SRDP Farm Advisory Service

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March 2022

News in brief

Effects ripple out from Eastern Europe

Russia's invasion of Ukraine has taken the world by surprise, not least because of the shocking events unfurling in Eastern Europe, but also due to the ripple of many indirect effects which are becoming apparently globally.

The west has long been dependent on Russia and nearby states for energy fuels, notably gas (which has become apparent in recent weeks through the gas crisis), but also vehicle fuels, diesel in particular. In the UK 18% of diesel is imported from Russia. This gives Russia one of the few upper hands in its war with the west, as well as directly fuelling their drive to war. This will add another factor of price rise and uncertainty into the gear up of operations going into spring. With fuel prices already hitting record highs, the less we can use the better.

This is also having an effect on already high fertiliser prices (as a result of gas shortages reducing production), which saw a spike at the end of last week when Russia announced war on Ukraine. Russia is a major global producer and exporter of nitrogen fertilisers.

The third major concern on global agricultural markets is the impact on cereal availaiblity (and prices). Ukraine has highly productive land, and during the Soviet era was considered the breadbasket of the USSR. It is now a major producer and exporter of maize and wheat globally. It is uncertain what will happen to cereal production in Ukraine, whether due to land damage, lack of a workforce or both; this uncertainty is being reflected in grain price futures this week (see Cereals article).

If there was ever a time to take a look at the books, budget inputs and shave off some outgoings, now is it. See our Input Costs article this month for guidance on budgeting.

Next month:

- Contract farming
- Green Cow research project

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This month's editor:
Anna Sellars

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

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SACGS 2022 announcement

Following the 2020 pilot scheme, on the 12th February Scottish Government announced that a 2022 round of the Sustainable Agriculture Capital Grants scheme will run in 2022.

The scheme will open in April this year for 6 weeks, and like the 2020 pilot, will limit the maximum amount of grant funding per farm to £20,000. However, there are a few notable changes to this round; it will be open to farmers, crofters and contractors, whereas previously contractors were not eligible to apply.

Also, the 2022 will focus specifically on low emission slurry spreading equipment and slurry store covers, therefore only open those who store and/or spread livestock slurry or digestate. The end of the claims period will be the end of February 2023.

A SGRPID number is required to apply for the scheme, which can be done ahead of the scheme launching. Applications will require data on quantities of slurry or digestate stored and/or spread. A carbon audit or nutrient management plan will be required as a condition of funding being awarded. Applications will be processed through a dedicated online portal, to streamline the application and assessment process.

No announcement has been made as to whether other items included in the 2020 pilot will be included in future phases of SACGS. For further information see: https://www.ruralpayments.org/topics/all-schemes/sustainable-agriculture-capital-grant-scheme--sacgs-/

Slurry regulations

The announcement of the new round of SACGS will help to support farmers to meet new regulations around muck and slurry spreading, to be phased in over the next five years.

New regulations have been designed, under consultation, to optimise nutrient management on Scottish farms; reduce leakage and pollution from slurry & digestate; and reduce emissions associated with slurry and digestate storage and spreading.

The regulation include the following measures:

- Splash plate slurry spreaders were phased out 1st January 2022;
- Broadcast spreading with splash plates will be phased out;
- Precision spreading equipment, such as trailing shoes and dribble bars will be more widely introduced;
- Farms must have slurry storage for at least 22 weeks for cattle and 26 weeks for pigs;
- Tightened restrictions on the distance of silage bales, bulk bags, silos, slurry or digestate storage from water, and construction standards.

While earlier concerns were raised that the introduction of tighter regulations would disadvantage smaller livestock farmers who may struggle to find the capital to invest in necessary improvements and upgrades, SACGS will provide financial support to enable this transition. Given the rising costs of fertilisers, tighter management of nutrients on farm may also have a cost benefit, helping to reduce input bills.

Full detail of the new requirements can be found at: https://www.legislation.gov.uk/ssi/2021/412/contents/made

Red diesel

The DVLA's rules for use of red diesel will change from the 1st April 2022. Red diesel must only be used for work that is for an agricultural purpose (for an approved list of operations see: https://www.gov.uk/guidance/fuels-for-use-in-vehicles-excise-notice-75). The regulations will apply to farmers, as well as agricultural and horticultural contractors, forestry and aquaculture operations. The vehicle must be registered as an agricultural vehicle and allowed to use red diesel. For a further detail on eligible vehicles see: https://www.gov.uk/guidance/fuels-for-use-in-vehicles-excise-notice-75#exc-vehicles

The new regulations will require switching between white and red diesel for specified operations more frequently where having separate machinery for designated purposes is unfeasible; dual tanks will still be illegal. It is advised contractors retain greater documentation on timings of use of filling and flushing of each fuel and purpose of operation for inspections.

For more detail see: https://www.naac.co.uk/red-diesel/

Support for soil testing

The Rural Affairs Secretary recently announced that support will be provided for soil testing, including soil carbon analysis, on Scottish farms. Further details are yet to be released but is understood the scheme will open later this year.

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Wheat prices at 14 yr high as Russia invades Ukraine – some implications

Writing purely about the economic and business impacts of a military conflict is very difficult given that the true priorities lie in averting suffering for the people of Ukraine. Communities across Scotland have stepped forward to offer help including several initiatives from the farming and rural communities and that will be a focus for many.

Russia's aggression in Ukraine has major implications for farming and the wider population given the impact in driving up food prices. World and UK grain markets have climbed quickly as Russia launched its military offensive in Ukraine. The short, medium and long-term implications for energy, fertiliser and grain prices are profound if a peaceful resolution cannot be found soon. The short to medium impacts are largely negative for the economy more generally. Looking further ahead there may be some more positive impacts in terms of policy and international co-operation.

Short term

Ukraine and Russia play an essential role in global grain trade accounting for 20% of global feed grain exports and 25% of global wheat exports. Exports of these grains face immediate difficulties in reaching world markets given the military action in and around the major Black Sea ports of Ukraine. Russian grain exports are also being disrupted. Clearly this is sufficient to stoke market fears for shortfalls in cereal availability and fuelling the current grain price rises.

Medium term

It is becoming increasingly likely that Ukraine will see sharp falls in cereal production at harvest 2022. Not only are supplies of essential inputs such as seed, fertiliser and fuel for spring sowing increasingly limited; the physical ability of many farmers to access their land and secure the staff they need is now in question. Even where farmers have access to all that they need – can they afford to sow the full area of crops they are planning this spring; will they be able to harvest them, will they be able to transport them, will they even own them come harvest? If a peaceful resolution is found some of these issues may not arise. It may also be that regions of Ukraine remain out with Russian direct control though access to Black Sea ports may remain out of reach. There are also risks to farmers and cereal output in Russia and Belarus. The severity of sanctions in both countries raises questions as to whether farmers there will be able to access all the inputs they need or whether they will be able to finance their input purchases. There is also the risk to trade – will the crops that are grown be able to access ports and be free to trade on world markets? Huge unknown at present. Though, like energy, it seems unlikely that the West would place direct sanctions on Russian grain exports but exporters there may face many other constraints that may lead to the same result.

Long term The Russian bear is now well and truly out of the bag and there can no longer be any doubt about its true objective; to exert its will on its neighbours through its military and its control of energy and increasingly the world grain trade. This is finally helping the penny drop across political classes here in the UK and the EU; that the government's primary function is to protect the people and ensure access to key staples of the economy and life itself. So, alongside pressure to strengthen the defence budget goes increasing support for indigenous energy production (renewables, N Sea gas) and in time perhaps agricultural sectors too. Germany has dramatically announced plans to double its defence budget overnight to 100Bn euro whilst ramping up renewable energy production. Surely greater emphasis on supporting local food production must follow across the EU and here in the UK?

At home - respond to the market

Cereal prices in the UK have risen in line with global rallies but are subject to large volatility and lack of transparency. Price quotes particularly for inputs such as fertiliser are transitory or not being quoted making forward budgeting and purchase difficult. None-the-less, as ever, when buying inputs (seed, fert and fuel) forward sell grain in step to lock in a margin.

Where strong margins can be secured this can justify maximising spring sowings – this year may be one to raise cereal areas as far as possible to meet the very real need to maintain food supplies.

£ per t	Basis	Mar '22	May '22	Aug '22	Nov '22
Wheat	Ex farm Scotland	265	275	215	220
Feed barley	Ex farm Scotland	235		195	
Malt. barley - distil	Ex farm Scotland	288	293		245
Feed oats	Ex farm England	215			
Oilseed rape*~	Del: Liverpool	650		550	

(Source: SACC/ AHDB)

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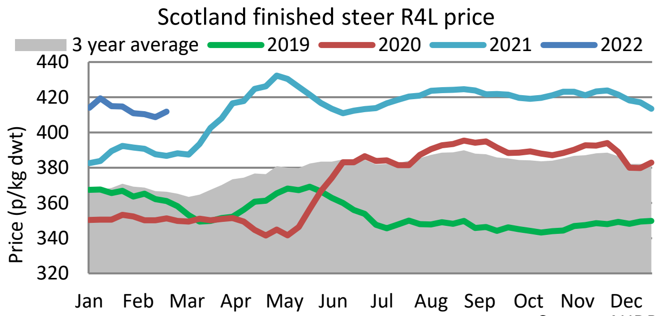
North – South divide?

Prime cattle prices have remained steady in February with any attempt by processors to reduce the price being challenged by producers. The current R4L price in Scotland remains around 410p/kg. Whilst this is a welcome price and is 12% above the five-year average, many producers are questioning where the Scotch premium is, as the R4L price south of the border has been around 8p higher for the last month. A tighter supply of cattle and more competition for them has resulted in this buoyant trade in England, both in the live rings and deadweight.

Supply in Scotland has been more plentiful, and processors are still struggling to maintain high kill numbers due to staffing issues and a subdued demand from their retailers.

Stocking decisions impacted by input costs

Increasing input prices are leading many finishers to question what type of stock to restock with and indeed how many to restock. There still appears to be confidence from the finishers in the trade as the store prices have lifted, especially for the shorter keep stores. Lighter stores more suited to going to the grass in the spring have not lifted as much in value but are by no means 'cheap'. It will be dependant on the weather and grass availability towards turnout as to whether they become any dearer in the light of high fertiliser and feed prices.



Source: AHDB

Many of the strong store prices of late have been paid by English buyers who have been buying significant numbers of scotch cattle to go south, with bigger budgets from higher finished prices and higher weight limits in England, this has created an unlevel playing field round the store ring.

If this continues there will no doubt be a shortage of Scotch cattle later in the year which, depending on demand, this may put pressure on the processors to increase the price to secure the cattle.

Squeezes on shopping budgets

With large increases in the cost of living hitting household budgets this year the cull cow trade is already reacting to this with strong prices of 320p plus and rising as consumers look towards cheaper cuts to fill their shopping baskets with.

Prime and store prices over the last 12 months seem to have given beef breeders confidence to reinvest, as the recent Stirling Bull sales showed strong results for all breeds. With 74 more bulls sold than in 2021 across the five main breeds with many of these breeds having higher averages than in previous years.

The Aberdeen Angus breed is now the number one sire in the UK with 24.41% of calf registrations in 2021, whilst this is great news for the breed it does bring into question the level of premium paid by processors and retailers for AA sired beef if supply will be so plentiful.

Globally, there is a growing demand for beef, mainly driven by China and its fast-growing population. This is pushing the price of beef up in the countries that aim to supply that Asian market, mainly Australia / New Zealand and South America. In addition to producing beef for our home market we should take advantage of this growing demand to increase our beef exports back to pre-Covid levels and higher to ensure strong beef values and farmgate prices for the future.

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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bulls -U3L		Cull cows	
		Change on week	Diff over North Eng.		Change on week	Diff over North Eng.		Diff over North Eng.	R4L	-O3L
5-Feb-22	**410.3**	-0.6	-8.5	**406.0**	-2.0	-9.5	399.3	-11.7	312.1	288.7
12-Feb-22	**408.7**	-1.6	-7.5	**405.8**	-0.2	-6.8	402.4	-1.5	319.9	296.6
19-Feb-22	**411.9**	3.2	-6.2	**405.5**	-0.3	-11.1	403.7	1.7	324.5	301.4

Tree health – staying vigilant

The storms we have experienced over the last few months are a clear reminder that forestry is not a risk-free endeavour. Climate change and more extreme weather events present new challenges, but we also face threats from a number of pests and diseases.

International trade and travel have provided inroads for new pests and diseases. Imported wood and plant material can bring in 'unwanted guests', which can in turn affect timber quality and financial returns, create tree-safety issues, as well as causing landscape scale repercussions.

Despite these challenges it is not all doom and gloom; with effective monitoring and management, risk can be reduced.

Some current threats

- *Great spruce bark beetle*: The great spruce bark beetle (*Dendroctonus micans*) was first found in the UK in the 1980's and has been moving northwards over time. It is present in southern Scotland and is advancing into the central belt area. It primarily affects spruce (but can also affect pine). Symptoms include dead & dying crowns and resinous bleeds and entry holes on the main trunk. The good news is that if the beetle is detected, a highly specific predatory beetle can be released to control the infestation.

Picture 1: Great Spruce Bark Beetle (Dendroctonus micans)

- *Phytophtora ramorum*: This is a fungal disease that primarily affects Larch, it is more severe in the west of Scotland due to the wetter climate. Symptoms include crown and branch dieback, sap bleeds, and ginger looking needles during the spring & summer months when needles would usually appear green and healthy. If ramorum is found a 'statutory plant health notice' is issued which requires the affected area to be felled so that disease spread can be slowed or halted. Although an infection is not ideal, timber can still be sold and processed as long as the correct licenses are in place.
- *Phytophtora pluvialis*: This disease was first found in Cornwall in September of last year and has since been found on several sites in Wales & Scotland. In the UK it is affecting Western Hemlock and Douglas Fir. Symptoms include dieback and resinous cankers on the stem and on side branches. Research into the spread and severity of *P.pluvualis* is being carried out to determine impacts and responses.

Picture 2: Phytophtora ramorum infection in a stand of Larch

Monitoring and reporting

Targeted helicopter surveys are carried out every year by the Scottish Forestry tree health team, and suspicious sites are followed up by surveyors on the ground.

Although this can be very effective, it is not a silver bullet when it comes to detecting outbreaks. Reports from landowners, agents, and members of the public provide far greater coverage than would otherwise be possible.

Prompt reporting of pest & disease issues allow for a quicker and more effective response. In many cases timber value can still be realised and forest holdings can be protected, but this is dependent on identifying any issues as early as possible.

If you suspect that you may have great spruce bark beetle or *Phytophtora ramorum* on your land it should be reported to Scottish Forestry: tree.health@forestry.gov.scot

If you suspect another issue (including *Phytophtora pluvialis*) this can be reported via the tree alert service: https://treealert.forestresearch.gov.uk/

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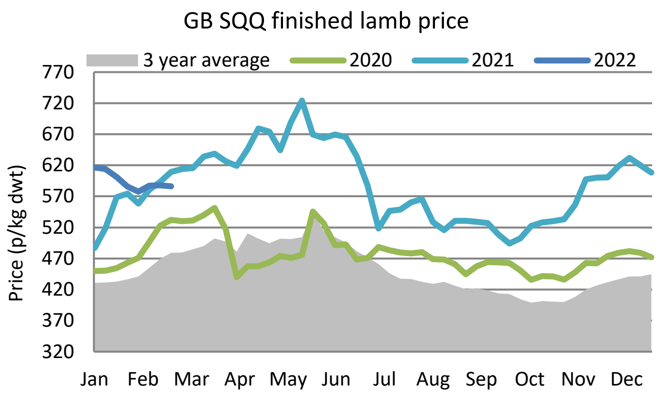
Key Festivals for the Late Lamb Trade

Meat and Livestock Australia, have recently issued their sheep industry projections. Their livestock sector has been affected by the extreme drought over the last number of years, however December 2021 ended with Australia declaring - no areas being in drought, the first time in five years.

With the increased rainfall the productivity of the livestock has increased, now with the sheep flock growing drastically, predictions are to increase by 4.9% this year to 74.4 million head of sheep. Further expansion is forecast in 2023 to 76.3 million head, which is the largest the Australian flock will have been since 2009. There are more ewe lambs being retained for replacement ewes, but with excellent conditions at lambing, the number of lambs coming forward for slaughter will be higher than previous years, with an additional 7% forecast for this year.



Source: AHDB

Unsurprisingly, the report details that the export of lamb will increase. The timing of the flock increase sits at the same time that the Australian – UK Free Trade Agreement comes into force (later this year). Where there is an allowance of tariff-free sheep products up to 25,000 tonnes in year one, rising to 75,000 tonnes in year 10 (2032).

Live exports from Australia are mainly targeted towards the Middle East. The Qatari government halted the subsidy that aided this export, which was worth 180,000 Australian dollars per year. In 2021 Qatar, which was the third biggest export market, took no product. Australia signed a protocol to enter the Saudi market last year, breaking a 10-year stop on trading. To date, no sheep meat has been traded.

Domestic Market

The domestic demand for lamb has slipped slightly, largely due to the high price, reduced lamb appearing on menus in restaurants and an increased amount of people looking at the balance of their diet for health and environmental concerns.

Demonstrated below in the graph, the deadweight price is now similar to last year's, ending the week (12/02/22) at 587.90p/kg. Compared to other countries our current price is slightly ahead of Spain (£5.59/kg) and behind France (£6.28/kg). The price in Australia and New Zealand is currently £4.31/kg and £4.09/kg. The above has been calculated using the week ending 12/02/22 at a €1 - £0.835.

The live ring SQQ for the week ending 16/02/22 was 263.1p/kg. Showing a fair decrease on the week (4.2p/kg). Smaller (<39kg) export lambs have sold well, but the heavier (45.6kg +) lambs have shown the largest decrease, due to the domestic market slipping.

The cull ring remains extremely buoyant, with prices above the previous two years for January and February. Hill ewes are being marketed at exceptional values, possibly due to the continental ewes being marketed earlier when prices were at a premium through November and December, and now the numbers not being forward.

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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
5-Feb-22	**590.0**	9.8	0.0	0.8	**271.30**	1.7	9.2	12.4	91.07	89.07
12-Feb-22	**591.3**	1.3	0.2	1.7	**264.30**	-7.0	10.5	11.0	87.50	92.69
19-Feb-22	**588.4**	-2.9	-1.0	1.7	**261.60**	-2.7	9.8	23.9	88.43	94.36

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

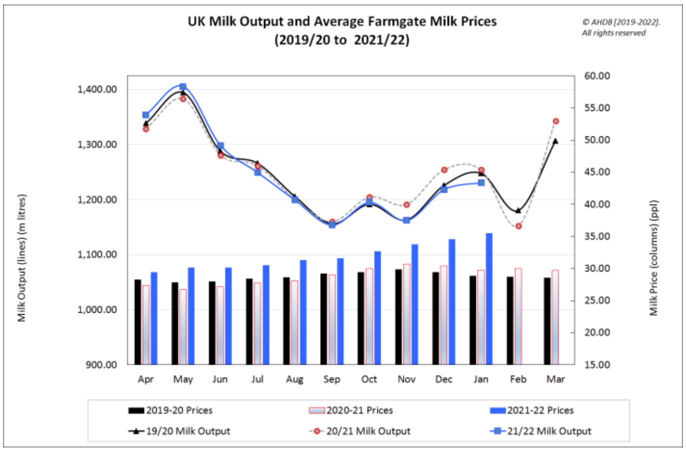
Standard weight 32.1 - 39.0kg; Medium weight 39.1 - 45.5kg; Heavy 45.6 - 52.0kg

Milk prices reach an all-time high

- *Farmgate milk prices for January 2022 averaged 35.46ppl across the UK.*
- *Upward pressure on farmgate prices remains. Domestic supply has contracted during recent months. Inflationary costs are increasing the cost of production on farm, and product demand remains steady.*

The latest milk production statistics from AHDB for January 2022 show that output for the month is estimated at 1,230.69m litres (before butterfat adjustment) – a reduction of 23.43m litres compared against January 2021. The latest production figures mean that UK cumulative production to the end of January is estimated at 12,468.57m litres (50.10m litres down on the same period last year). Monthly milk production figures show a year-on-year reduction to monthly output for each of the last seven months (July 2021 to Jan 2022).

UK milk prices continue to increase and all signs from the market suggest that further price increases will come. The UK average milk price increased from 34.51ppl for December 2021 to 35.46ppl for January 2022 (+0.95ppl). On a year-on-year basis, the UK milk price for January 2022 is up 5.69ppl.



Farmgate prices: March 2022

Price announcements for March & April 2022 are:

- Arla – the Arla member price will increase by 1.8ppl (2.0-euro cents) from 1st March 2022. This means that the liquid standard litre increases to 37.88ppl, whilst the manufacturing standard litre increases to 39.38ppl.
- Arla organic supplies – similarly, Arla's organic milk price for March 2022 will increase by 1.80ppl. The liquid standard litre for organic supplies increases to 45.05ppl, whilst the manufacturing standard litre for organic supplies increases to 46.83ppl.
- Müller - Müller Direct suppliers will receive a 1.00ppl increase from 1st March 2022. This takes the liquid standard litre price up to 34.75ppl for suppliers in Scotland. See Milk Price table.
- Lactalis – Following an increase of 0.77ppl in February 2022, Lactalis have committed to a minimum 0.90ppl price increase from 1st March 2022. Although the size of the price increase is yet to be confirmed for March 2022, the minimum 0.90ppl increase would result in a liquid standard litre price equating to 35.00ppl. Based on the same 0.90ppl increase, the manufacturing standard litre price for March 2022 would increase to 36.41ppl.
- First Milk – February milk prices will hold over into March 2022. See Milk Price table below. FM has confirmed a 1.00ppl price increase from 1st April 2022. The 1.00ppl increase will be paid in two parts: the first part being a straight 0.50ppl milk price increase for all members; the second part being a 0.50ppl price increase for all members who complete a regenerative farming plan by the end of March 2022. This takes the April 2022 prices up to 34.59ppl for the liquid standard litre and 35.75ppl for the manufacturing standard litre.
- Graham's Dairies – Suppliers will receive a 1.50ppl increase from 1st March 2022. This takes the liquid standard litre up to 34.50ppl.
- Sainsburys – Following the introduction of monthly price reviews, the Sainsburys milk price is set to increase by 0.32ppl from 1st March 2022. This takes the liquid standard litre price for Müller suppliers up to 33.90ppl, whilst Arla suppliers will move up to 33.78ppl.

Annual Average milk price estimates for March 2022 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1] (Unconfirmed)	35.00
First Milk Liquid [1, 2]	33.61
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	34.75
Müller - Müller Direct - Scotland [1, 3]	34.75
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.*	

Wholesale prices increase

UK dairy commodity prices (£/ tonne)	Feb 2022	Jan 2022	Aug 2021
Butter	4,930	4,860	3,290
SMP	3,030	2,910	2,130
Bulk Cream	2,239	2,155	1,563
Mild Cheddar	3,960	3,760	3,000
UK milk price equivalents (ppl)	**Feb 2022**	**Jan 2022**	**Aug 2021**
AMPE (2021)	48.86	47.31	32.10
MCVE (2021)	45.81	43.12	33.46

CoP models & aligned contracts

As dairy markets have strengthened during recent months and standard contract prices have rocketed, the premium available from aligned contracts has dwindled. Whilst recognising that several retailers now use cost of production models to help calculate a forward milk price, the downside of such models is that they are based on historic costs and the figures they produce are typically three months behind the cost curve. Given the exceptional inflationary costs experienced at present, many farmers are asking if it is now the time to consider a different approach.

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Agriscot Awards: Diversified Farm of the Year

Why do awards matter?

For any customer facing business the key phrase "Award Winning" or "Award Finalist" is a badge of honour. It tells the customer that your industry peers came and assessed your business and found that of all the applications your business stood out. Agriscot have recognised that diversification on farm is now a category of innovation that can drive businesses forward in a manner like innovation in primary production and have included an award in this category in their stable of awards.

Successful Diversification

Creating a successful diversified business on your farm is not easy and should be well-researched and fully considered 'in the round' in terms of its impact on your business. It is, however, an option that several Scottish farmers have taken advantage of to create a new enterprise on their farm and to add value to their overall business.

Adding value and creating a profitable enterprise is critical to long term success; and it is important to be able to embrace that long-term vision. Managing both long-term and short-term risk is critical, and it is important to fully research the market and opportunity prior to committing yourself and your business. Any new initiative must be something you enjoy and can make a profit doing, as it will require hard work and commitment to make it a success.

Diversification on farm can come in different guises, but the top 3, that are out with primary production, include agritourism, on-farm events, and food & drink onward processing of your primary product, including new product development.

The opportunity is there, a recent Visit Scotland survey of Agritourism in Scotland found that there was only 50+ farm businesses that offered a truly traceable farm to plate experience for tourists on farm. Considering the number of tourists Scotland welcomes each year, this a significant opportunity.

Consumers in 2022 are savvier, many have made lifestyle changes because of the pandemic, more of them appreciate local food & drink, care about sustainability and many more are looking for staycation experiences. All these trends provide opportunities for the outward looking rural business.

Agriscot Diversified Farm of the Year

Some of the key characteristics of a successful diversified business that cropped up repeatedly with the **Agriscot Diversified Farm of the Year Award** were commitment, vison, ambition, strategy, tenacity, a focus on adding value, the farm is a core part of the offering, and a willingness to change and adapt. In addition, it was clear that listening and learning from customer feedback helped to shape their plans for future development.

The Finalists

Bain Farm is run by Lara Hourie and her family, and this dairy farm adds value to its milk by producing a range of products under the brand The Orkney Dairy. A judge certified the milkshakes as "the best I've ever tasted". This range of products is testament to the attention to detail in the production processes. The success of this business reflects the vision, commitment and drive that has gone into this diversification.

Cairns Farm located near West Calder and run by Caroline and Graham Hamilton, Cairns is a stunning wedding and events venue including a self-catering enterprise. This venue showcases the farm's history and original features to their very best. Clear and focussed objective, an understanding of the required skillset and a pragmatic approach have ensured that this is a successful diversification.

The Winner

Newton Farm Holidays and Tours is a traditional family run farm located near Forfar in Angus and run by Louise and Graeme Nicoll with their son Scott. The farm is core to the diversification and a huge amount of energy, passion and commitment has resulted in the success of their diversification. Visitors can tour the farm, and partake in Highland Cow, Goat and Alpaca Experiences.

One of the consistent themes in all these businesses was the understanding that a new diversified enterprise was a way to create a vibrant farming future for the next generation, keeping them connected to the farm, and offering them a future in the rural economy.

Look out for the launch of the 2022 Agriscot Awards!

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Budgeting at the margin

Why budget?

Make your mistakes on paper is wise advice. So why do so few farmers "look at the figures" before making decisions that often involve big sums of money? An oft quoted answer is that you can't predict the future in farming because you are dealing with weather and animals. Yet a common characteristic of successful farmers is the value they place on crunching the numbers before acting.

Bad budgeting worse than no budgeting

Having extolled the virtues of budgeting, it must be based on firm principles and practices. Bill Malcolm, in his presidential address to the Australian agricultural economics society in 2004, asked: Where's the economics? The core discipline of farm management has gone missing! (Google it). Notably he points to how poor budgeting by some scientists, advisers and supply companies often wrongly influences farmer actions. So, what should farmers consider when budgeting the big three recurring questions they face: what to produce, how to produce; and, how much to produce?

Budgeting the cost of N

Technical efficiency is not the same as economic efficiency. The relationship between wheat yield and nitrogen applied is reasonably predictable given the same soil type, weather and agronomy. Yet few crop farmers this year will be applying as high a rate of nitrogen fertiliser as last year because nitrogen, based on urea, has jumped from about 70p/kg of pure N last spring to around 160p/kg today.

Economically literate farmers will be seeking to produce a yield where the cost of the final kilo of grain produced equals the sale price of that kilo. Why? Because every kilo produced up to that point has a positive, albeit diminishing margin. Given the cost of N is known (it's in the shed hopefully), the budget comes down to what yield response and grain sale price is budgeted. AHDB have updated RB209 to help growers budget the economic optimum, which can be found on-line.

For the spring block calving dairy farmer, budgeting early spring nitrogen use is a bit more complicated. Again, the budget starts with estimating the cost of a kilo of pasture (expressed in dry matter), which will depend on the yield response rate and cost of N. A response of 5kgDM to 1kgN gives a feed cost of 32p/kgDM (160p/5) based on the current N price. If the feed conversion efficiency is 1ℓ to1kgDM then at current milk prices the high N cost is about justified. But if the (marginal) yield response is lower, the extra milk is being produced at a loss. This loss may be justified if lower feeding delays the cows getting back in calf. So, the budget also has a production cycle dimension. Of course, alternative feeds may be more economic, so the opportunity cost principle also applies. Assessing marginal performance is the critical point: a focus on average yield, average response rate, etc, irrelevant.

What about fixed costs?

But surely fixed costs must be considered? Depends on the timescale. In the short run, some costs are fixed and do not change. Take for example budgeting the economics of rearing pet lambs against selling them soon after birth. A partial budget should include the cost of milk replacer, concentrates, fertiliser, vet & med, selling charges, electricity and haulage to market: no fixed costs as these are unchanged whether you sell at birth or 170 days later. Yes, depreciation on specialist rearing equipment would be costed in if bought that year, but otherwise not.

As for the farmer's labour, that is normally paid from profit to which all enterprises aim to contribute a margin. If, however, rearing lambs means foregoing off-farm work, the alternative income (opportunity cost) is accounted for.

Out-wintering cows

Over a longer timeframe, fixed costs do count. If finishing cattle requires a new shed then the annualised cost must be budgeted. Perhaps more interesting is the reverse situation: switching to outdoor wintering. Whether that be on deferred grazing on a farmer's own hill, or a mutually beneficial arrangement with a nearby crop farmer.

The budget focuses on the likely cost reduction in straw, silage (fertiliser, contracting and plastic). But what about the unused buildings, silage pit and slurry tanks? Not an issue if these are at the end of their productive lives. Indeed, the change to outwintering is often triggered by the capital cost of replacing infrastructure. Yet even where buildings, etc are in good condition only the savings on repairs count. For any outstanding loans on previous investment, the question is will outwintering better cover them. The opportunity to use buildings for other, more profitable, purposes will, of course, be pertinent.

Whatever the issue being budgeted, some rigorous sensitivity analysis is good practice. What if the price of barley jumps £50/t; or, what if the pet lamb death rate is 15%. To sum up, good budgeting is a proven way to make better decisions and higher profitability.

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Freeport Update

The Scottish and UK Governments have agreed to establish two ‘Green freeports’ in Scotland. The overarching aim being to create or stimulate economic activity near shipping ports or airports. These special economic zones will offer tax breaks and lower business tariffs.

Manufacturers in freeports will be able to import raw materials tariff-free, only paying tariffs on finished products leaving the site for elsewhere in the UK or the goods can be re-exported overseas without the UK duties being paid. Companies based in freeports will also benefit from lower rates of national insurance if they take on new staff.

The tendering process for the two Scottish ‘Greenports’, will be launched later this month with expectation that bidders will focus on how they will deliver on fair work practices, inclusive growth, and by delivering robust decarbonisation plans reaching net zero by 2045. The expectation is that the new freeports will open in 2023.

Greylag Geese – Further Support

Crofters and farmers on Orkney, Uist, Lewis and Harris, Tiree, and Coll are to be given financial assistance to prevent Greylag geese causing damage to crops by grazing and trampling.

The Scottish Government has pledged £50,000 over the next two years towards resident greylag goose control on these islands. The funds will be administered by NatureScot who will also undertake to carry out a 5-yearly review of goose policy during 2022.

You are not alone

While the arrival of Spring brings lighter mornings, the demands and long working hours created by spring work can lead to feelings of isolation and poor mental health. To highlight the range of support and support available to the agricultural and rural community, #NFUSHereForYou provides contact details/link for the range of supporting organisations on one webpage. Further support & booklets are available through AHDB Support for Farmers.

Fit for Farming (Men) Booklet

Fit for Farming (Women) Booklet

Developments in Europe

Although the UK only gets 6% of its crude oil and 4% of its gas from Russia; on the day of the invasion of Ukraine, Brent crude oil prices exceeded $105 (£78) a barrel to hit their highest level for more than seven years with gas futures rising by 60% bringing concerns sanctions could constrict supplies and drive up prices worldwide.

Pre Covid, Russia provided 16.6% of the global production of natural gas, 12% of the oil. 11% of the wheat, 5.6% of the aluminium and 43% of the palladium a component of catalytic converters in cars.

With UK electricity bills rising by 19% in the year to January and gas bills by 28%; the UK’s cost of living is rising at its fasted rate in 30 years. This will put further pressure on inflation given that the Bank of England is already expecting inflation to peak above 7% in the spring linked to rising energy costs.

Source: Bloomberg; BP Statistical Review; FAO; World Bureau of Metal Statistics; USGS)

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Key economic data

General Indicators		Price indices for October 2021 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.5% (0.25% Dec 21)	Wheat	185.2	Seeds (all)	116.4
ECB interest rate	0.00% (0.00% Sep ’18)	Barley	187.8	Energy	146.2
UK (CPI) inflation rate	5.5% (target 2%)	Oats	158.9	Fertiliser	199.8
UK GDP growth rate	1.0% (Q4 ‘21)	Potatoes	138.2	Agro-chemicals (all)	154.5
FTSE 100	7,489 (26 Feb 22)	Cattle and Calves	125.6	Feedstuffs	138.0
		Pigs	107.0	Machinery R&M	119.3
		Sheep and Lambs	161.6	Building R&M	139.8
		Milk	139.3	Veterinary services	116.7

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