77p/kg of nitrogen is worth £139/t for a cost of just £70/t over TSP (Triple Super Phosphate). TSP of course has the advantage of being of greater value for precision nutrient application.

With agriculture under increasing pressure to reduce ammonia emissions, the industry is being encouraged to look into alternative applications and methods and new products are being introduced to such as the use of urease and nitrification inhibitors. While leading to lower ammonia emissions these measures are not always cost effective in nitrogen saving terms but may have other management and agronomic benefits particularly for higher value crops such as vegetables.

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Key economic data

General Indicators		Price indices for December 2018 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	146.12	Seeds (all)	104.4
ECB interest rate	0.00% (0.05% Mar '16)	Barley	156.19	Energy	121.7
		Oats	162.29	Fertiliser	110.1
UK (CPI) inflation rate	1.8% (target 2%)	Potatoes	136.87	Agro-chemicals (all)	103.6
		Cattle and Calves	100.43	Feedstuffs	119.2
UK GDP growth rate	0.2% (Q4 '18)	Pigs	107.96	Machinery R&M	107.9
		Sheep and Lambs	106.08	Building R&M	111.4
FTSE 100	7,099 (27 Feb'19)	Milk	125.31	Veterinary services	115.0

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