Agribusiness NEWS

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News in brief

March 2021

Global supply seems to be tight across many primary agri-food products, which is good news for producers with prices reflecting this. This is a fortunate start for many sectors in the early months of 2021, particularly with the prospect of a No Deal late into 2020, and high prices for many sectors are providing a confidence buffer as the UK settles into its new position in global markets as a non-EU country.

With trade continuing with Europe for some (though not all) key agri-food markets (e.g. see Sector Focus – pig update, and Potatoes, Feb edition), the start of the year sets many sectors up well for the coming months. However, tensions that EU imports can enter the UK relatively unchecked, yet exports going the other way are subject to much more rigorous checks than before are being felt, in some sectors more than others, and additional costs and bureaucracy passed up the supply chain to British producers.

On the home front, with the rollout of the Covid-19 vaccine, and new UK Government roadmap on the back of the vaccine's success, the question is whether a new landscape of markets will continue as a more permanent shift in consumer habits, or whether trends will shift back to previous levels. This is good news for some sectors, e.g. potatoes, pork and milk which are particularly supported by food service sales, and have taken a hit throughout its closures over past months. Similarly the to-ing and fro-ing of restrictions has been especially bad news for brewers, with millions of pints of beer disposed over 2020 due to pub closures.

The gradual relaxing of restrictions will also be good news for processors, namely pig and poultry processors and dairy facilities who have faced reduced capacities and supply chain implications. For other sectors, such as beef and lamb, there will be hope that an increased consumer interest and spend in British meat will continue as a revival, and not relapse to previous declining trends.

Next month:

- Directions of future farm support
- Options for alternative crops

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Convergence Payments

The second and final instalment of convergence money started to make its way into eligible farm businesses bank accounts at the end of last month. To be eligible a business would need to have submitted a Single Application Form in 2020.

In total, £71.8 million is available which has been split into two different payments – a Basic Payment Scheme (BPS) area payment and an upland payment. The budget split is shown in the table below.

Year 2 - 2020 convergence budget split	
Convergence 2020 budget	£71.8m
Upland area requirement	£32.9m
Convergence BPS budget	£38.9m

The convergence BPS area payment has been used to top up payment rates for each of the three payment regions. The upland area payment has been used to top up 2020 LFASS payments so they are the same as the payment rates used in the 2018 claim year, i.e., they are equivalent to the 60% reduction in 2020 LFASS payments.

Final convergence payment rates are shown in the table below.

BPS region	Convergence 2020 (£/ha)
Region 1	£9.65
Region 2	£17.97
Region 3	£9.69

The maximum BPS convergence payment a business can receive is £30,000, which will affect around 150 farmers. The capped funds, amounting to £2.86 million will be recirculated and split between payment Regions 2 and 3. Details of how the Scottish Government intend to distribute these capped funds will be announced later in the year.

New claimants in 2020 will receive 90% of their convergence entitlement.

Every farmer and crofter who receives a 2020 convergence payment will receive a payment letter detailing how their individual payment was calculated.

Scottish Farm Business Survey

Each year many farm businesses participate anonymously in the Scottish Farm Business Survey, which helps the Scottish Government to assess the impact of changes in agricultural policy on farming businesses.

SAC Consulting collect the data on behalf of the Scottish Government and are particularly keen to obtain data from smaller sized beef and sheep farms, with a turnover of £30,000 to £100,000.

Participation is voluntary and confidential, with a network of up to 450 farms in Scotland taking part each year. In return, farmers receive information about their business's performance, benchmarking information, and a full carbon audit. If this is of interest, further information can be obtained by emailing: ScottishFarmBusinessSurvey@sac.co.uk

BES - update for 2021 scheme year

For farm businesses that joined the Beef Efficiency Scheme (BES) in 2016, 2020 was the final year of their commitment. For farm businesses that joined in 2017, there is still various actions that need to be carried out this year. These include:

Complete a Single Application Form. If this is done online, check that the BES box is ticked. If the SAF is submitted on paper, tick the BES box. At least 80% of the defined reference hectares must be claimed.

Tissue tagging. The BES team will aim to make only one selection of animals for tissue tagging, however businesses that have an even split of calving in the spring and autumn may receive more than one selection. The selection will take place after the 7th February 2021 deadline. Participants who plan to sell their animals in September can opt for an early selection. Tags for early selection will be issued in early July; all tags will be issued by the beginning of September.

Record calving data. If not participating in early selection, calving data for calves born from 1st January to 1st of June must be recorded by 15th July 2021. A selection of the spring calves will be made in late July with tags starting to arrive in August and all tags arriving by 1st November 2021.

Full scheme guidance can be found on Rural Payments and Services at: https://www.ruralpayments.org/topics/all-schemes/beef-efficiency-scheme/

Key dates for March

Date	Action
From 1st March	Scrub and/or gorse must not be removed or burned.
	Hedges must not be trimmed, or branches lopped off trees (except for road safety reasons).

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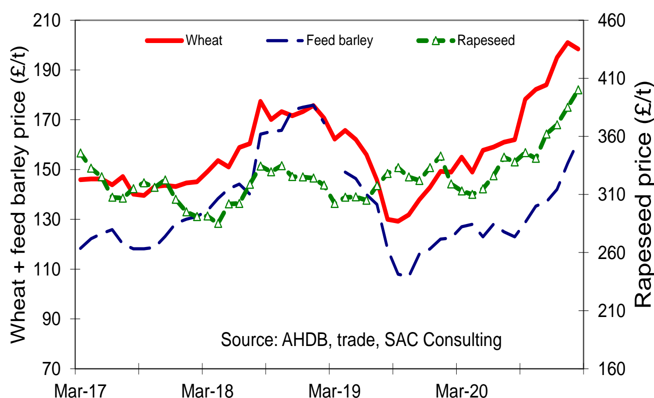
Tight global supplies keep UK wheat prices firm – for now

The extent of the cold weather reaching across the US, Northern Europe and the Black Sea region over the last month has resulted in short-term market adjustments as the trade attempts to assess risks to crops, especially in areas with limited snow cover.

This sentiment should not distract however, from the potential gains compared to budgeted prices that can be made now in selling old crop wheat whilst May and July 2021 UK wheat futures remain strong. Although we have come off the highs seen in January, by not selling incrementally into this market, risks an exposure to buyers that will, in time, take cheaper imported new crop cover at the earliest opportunity. We are already seeing buyers covering their July and early August positions with new crop French wheat.

The driver for the current highs in wheat and barley prices has been the strengthening of maize values in S. America and China's pull on maize and barley supplies from EU, Russia and Ukraine.

Scottish spot ex-farm grain and oilseed prices



While the UK market is currently underpinned by the minimum import price, the after-effects of the 2020 harvest shortfall will of course dissipate with time. The UK could potentially see a 15mt harvest this year and in addition to which, EU27 soft wheat production for 2021/22 is currently anticipated to climb to 129.6Mt, increasing 10.4Mt above last season's output of 119.2Mt.

Reason enough, therefore, to consider now how you might approach timings on new crop sales. Knowing your costs of production per tonne gives you the confidence to take a November price for example ahead of harvest that will secure a margin. Review your crops potential coming out of winter and selling up to 30% forward is an effective strategy that engages the market and spreads risk without over committing.

Feed supports malting barley prices

Viewed as in short supply, old-crop feed barley remains good value against other raw materials, underpinning a good demand forecast through to the end of the season. The export market has found favour and by the close of 2020, 60% (just less than 1Mt) of surplus had been shipped. Malting premiums for new crop range between £15/t and £35/t with base prices supported by the firm feed markets despite the backdrop of a 23% fall in Scotch whisky exports in 2020. Premiums for spring malting barley in 2021 are at risk if Covid-19 continues to impact on the hospitality sector.

Conversely pandemic restrictions have been positive for oats. Human consumption and exports have increased and priced at a discount of £78/t to feed wheat and £35/t to feed barley, rates of inclusion in animal feeds are higher. Trade friction with the EU may counter demand going forward although the latest AHDB Early Bird Survey forecast has indicated a 5% rise in plantings in Scotland for the 2021 harvest.

EU rape markets continue to be tight. Imports into the EU block are expected to reach 6.77Mt through 2021, marking a 40% rise on the average seen over the last 4 years and will place expectations with Canadian exports to meet much of the shortfall.

For OSR 2021/22 is currently looking positive based on normal crop conditions as the global stocks-to-use ratio is anticipated to drop as low as 9%.

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Indicative grain prices week ending 19 February 2021 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Feb '21	Mar '21	May '21	Jul '21	Nov '21
Wheat	Ex-farm Scotland	198.40	201.00	203.00	205.00	165.00
Feed barley	Ex-farm Scotland	161.50	163.00	164.00	165.00	140.00
Malt. barley- distil	Ex-farm Scotland					188.00
Malt. barley- brew	Ex-farm England#		180.00	185.00	170.00	165.00
Oilseed rape*~	Delivered Scotland			400.00		360.00

Deadweight prices remain strong, with supply of cattle tight while consumer demand for beef remains high. The market has been very distorted for the last 12 months, with Covid restrictions and Brexit coming together to cause significant disruption. As things stand, we are still in full lockdown, with the hospitality sector furloughed for several more weeks to come. In spite of the lack of hospitality, demand for beef has been high, as consumers continue to fill their baskets with the quality Scotch beef that they know and trust. Cull cows remain a strong trade with processing beef being in high demand for mince and burgers.

Announcements were made recently about plans to relax lockdown restrictions and while plans differ slightly from Scotland to England, the direction of travel is the same. We are all hopeful that things return to something near normal over the next few months.

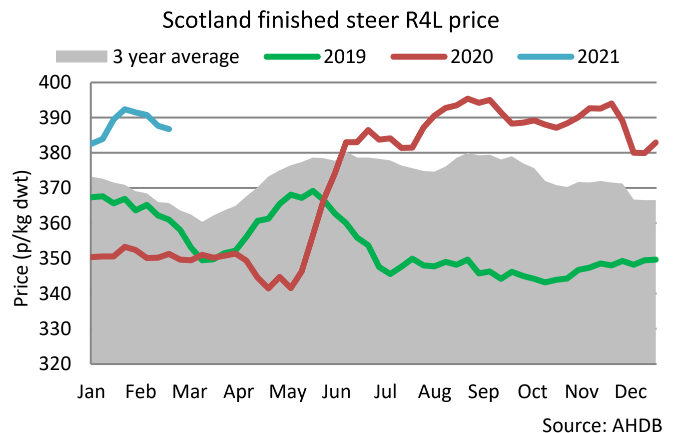
From a farming perspective, the reality is that over the next few months, we all move into a self-inflicted lockdown, with lambings, calvings and spring work all demanding our full attention. Last year we hoped that things would be nearer normal after calving was over, this year, that hope is more realistic. But what does that mean for the beef price? Starting at an unusually high price at present, it is unlikely that the price will go up much further, particularly given beef's elasticity of demand. Consumers will only pay so much for beef. But we can realistically expect for the beef price to remain the right side 380p/kgDW for the coming months. Hotels and restaurants reopening and some good weather for BBQ would help to ensure positive margins for farmers.

The positive outlook for the beef price is being reflected in store and breeding cattle sales, with returns being well up on the year. Cattle are scarce and in demand. For farmers with cattle in sheds and are short of feed and forage, the store ring may well be their salvation.

Are sucklers really to blame

I read with interest work done by Hannah Ritchie at Oxford University, which broke down the sources of Greenhouse gases globally. Her work stated that globally, all livestock production is responsible for 5.8% of global emissions, this won't come as a big surprise as we hear almost daily that we should reduce our meat consumption. However, I was also interested to see that another area also equated to 5.8%, this was called fugitive emissions from fossil fuels. On closer inspection, I found out that this is the losses in the system during the extraction of crude oil, basically, these emissions come from flaring off gas on oil rigs, from leaky pipes and inefficiencies in oil refineries.

While there is a huge amount of work that needs to be done to make reductions in Greenhouse Gas emissions from livestock production and while reducing meat consumption would have a positive impact on an individual's carbon footprint, it is also clear that using less oil should be much higher up the agenda. Aside from producing beef, farmers provide a myriad of different public goods to their consumer, crude oil companies only provide 3, oil, large amounts of pollution and bumper dividends for their shareholders. It is hoped that some balance can be brought to the argument when normal service is resumed in the media.



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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
6-Feb-21	390.8	-0.7	2.7	389.0	-1.4	6.8	384.5	1.6	286.5	265.1
13-Feb-21	387.7	-3.1	2.7	386.1	-2.9	3.4	379.0	23.3	286.5	267.3
20-Feb-21	386.8	-0.9	4.4	385.2	-0.9	2.0	378.3	9.8	290.2	265.5

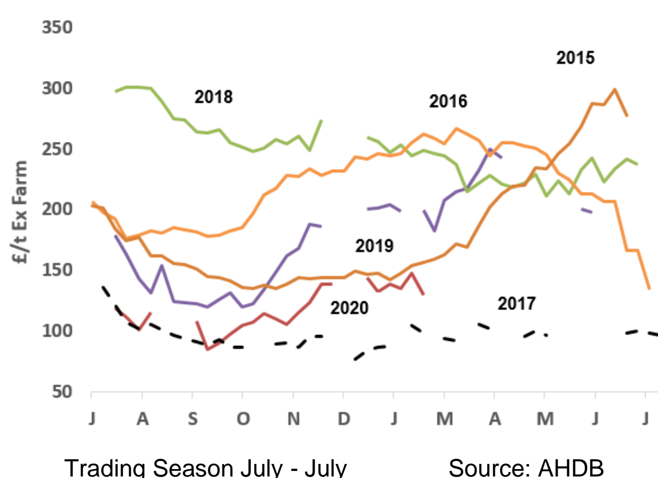
Potatoes

Market price update

- *The latest GB Weekly Average Price reported on week ending 13th February was £167.65/t down £2.36/t on the previous week.*
- *The latest GB Weekly Average Free-Buy price reported on week ending 13th February was £129.64/t down £17.66/t on the previous week*

Crop Year 2020/21	13 Feb	6 Feb	30 Jan
Average Price (£/t)	167.65	170.01	170.83
AVP change on week (£/t)	-2.36	-0.82	-0.55
Free-Buy Price (£/t)	129.64	147.30	135.33
FBP change on week(£/t)	-17.66	+11.97	-3.31

GB Weekly Average Free-Buy Price (2015-2020 crop years)



Trading Season July - July Source: AHDB

Market Update

Demand throughout much of January and February has remained muted and predominantly on contract as packers and processors have managed to fulfil orders without purchasing much free-buy material. Reports suggest that free-buy demand across all sectors is relatively low and this trend may continue short-term. Industries have been eagerly awaiting the UK Government roadmap out of lockdown, and can be cautiously optimistic about a gradual return to usual markets. Reopening schools remains a top priority for both the UK and Scottish Governments, and it is likely that the education sector will be the first sector to reopen fully. As children return to classrooms this will increase demand for potato products but is unlikely to have a significant impact on the sector. The biggest impact will be seen when the dine-in hospitality sector reopens and public confidence eating out of home returns. Growers are beginning to face some difficult decisions – there are reports of some quality issues starting to appear in stores, and downward price pressure coupled with rising cold storage costs may have a financial impact towards the end of the season.

The packing sector remains strong and has been throughout the whole coronavirus pandemic, mainly due to lockdown, an increase in home-cooking, and the closure of pubs, café's, restaurants, and other establishments. Maris Piper continues to hold a premium over Whites mainly due to its versatility and is a well-known variety among consumers. The price difference between Piper and Whites is considerable and may remain this way until the end of the season.

In the Scottish packing market, Maris Piper is trading around £185/t ex farm, with highs of £230/t ex farm reported for premium packing outlets. Whites are trading around £65/t ex farm with a high of £75/t ex farm. In the English packing market, Maris Piper is trading around £260/t ex farm, with highs of £275/t ex farm reported. Whites, on the other hand, are trading around £100/t ex farm, with a high of £150/t ex farm. Reds are trading between £200-220/t ex farm, and salads (45mm down) are trading between £320-£350/t ex farm.

In the East of England bags sector, Chipping Piper is trading between £120/t-£200/t ex farm, Agria trading between £130/t-£160/t ex farm, with both Markies and Sagitta trading between £120/t-£140/t ex farm. In the West, chipping Whites are trading between £90/t-£120/t ex farm, and in the South of England, chipping Whites are trading between £140/t-£200/t ex farm.

In the processing sector, Peeling Piper is trading between £85/t-£110/t ex farm, and Whites are trading between £45/t-£60/t ex farm.

How did Christmas 2020 perform?

Christmas is an important milestone in the potato season, where there is often an uplift in demand which can help to stimulate trade and increase free-buy prices. According to Kantar data, published by AHDB Potatoes, total spend on fresh potatoes increased 6% year-on-year for the 4 weeks to 27th December 2020. This is the largest spend increase for potatoes, although was less than the 11.7% increase for total grocery spend. With Covid-19 guidelines limiting large family gatherings at Christmas, many families chose to spend the day at home in their social bubbles. In a highly competitive retail environment, some retailers lowered the price of vegetables to compete for consumer footfall, driving sales and profits for higher value, more 'luxury' products. As a result, the average price for potatoes declined 7% year-on-year in the 4 weeks to 27th December 2020.

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A flying start!

The hogg price is currently through the roof due to low supply and a healthy domestic demand. This is great news for hogg producers and a good sign for the forthcoming season. From the 1st January to week ending 13th February, almost 8% fewer lambs have been slaughtered compared to same period in 2020.

On the demand side, consumption during lockdown seemed to favour British lamb purchasing – supermarkets and butcher trade is generally supportive of British produce. Despite the loss of Easter roasting joints sales due to Covid lockdowns, total lamb sales were up 4% for 2020 with increased interest and time for home cooking.

In spite of long-held fears of the impact of Brexit on markets for the British sheep sector in particular, the start of 2021 has shown demand on the continent continuing to hold strong. French prices are especially exceptional, at £6.20/kg deadweight at start of February.

However, export paperwork is providing to be a challenge to adapt to, adding costs via non-tariff barriers for exports, on top of continued capacity issues at ports. Current high prices on the continent are helping to offset some of this costs, though how long this trend will continue it yet to be seen.

Furthermore, staffing issues are mounting pressures on processors to be aware of, but otherwise the prospects are good.

Sheep trade optimism

Global demand for lamb is rising and, coupled with reduction in EU imports from the southern hemisphere, this bodes well for sheep trade generally. According to AHDB Beef and Lamb, the value of sheepmeat and offal exports rose by 9% during 2020 compared with 2019, although tonnage was down 7%.

Domestic trade benefits from high street butcher sales, with a preference for high value cuts and Christmas spend.

Confidence is high in sheep markets at the moment. Breeding ewe sales are generally well above last year's prices (recent sales reports, week ending 19th February range from £80 to £184/ewe).

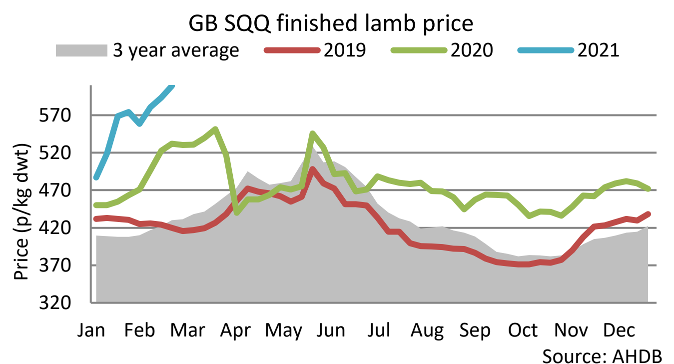
2021 crop and predicted trends

Ramadan runs from 12th April to 12th May which tends to see a surge in demand before and after the festival, creep feed might be a worthy investment in those born early. Similar to 2020, restrictions on celebration gatherings at Easter look again likely to reduce the scope for an upsurge in Easter 2021 lamb sales.

2021 scan reports are generally good. Use your scan results to budget your lamb crop for 2021 including realistic assumptions for lamb loss. If things continue so positively, aim to make the most of this optimistic market.

The New Zealand lamb crop is expected to be smaller this year which may offer some increased opportunity for markets particularly in China, although this may also be partly offset by reduced global demand for lamb due to the Coronavirus.

Throughput for 2021 expected at 4% lower than 2020, partly attributed to a high number of new season lambs slaughtered in 2020, resulting in a smaller number carried over to this year; old season lamb slaughter is expected to be 7% lower than 2020. Reduced lamb volumes and greater consumer spend provide a good start to 2021, although rocky markets similar to 2020 are predicted for the rest of the year.



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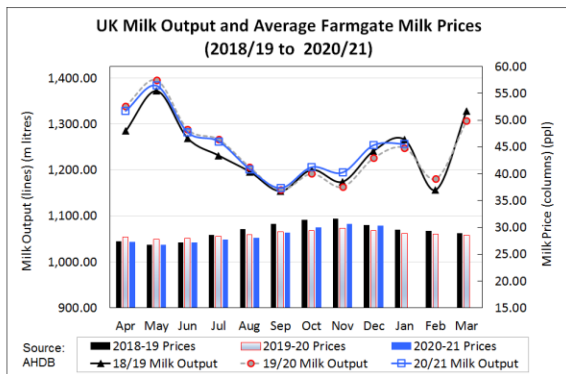
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
6-Feb-21	581.9	21.6	-3.5	1.1	272.60	9.8	10.7	21.8	73.83	77.62
13-Feb-21	594.3	12.4	-2.6	-1.5	277.00	4.4	9.4	14.6	75.16	76.57
20-Feb-21	611.4	17.1	-2.0	-1.3	281.90	4.9	5.5	18.0	75.94	81.64

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

2020/21 output set to hit 15bn litres

- *Output for January 2021 is estimated at 1,256.22m litres - up 7.86m litres on Jan 2020.*
- *If output for February and March can match the same levels last year, UK output should reach 15bn litres for 2020/21.*

UK monthly milk output for January 2021 is estimated at 1,256.22m litres (before butterfat adjustment). This is 7.86m litres higher than January 2020 output when UK production for the month stood at 1,248.36m litres. Cumulative UK milk output for 2020/21 (up to end January 2021) now stands at 12,529.41m litres (before butterfat adjustment). This is 48.32m litres higher than at the end of January 2020. With just two calendar months left in the 2020/21 milk year, the UK looks set to produce 15bn litres between April 2020 and March 2021.



There is no further update on the UK average milk price. The average price reported for December 2020 is estimated at 30.38ppl (down 0.27ppl from the previous month).

Farmgate prices - March 2021

Price announcements for March 2021 include:

- Arla Foods amba – Arla has confirmed a 0.44ppl price increase from 1st March 2021. The manufacturing standard litre price increases to 30.03ppl whilst the liquid standard litre price remains at 28.94ppl.
- Arla's organic milk prices also increase by the same level with the manufacturing price for March 2021 rising to 38.39ppl and the organic liquid standard litre rising to 36.98ppl.
- First Milk – prices are being held for March 2021. This maintains the liquid standard litre price at 28.00ppl whilst the manufacturing standard litre holds at 28.93ppl.
- Müller Direct – prices remain unchanged for March 2021 - see table below.
- Graham's Dairy – Graham's have confirmed that they will hold their milk price for March 2021. This maintains the liquid standard litre price at 27.00ppl.

Annual Average milk price estimates for March 2021 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	27.75
First Milk Liquid [1, 2]	28.00
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	28.93
Müller - Müller Direct - Scotland [1, 3]	27.00

1 Liquid standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.

2 The FM member premium is set to remain at 0.50ppl from April 2021.

3 No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.

More '*good news*' for Arla

There seems to be no end to the number of good news stories at Arla these days. Having just increased the member milk price for March 2021, Arla's board of directors are proposing to increase the member pay-out (13th payment) to 1.75 eurocent per kg milk (1.58ppl) rather than the standard 1.00 eurocent per kg milk (0.90ppl).

Arla has also had some good news regarding customer contracts. ASDA has confirmed that it is extending the existing deal with Arla as the sole supplier of cheese until at least 2024.

Mandatory code of conduct is coming

A new mandatory code of conduct setting minimum standards for contracts between dairy farmers and milk processors is to be drawn up by the UK government and devolved administrations. This will replace the voluntary code which, to date, a small handful of milk buyers have not adhered to, particularly with reference to farmgate pricing. The announcement from DEFRA follows the conclusion of last years consultation on improving milk contracts and relationships. The mandatory code aims to improve fairness, transparency, and stability within the dairy supply chain, making it a legal requirement for milk contracts to meet specific standards, thereby helping to address unfair practices and assist with dispute resolution.

UK dairy commodities: prices firm

Prices for most dairy products have increased marginally during February 2020. The outlook remains positive despite logistical challenges posed by Brexit and changing market conditions due to coronavirus.

UK dairy commodity prices (£/ tonne)	Feb 2021	Jan 2021	Aug 2020
Butter	3,150	3,060	3,080
SMP	2,070	2,040	1,860
Bulk Cream	1,335	1,237	1,480
Mild Cheddar	2,940	2,940	2,920
UK milk price equivalents (ppl)	**Feb 2021**	**Jan 2021**	**Aug 2020**
AMPE (2020) *	30.85	30.10	28.24
MCVE (2020) *	32.47	32.07	31.54

Source: AHDB

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Woodlands and timber markets

I think it's safe to say 2020 has been one of the most challenging years any of us has ever faced. A global pandemic, the entire country going into a state of "Lockdown" almost overnight in March, and concluding with the United Kingdom leaving the European Union on 31st December 2020 has been subject to some of the most disruptive and volatile trading conditions we've ever seen. Even with these multitude of challenges though, the Forest Industry has managed to emerge from 2020 arguably in a stronger position (in some sectors) than we were in when we left 2019.

The UK was the second largest net importer of timber in the world behind China in 2018, and demand for timber has risen dramatically in later months of 2020, bolstered by a massive surge in demand for timber from keen DIYers and gardeners who started new projects whilst furloughed. According to the Timber Trade Federation, the high levels of global demand for timber have continued into 2021, and we can expect to see fiercely competitive trading markets continue into Q2, perhaps even longer.

Exports from Sweden (our largest supplier of import timber into the UK) and from other global suppliers have slowed due to a combination of logistical challenges post-Brexit and from COVID-19 outbreaks. This has increased the demand for home-grown timber from UK-based mills and manufacturers, with both the domestic sector and the construction industry hungry for timber products at a time when supplies have tightened across the world. This supply issue has been further compounded by issues in Ireland, specifically a crippling backlog within their licencing and appeals process for timber harvesting, which has seen Ireland's domestic timber supply grind to a near standstill. High demand and restricted supply have driven market prices at the end of 2020 to some of the strongest offers we have seen for standing timber sales since the peak prices of 2018.

In addition to strong timber prices returning at the tail end of 2020, forestry and land prices have moved significantly upwards during 2020. According to the Forest Market Report (2020), the arithmetic average value per stocked hectare for commercial forestry jumped from a 2019 value of £11,479 per hectare to a staggering £15,962 per hectare, an increase of 39%. Whilst these values vary dramatically by geographical location, this leap in value clearly shows the sheer level of demand for commercial forestry in today's markets.

New planting

Despite all the challenges faced in 2020, last year was an exceptional year for new planting with Scotland delivering circa. 11,000 ha of new woodland, only 200 ha less than in 2019. Scottish projects accounted for over 80% of the 13.7 thousand hectares of new woodland planting in the UK for 2020. The volume of interest in woodland creation in Scotland is stronger than ever, with a 33% increase in volume of woodland creation applications being sent to Scottish Forestry at present compared to 2019/20. The average size of new planting scheme was around 25 hectares, suggesting that the majority of these new schemes are farmers and landowners tidying small parcels of unproductive land, as opposed to "whole-farm" scale planting projects. In the last 9 months alone, Scottish Forestry has awarded Forestry Grant Scheme contracts for over 10,000 hectares of new woodland creations, a clear indication of the rapidly growing commitment of Scottish landowners to invest in forestry, and confidence of investors in the perceived future values that forestry can offer.

Woodland carbon credits

Efforts to offset carbon dioxide emissions grew dramatically during 2020, and several high-profile projects from companies such as Brewdog certainly helped draw public focus on this evolving trend of using woodland creation projects to sequester carbon. As of 31st December 2020, the UK Land Carbon Registry recorded 26,582 hectares of woodland registered for carbon sequestration in the UK, with a projected total carbon sequestration over these combined project lifetimes of 9.6 Million tCO_2e. Carbon credits, and the potential financial value these can add to woodland creation projects, has become a significant factor in the Scottish Forestry sector now. Carbon credit sales can be used alongside FGS grant applications to bolster cashflows and improve the feasibility of projects that would otherwise struggle with just grant funding alone. With market interest (and prices offered for units) continuing to rise, we expect carbon trading to be a significant factor in woodland creation throughout 2021 and in years to come.

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The last few months has seen the pig sector suffer a huge change in fortunes, going from cautious optimism in the summer with rising prices, to a combination of events deemed "a perfect storm" seeing the sector enter one of its most challenging periods for many years.

Why such sudden & dramatic change?

Falling prices to producers and rising feed have been compounded by an increase in cheaper imports from the EU, with Brexit now meaning that EU imports can enter the UK relatively unchecked, yet exports going the other way are subject to much more rigorous checks than before. On top of this Covid continues to weigh heavily on the processing sector, leading to backlogs of finished pigs on farm. Closer to home, Scottish pig producers have recently had to cope with Scotland's largest processing plant at Brechin closing for a fortnight following an outbreak amongst staff.

Prices fall despite demand increasing

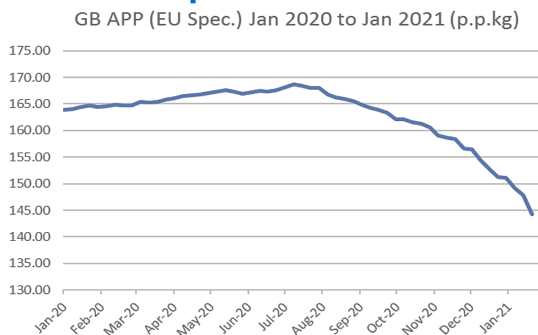

Figure 1. GB APP Jan 2020 to Jan 2021, (Source: AHDB Pork)

As shown in Figure 1, the prices received by producers have fallen steeply since late summer as reduced slaughter capacity caused by COVID and the effects of cheap imports have weighed on the market. With prices dropping by around 25 pence per kilo between early August and early February this translates to a reduction in selling price of over £20 per pig. Ironically demand for pig meat from UK consumers increased both in terms of value and volume in the last quarter of 2020 (AHDB). Much of this growth has been filled by cheap imports from the EU, which has seen it's pig price fall even more dramatically through 2020 than in the UK. This has been due to the outbreak of African Swine Fever (ASF) in Germany resulting in it being unable to export. Given the sheer scale of the German sector now having no export outlet and with the effects of COVID-19 also impacting on demand, this has dragged down prices across the EU.

Feed is the pig producer's biggest cost, and the prices of the major constituents - wheat, barley and soya have all increased significantly in recent months. On local level, the UK has experienced one of its poorest harvests with feed wheat now over £200/ton, up over 30% on the year with feed barley also significantly more expensive. Most producers will grow a proportion of their own cereals, insulating them in part from the cereal price rises, however, unless forward bought some producers will now be forced to buy grain in at these higher prices, affecting both profitability and also impacting on cash flow. The increase in the price of soya, the main source of protein has been even more dramatic, rising more than 40% in a year.

Brexit increases export bureaucracy

Export volumes to the EU have decreased significantly since the turn of the year. This has been mainly due to the significant increase in bureaucracy facing exporters. With considerable additional documentation required coupled with customs officials taking an exacting approach to paperwork this has increased both the time and cost involved with exporting. With pig meat being a perishable product, the delays have even led to rejections by end receivers. The market for cull sows has also crashed in the UK, with most sow meat traditionally exported to the EU. The difficulties being experienced by exporters has meant that there is now a backlog of culls sows on farm, increasing costs in terms of extra accommodation and feed. More recently confusion over the need for Trichinella tests has also caused concerns and delays.

Conversely, since Brexit the route to the UK market has been relatively straight forward for supplies from the EU. With EU product at a discount, some retailers have increased the proportion of the cheap and plentiful EU supplies offered to consumers at the expense of UK sourced pig meat.

Upheaval in processing due to COVID

COVID-19 has continued to cause problems for the processing sector. Outbreaks leading to temporary closures or reduced capacity in a number of plants through the winter has led to a backlog of pigs building up on many farms. This can have many implications:

- extra feed and accommodation costs for producers
- flow of pigs through units is compromised
- finished pigs falling out with specification, leading to reduced prices
- pressure on building space leading to welfare concerns

- carcass weights increasing significantly with average slaughter weights now over 90kgs, 4kg more than a year ago (AHDB)
- reduced prices offered to producers as supply of finished pigs exceeds processing capacity
- processing plants with COVID-19 outbreaks lose the ability to export to China

Higher costs and price fall impacts margins

In late summer AHDB estimated that pig producers were still making a margin of around £7 per pig. Since then margins have slipped as prices slumped and costs continue to rise, both in terms of input prices and crucially extra costs incurred through pigs staying on farm longer. Not only does this affect profitability but has cashflow implications for the business as well. By mid February, the National Pig Association estimated that UK producers were on average losing £20 per pig sold and the vast majority of producers were now in a loss making situation. Unlike other sectors, pig producers cannot "turn off the tap" with more pigs coming ready for market every week. Unless circumstances change the losses will keep building.

The last few weeks has seen various meetings between the sector and government which had been deemed "constructive". With a number of factors at play finding a solution to them all may take some time. The pig sector has made terrific strides in recent years, boosting efficiency through improved productivity and industry led health initiatives. This has made it more resilient to falling margins in the past. In the current climate however, circumstances have conspired against it in such a way that continuing to run faster is not the answer.

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Free Trade with Australia

The UK government is likely to sign a free trade agreement (FTA) with Australia this summer, which will have consequences for Scottish food and agricultural (F&A) businesses. Below these are examined to identify potential opportunities and threats. But first, why are both the UK and Australian governments keen to strike a deal so soon.

No rollover UK-Australia agreement

The UK government has signed over 60 trade agreements in the past 18 months. Yet the imminent one with Australia will be particularly notable as it will not simply be a deal rolled over from a previous agreement between Australia and the EU. It will be a new bespoke agreement. That is because the EU had no FTA with Australia. Indeed, both parties are bogged down (nine rounds of talks completed) in trying to agree a deal at the moment largely thanks to Brussels protecting its farmers from Australian imports (the EU actually runs a food trade surplus with Australia). By comparison, the UK-Australia trade talks only started in June and are already in their fourth round with agreement predicted soon.

Some history

The UK imported one-third of all Australian agri-exports in the late 1940's, including 80% of all their beef exports. While Australia was developing export markets closer to home from the 1960's, the UK entering the highly protectionist Common Agricultural Policy in 1973 slashed Australian exports. Unlike New Zealand, the Australians did not get sizeable Tariff Rate Quotas. In 2015, just 1.5% of Australia's agri-food exports came to the UK (mainly wine, beef and lamb). Despite the UK, as part of the EU for nearly 50 years, having no trade deal with Australia, they are nevertheless a major trade partner of the UK. In 2018/19, Britain was Australia's seventh largest trading partner with gold, lead and wine the main goods exported from Australia. Given the already good two-way flow of trade between Australia and the UK, plus the less than impressive forecast that a FTA might increase the size of Britain's economy by just 0.1-0.4%, why are both countries so keen for a deal?

What might be in deal?

The proposed deal will be far ranging. Financial and professional services including mutual recognition of professional qualifications; lowering digital trade barriers; simplifying direct investment rules; freeing up trade in goods by eliminating tariffs, quotas and lowering non-tariff barriers like customs checks; plus

aligning regulations and standards. The UK side is talking up the benefits of selling more services, especially telecom, and goods like cars and whisky. However, tariffs on these goods are already low (just 5%) and generally lost in exchange rate movements. By comparison, the Australian's face some prohibitively high tariffs – core agri-products like beef and lamb give them obvious targets to go after. They would also appreciate lowering tariffs on wine imports too. Critically, they are keen to get back in with the "old country" to diversify their export markets away from East Asia. China, Japan and South Korea accounted for 52% of Australian exports in 2018/19. The recent falling out with China makes striking a deal with Britain particularly attractive.

That the UK is also keen to join the Trans-Pacific Partnership (TPP) also makes the moment right to strike a deal. Australia is already a member of the TPP, so getting Australia's support in joining that trading block is a subplot to current negotiations.

Implications for Scottish F&A

On the plus side, increasing exports of whisky to Australia is welcomed. The Scotch Whisky Association was quick to get its wish list on the Australian government's desk. Already the 9th most important market by value for Scotch whisky, the SWA believes that eliminating the 5% tariff, levelling excise duties with brandy and tightening the definition of whisky, will grow exports. Good news for Scottish malting barley growers.

On the other hand, greater access to the UK (specifically the English) beef and sheepmeat markets has obvious implications for Scottish farmers and processors. The good news is that even if a deal is struck shortly, imports would be very limited owing to good rains encouraging Aussie farmers to rebuild their herds and flocks. A strong Australian dollar also offers Scottish farmers some protection. Of course, exchange rates change and the UK exiting covid restrictions relatively quickly could strengthen sterling.

Australian sheepmeat exports have suffered from the collapse of eating out in key export markets like the USA. As China rebuilds its pig herd from the impact of swine fever, less sheepmeat will go there too. That all Australian sheepmeat is Halal guaranteed helps export demand. But their farmers may need to adjust their production systems to kill lambs lighter to compete in the key UK retail market. Still, they are the biggest sheepmeat exporter in the world, so their market antennae are acute.

Yet it is probably the UK beef market that is the big prize for the Aussies. They are the second largest exporter of beef globally with a suckler breeding herd of just under 13 million head including heifers over a year old. Without subsidy support, they have developed highly competitive production and processing chains specific to a range of markets. For example, grain-fed feedlot beef goes to the high-value Japanese market.

Yes, growth promoters are allowed, but not where the target market objects to this practice. All beef exported to the EU must come from hormone free accredited businesses, so the structures are in place to target the UK already. Moreover, with the world leading Meat Standards Australia grading system they will be highly competitive in the high-end food service and retail sectors that Scotch beef targets.

And thoughts by the domestic beef industry that higher Scottish/UK standards will offer protection, are likely to be dashed. The Aussies haven't been playing with their didgeridoos in recent years: they are very actively developing the sustainability story of their beef industry.

Given that the UK imports a third of its beef requirement, largely from the EU, there will be little concern at Westminster if the Aussies get some of that trade. The fear is that the Scottish beef industry could get hit in the process.

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Key Economic Data

General Indicators	
Base interest rate	0.1% (0.75% Mar '20)
ECB interest rate	0.00% (0.00% Sep '18)
UK (CPI) inflation rate	0.7% (target 2%)
UK GDP growth rate	1.0% (Q4 '20)
FTSE 100	6,608 (24 Feb '21)

Price indices for December 2020 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	158.16	Seeds (all)	113.7
Barley	132.11	Energy	108.3
Oats	123.11	Fertiliser	90.7
Potatoes	110.72	Agro-chemicals (all)	143.7
Cattle and Calves	111.77	Feedstuffs	123.9
Pigs	113.14	Machinery R&M	113.6
Sheep and Lambs	125.17	Building R&M	115.2
Milk	124.10	Veterinary services	115.6

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