Farm Advisory Service

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May 2017

News in brief

Weather and politics

Theresa May's announcement of a snap election has thrown a cat among the Westminster pigeons and may have a significant effect on the UK's negotiating position. It will definitely lead to a delay in negotiations with the EU who have just released their own negotiation guidelines.

However, any delays may be of relatively minor importance as the rest of the EU is also currently distracted by elections; particularly France and Germany. Until the leadership of the two largest countries in the EU27 is settled, no serious headway can be made in the negotiations.

There have been signs of increasingly belligerent language coming from both the EU and the UK in recent weeks. Whether this is a herald of things to come or merely posturing or electioneering from Theresa May, Angela Merkel and others remains to be seen. While the potential impacts of Brexit remain as serious as ever *(see Lords Brexit: Agriculture report summary on page 9 of this week's edition)* we may have to accept there will be a lot of heat and not much light on the matter for some time to come.

Meanwhile back at the ranch, farmers have more pressing concerns, this time attributable to the weather. In most of western and northern Europe the last 30 days have seen rainfall only half of average levels. The forecast for most of Europe including the southern half of the UK is for above average rainfall in the next fortnight and if it comes then this could be early enough to prevent serious losses. In Scotland however no such relief is seen for the next ten days or more and concerns for spring sowings, forage growth and general crop condition could soon become critical. A big weather problem across Europe is a problem shared, a small problem in Scotland is ours alone!

Next month….

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Julian Bell

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SRDP scheme update

Young Farmers and New Entrants Start-up Grant Schemes

Funds totalling £2.5m are available via the Young Farmers and New Entrants Start-up Grant Schemes to help and develop young farmers and new entrants into farming. Both schemes are open to applications until 30th September 2017.

The Young Farmers Start-up Grant Scheme is aimed at those who are starting an agricultural business for the first time or who are taking over an existing agricultural business. Applicants must be between 16 and 41 years of age when the application is submitted. The grant available is €70,000 paid in two instalments; an initial payment of €63,000 and a second payment of €7,000 when the milestones in the business plan are reached.

The New Entrant Start-up Grant Scheme is aimed at those who have started their agricultural business within the last 12 months. There is no upper age restriction, however, applicants must be 16 years or over when the application is made. The grant available is €15,000, paid in two instalments; an initial payment of €12,000 and a second payment of €3,000 when the objectives in the business plan are delivered.

Funding from the above two schemes can be used to help with the costs associated with starting up an agricultural business, for example purchasing land, equipment, machinery or livestock, or constructing buildings or infrastructure.

Further details and application forms can be found on the Rural Payments and Services website at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/new-entrants/young-farmers-and-new-entrants-start-up-grant-schemes/

AECS - Slurry storage

Applications for stand alone slurry store applications can be made until 30th June 2017. Funding, based on standard costs is available to businesses whose holding falls within a water quality target area.

Funding is not available if the holding is within a Nitrate Vulnerable Zone or if funding has been received for slurry storage under the 2007–2013 Scottish Rural Development Programme.

Further information including, standard costs and a map of the target area can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/agri-environment-climate-scheme/management-options-and-capital-items/slurry-storage/

Depending on uptake a second application period for slurry storage may be opened later in 2017.

Loan scheme for vulnerable farmers

Farmers and crofters who are waiting for their 2016 payment under the Less Favoured Areas Support Scheme (LFASS) can opt to receive a loan. To ensure payment before the end of May, applications should be made by 5th May 2017. This can be done by completing the opt-in form issued by the Scottish Government or emailing NationalLFASSScheme@gov.scot

Timetable of pending payments

The delay by the Scottish Government in making many of the 2016 payments has been well publicised, a situation that is far from ideal. To help farmers with forward planning Fergus Ewing recently announced the timescale which the Scottish Government intend to deliver the remaining 2016 farm payments by, see below.

Scheme	Timescale
Basic Payment	10% top-up by end June 2017
Greening Payment	
Young Farmer Payment	
Scottish Suckler Beef Support Scheme	May 2017
Scottish Upland Sheep Scheme	
Rural Priorities	from July 2017
Agri-Environment Climate Scheme	Autumn 2017
Forestry Grant Scheme	
Beef Efficiency Scheme	Autumn 2017
Land Managers Options	Autumn 2017

Many farm businesses are currently submitting their applications for the 2017 schemes, let's hope the IT issues are fully resolved and this year's payments are made on time!

General Election, Brexit, Indyref2....

The political uncertainty surrounding Brexit and a potential second Scottish independence referendum certainly got a bit muddier when Theresa May called for a general election to be held on 8th June. Her reason for calling a general election is to strengthen her hand in Brexit negotiations with the EU, time will tell if this transpires.

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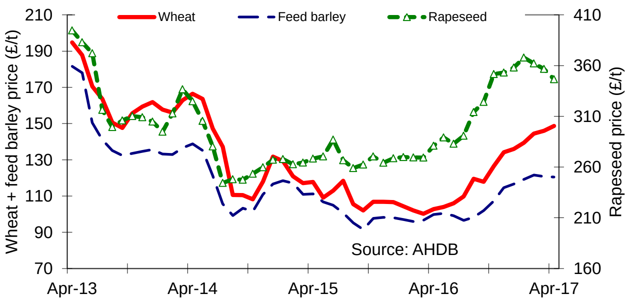
Weather drives the market

Dry conditions are starting to become a concern across northern and western Europe and the UK. Rainfall has been half normal levels in the last month. Elsewhere in the world conditions in the main producers appear reasonable at this early stage with rain in the US easing previously dry conditions for winter wheat crops. Wet conditions in the US and Canada are delaying spring sowings and may lead to more oilseeds and less cereals being sown. Good crop conditions in South America are boosting soyabean crop prospects and this has led to a sharp fall in oilseed prices.

It is early in the growing season and the market will remain sensitive to weather reports but with comfortable world grain and oilseeds stocks any impact will have to be severe before a major global price rally can occur.

UK spot ex-farm grain and oilseed prices



Malting barley outlook

Spring sowings have gone well in Scotland and the UK in dry conditions. However, previously waterlogged soil has now dried out and dryness is starting to become a major concern. Rain is needed soon and is forecast in southern England and the Continent but not Scotland in the next 10 days. Whether yields will improve on last year's very late (in the north) sowings and resulting disappointing yields, only time will tell.

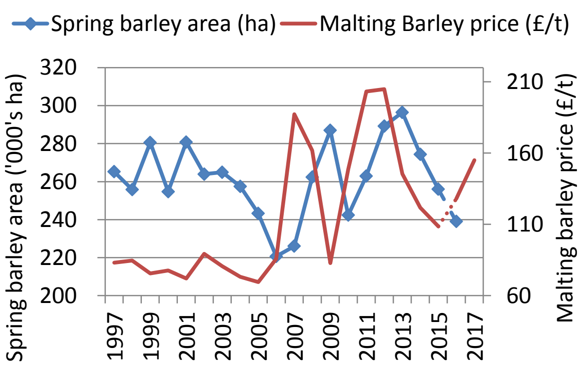
Last year spring barley sowings were at a low level of 239k ha down from 296k ha in 2013. On paper a 3% rise in winter crop sowings in early December leaves less room for spring plantings. In addition higher winter rye sowings to supply new AD plants are expected and these are not picked up in the December survey. In addition there has been little change to CAP Greening requirements which have tended to limit spring barley sowings, especially in the north of Scotland.

On the upside better malting barley prices for harvest 2017 are being offered with premiums of £40/t over feed (versus £29/t at harvest 2016). This should encourage farmers to try and raise spring barley sowings. There are signs that farmers are reducing fallow and meeting CAP EFA requirements in other ways such as increased field margins.

Barley supply will be keenly monitored by maltsters and distillers this year given an expected gradual recovery in whisky production. Between 2013 and 2016 it is estimated that Scotch whisky production declined by the equivalent of 250kt of grain demand (malting barley, wheat & maize). However, in 2016 Scotch whisky exports rose by 4% in value to just over £4 billion and 4.8% in volume with the weaker pound adding further momentum. A continued recovery in demand is expected to lead to higher whisky output in 2017 and 2018, potentially adding 100kt to grain demand by 2018 which should help support malting barley contract prices and boost area – see chart below.

- *Higher Scottish malting barley demand looks likely*
- *Higher winter sowings may limit Scottish spring barley area but reduced fallow may help to offset*
- *Potential risk of malting barley shortfall at harvest without good yields – rain needed soon!*

Scottish malting barley sowings vs price



Source: AHDB, Scottish Government

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Indicative grain prices week ending 21 April 2017 (Source: SAC/HGCA/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	May 17	June 17	Hvst 2017	Nov 2017	Nov 2018
Wheat	Ex-farm Scotland	146.00	148.00	134.00	137.00	138.00
Feed barley	Ex-farm Scotland	122.00	124.00	117.00	119.00	120.00
Malting barley	Ex-farm England	-	149.00	140.00	145.00	147.00
Oilseed rape*~	Delivered Scotland	-	338.00	298.00	-	-

Who knew?

Although an improved exchange rate was expected to help the domestic beef price the current trajectory is very positive. The cattle supply forecast remains good and the GB kill has been consistently higher on the year since February, yet finishers could gross £1,450/hd or £150 better than April 2016.

An average finished cattle price of around 360-365p/kg dwt represents a small but welcome rise on the week for Scotland. This reflects pleasing demand for cattle, particularly further south. The Scottish beef premium started to widen again from near parity at the beginning of April. It now stands at 15p/kg dwt over southern England while northern processors remain within touching distance. There is some pressure amongst Scottish factories to get the price up and ultimately fund finishers to secure replacement store cattle, and their future supply.

There are reports of more store cattle heading south than normal, stimulated by good deadweight prices and early grass growth. The edge may come off the price once chills are replenished after Easter and fieldwork lessens but it is currently an encouraging and strong position not seen at this time since 2013.

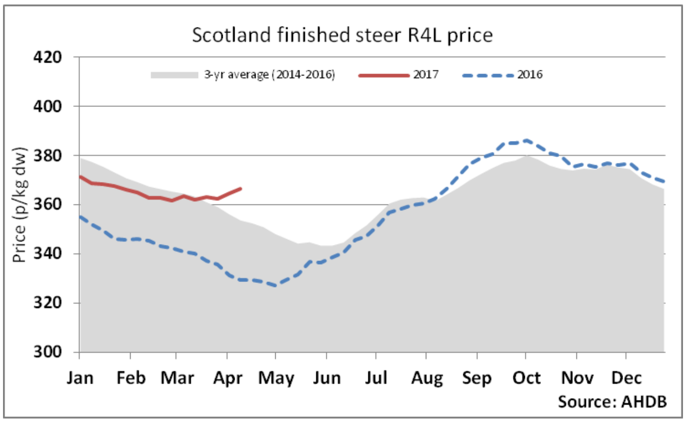
Early grass may also have encouraged a few more heavy cattle to be turned-out rather than buy-in another load of expensive straw – although that rationale seems flawed it would affect supply.

Knowing the trend of the spring market over recent years meant store cattle were bought at a lower price last autumn. Now selling into a rise in market will help margin and confidence to reinvest. The trade has consequently been strong for store cattle destined for the finisher shed and exceptional for lighter grazing cattle.

Free range beef

Pastoral systems are, fighting the good fight, pitched somewhere between intensive and organic. Having just raised its profile through listing onto 100 Asda store shelves it will be intriguing to plot sales of free-range milk within the mainstream – and compare with what consumers might say they want.

Various labels for pastoral beef also exist. The beef



sector does not (currently) suffer the equivalent stigma incited by 'mega-dairy' or 'milk factory' headlines, being a catalyst to its elevated appeal, but the wider industry should watch with interest as a few pioneers test the slopes.

Time will tell if this will be divisive or beneficial for the long-term of the industry. Admittedly, a 'grass fed' label risks adding confusion and could dilute the message of other brands, including Scotch Beef. The mere presence of such a brand threatens to imply that other offerings are not grass fed or somehow less 'well' fed. However, the current race to the (price) bottom is not an option for higher cost production systems in Scotland (or the rest of GB).

Is it such a big deal? The precedent already exists. Aberdeen Angus and other heritage brands found popularity within the largest retail multiples a relatively short while ago. Aside from the lure of 'better eating', such premium products also offer imagery that taps into public nostalgia, which itself subliminally implies unadulterated grass-systems.

Regardless, these brands have been highly successful and fully embraced by industry as a tonic for low priced chicken and retail price deflation. Care is required. Pitching one product line against another is careless. What is sure, looking for any new angle is a symptom of producers, processors and retailers alike testing the market to deliver value add or competitive advantage. Provided each party in the chain benefits from their respective efforts, who can argue with that?

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

	E&W			Scotland			E&W		Scotland
	South R4L Steers	North R4L Steers	North -U3L Y. Bull	R4L Steers	R4L Heifer	-U3L Y. Bull	South -U4L Steers	North -U4L Steers	All -U4L Steers
1 Apr	353.0	327.9	349.2	362.3	360.7	355.0	359.8	355.6	363.1
8 Apr	352.2	358.2	339.0	364.4	364.5	355.1	357.4	354.4	360.7
15 Apr	351.2	361.2	349.9	366.6	368.0	358.6	358.4	354.2	363.5

Market summary

- *For the week ending 21 April, the AHDB's Weekly Average GB price for all ware potatoes eased back by £0.88 over the week to £217.17/t. The Weekly Average Free-buy price which excludes all forward contract material contracted by £2.47 over the week to £252.31/t*
- *The tonnage moved is reduced as growers concentrate on planting while the dry spell of weather continues*

Planting well ahead of previous years

- *The AHDB estimates that at 22 April, 71,000 ha of crop has now been planted across GB. This is up by 37,000 ha compared to the same week last year and up by 5,000ha compared with 2015.*

An excellent start has been made to planting compared to the previous two years which could bode well for yields this season. This coupled with an increase in planting could lead to increased production for the 2017 crop year. The long period of dry, sunny albeit cold weather has allowed growers to press on with planting operations. Most ware growers are well ahead while some seed growers are making an early start compared to the norm. However, the icy blast in some parts of the country during the last week of April will have reduced soil temperatures and slowed up operations.

The indication from a small group of Scottish ware and seed growers is that they intend to plant the same area as last year.

In Ayrshire early varieties are making good progress with plants now covering the drills. Covers are now being removed in the fields.

Movement mainly for contracted stocks

Scottish packers are mostly using contracted material as growers focus on field and planting operations. Generally any grade 1 free-buy stocks are holding their value while other grades are being squeezed on price. Charlotte salads are making £200/t. Grade 1 Piper is trading around the £200-£240 mark with the best up at £260/t. General pack whites are making £130-£220/t with value pack material down at £100-£160/t.

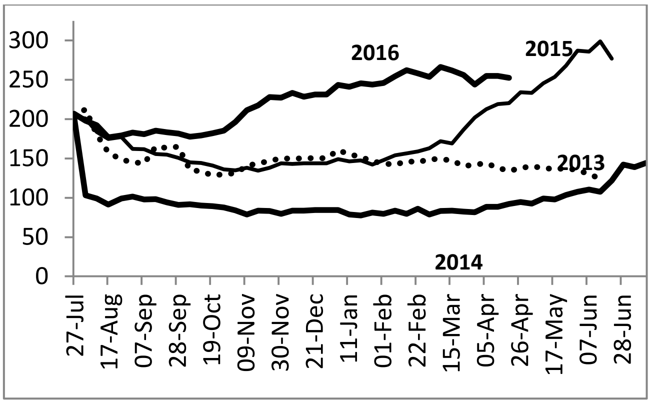
Demand for chipping material has been slower since the Easter weekend. There is good demand for quality bagged ware samples – particularly Wilja and Estima. Chipping Piper is making £230-£240/t with general bagged ware trading within the £130-£200/t price range.

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

Crop Year	21 Apr	14 Apr	7 Apr	31 Mar
All potatoes 2016	217.18	218.06	220.37	211.58
All potatoes 2015	202.16	195.50	197.69	188.32
Free-buy 2016	252.31	254.78	254.77	243.87
Free-buy 2015	220.36	219.00	212.66	202.18

Source: AHDB

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



Source: AHDB

Seed sector

Apart from free varieties, seed supplies are reported to be very tight this year. However, recently light stocks of some controlled varieties have become available and surprisingly these have not been easy to sell on. Free buy Maris Piper, Desiree and Wilja are described as "reasonably easy to obtain" and some stocks of King Edward are also available.

Following a delegation from Russia to Scotland earlier this year, the export of seed to Russia is about to re start with lots scheduled to arrive at their destination just in time for planting.

NEPG planting estimate up 3.6%

The first area estimate from the North-Western European Potato Growers (NEPG) suggests a possible increase of 3.6% compared to last season. This increase in area, although significant, is likely to have been restricted due to a shortage of certified seed available on the continent. First expectations suggested growth in the area would have been greater in order to meet the needs of the ever expanding European processing sector. However, the low yielding 2016 crop has tempered this by creating a shortage in seed supply across much of Europe. The total planted area is estimated to be approximately 572,000ha (excluding potatoes for seed and starch), which if it comes to fruition would make it the largest area for the last ten years.

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Easter risen

Much hope was pinned on added consumption over Mother's Day and Easter to build price momentum. It was a subdued affair but it did. Despite sizeable additional abattoir throughput, the average April price will be around 6p/kg lwt higher than March. Price has since dipped but the immediate two weeks post this milestone has not collapsed either. There are no real 'demand lifters' until Ramadan commences at the end of May meaning inevitable pressure will return until reaching the supply gap between old and new season lamb in early June. Equally, however, hogget numbers should now start to fall after the Easter crescendo.

- *Early lamb producers will have already identified the, mainly, 'super singles' that could be ready for June – keep them moving*

The focus must now be on growth of new season lambs and their grassland management. In the meantime, £80/hogget is not particularly inspired but steady trade – if very similar to the May-December 2016 average!

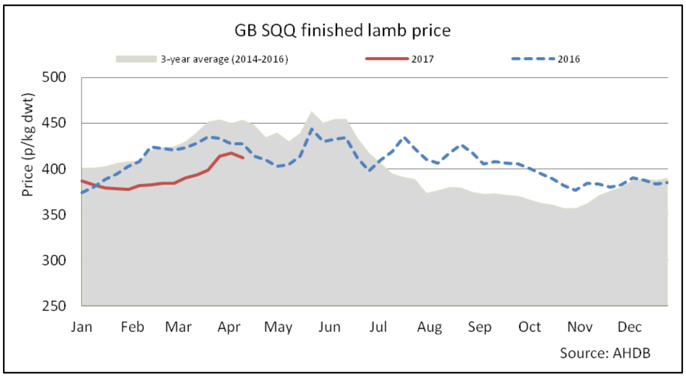
Fit ewes

There are reports of very fit ewes this lambing after a kind winter grazing. Aside from associated lambing problems, well-fleshed ewes not now paired or running with a lamb(s) should be earmarked for early sale, again thinking about the Ramadan market. This would also secure income prior to the annual spike in cull ewe supply at speaning and again pre-tupping.

"Alexa, find low price lamb chop chop"

The following muse may struggle to connect with those frustrated by 'super-slow' internet speeds. Nonetheless, the internet of things is here.

Consumers can technically prioritise buying decisions by convenience or price via voice command on the latest wizardry. This technology can automatically list then recite shop opening times within seconds.



Albeit still in early development, it can even detail shop stock numbers and postage costs. This increasingly leaves retailers with few places to hide but plenty of places to be 'lost' if they do not register in the top few search hits. What has the toils of the High Street to do with me? Aside from appreciating the astonishing speed of change and the ability of modern gadgetry now available to the masses, it raises the question of sheep industry direction. Other than a specific request for lamb, how general could a shopper's foodie question be, to a voice-controlled computer, before lamb is flagged in the top few listings? Not very, I suspect.

It also queries whether such advances necessitate greater integration within, a currently reticent, supply chain. It already exists within the pig, poultry and dairy sectors. Such chains can react faster than a whole industry, although to whose benefit?

Ultimately the consumer. The sheep sector wins by, at the very least, protecting market share and critical mass. Furthermore, being part of something that delivers a product with a set of mutual values (eating experience, ethos, price, convenience) and that is better than the competition is nearly as tempting as the quintessential lamb dinner itself. It is a daunting subject but consumer trend does not lie and while proud producers endeavour to respond to market signals, there is increasing urgency to gain stronger signals and respond to the right ones. And to those highly committed farming reader's, what is the alternative?

Change is not coming, change is here!

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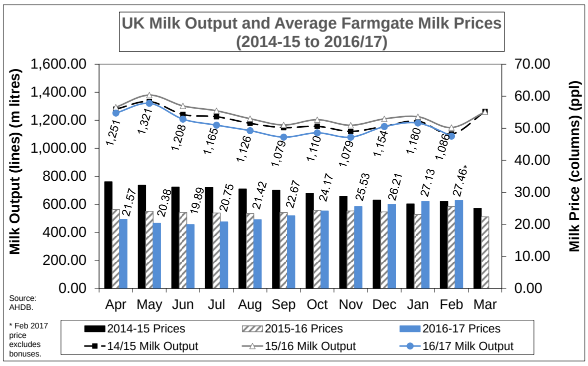
Week ending	GB deadweight (p/kg) 16.5 – 21.5kg			Scottish auction (p/kg)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
1 Apr	419.0	417.8	414.6	178.2	185.0	169.5	64.05	69.90
8 Apr	422.5	424.4	417.3	166.8	176.3	166.8	62.19	67.93
15 Apr	416.9	417.5	412.1	169.2	181.1	169.7	68.86	64.51

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

Average UK prices still rising

UK milk production figures for February 2017 are estimated at 1,086.39m litres (before butterfat adjustment). This represents a drop of 61.30m litres compared with February 2016 milk output. Cumulative production between April 2016 and February 2017 now stands at 12,759.84m litres, which is 809.37m litres lower than the cumulative total at the same time last year.

On average, UK prices have continued to rise during February 2017. However, following last year's confusion when AHDB allocated all of Arla's 13th payment to the February milk price, AHDB has chosen not to publish an average milk price which includes all retrospective bonuses. As a result, the price level quoted in the chart below (27.46ppl) is the UK average farmgate milk price excluding retrospective bonuses. The complexities of the milk price calculation aside, the chart below indicates that the average price level has continued to rise during February, even when bonuses are excluded.



- *UK milk production dipped, as usual, during February 2017. Although UK farmgate milk prices continued to rise during February, rising milk supply is likely to stall further price increases during the spring*

EU adjustment aid for dairy farmers

According to press reports only around 20% of Scottish dairy farmers have applied for the EU Adjustment Aid which offers between £1,000 and £4,000 per farm business. The application window closes on 1st May 2017. Applicants to the scheme must either be milk recording or commit to milk recording and completing a production profile no later than 31st July 2017.

Milk price update – May 2017

Price announcements for May 2017 include:

- Tesco – Following the latest quarterly review of the cost of production tracker, the Tesco Sustainable Dairy Group (TSDG) milk price is to increase by 0.62ppl from 1st May 2017. This takes the standard litre price (3.30% protein & 4.0% butterfat) up from 28.75ppl to 29.37ppl.
- Müller/Co-op – The Co-operative Dairy Group (CDG) milk price is to rise by 0.32ppl from 1st May 2017. This takes the CDG milk price up from 27.59ppl to 27.91ppl.
- Müller M&I – The farmgate price is held at 26.69ppl for the third consecutive month. Müller's supplementary payment for March 2017 is confirmed at 0.296ppl.
- Müller – The organic milk price will increase by 1.00ppl from 1st May 2017 taking the standard litre price up to 40.50ppl.

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

[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] *April 2017 prices stated. May 2017 prices awaiting release.*
[3] *No monthly supplementary payment included in the price estimate.*

Cream price increases whilst SMP falls

Recent figures for UK wholesale prices show that cream and butter prices increased during March 2017 amidst tightening supplies. Conversely, UK prices for SMP dropped back to average around £1,550/tonne. The reduction to SMP is reflective of weak demand and high EU stock levels. Dutch quotations for SMP fell back to around €1,700/tonne (only just above intervention price level) during March 2017.

UK dairy commodity prices (£/ tonne)	Mar 2017	Feb 2017	Oct 2016
Butter	3,650	3,450	3,750
SMP	1,550	1,700	1,860
Bulk Cream	1,690	1,540	1,930
UK milk price equivalents (ppl)	**Mar 2017**	**Feb 2017**	**Oct 2016**
AMPE (2014)	27.79	28.27	31.31
MCVE (2014)	32.08	32.28	33.95

Source: AHDB

The latest GDT auction on 18th April 2017 showed a 3.1% increase to the price index, with the weighted average price across all products rising to US $3,139/ tonne.

New dairy consultant at SAC

Csaba Adamik will take up the post of Senior Dairy Consultant with SAC Consulting from 1st May 2017. Csaba arrives at SAC from Cargill Animal Nutrition.

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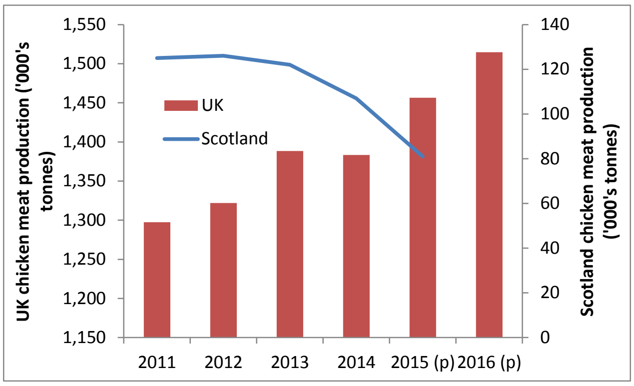
Sector Focus: Chicken meat

UK chicken meat demand and output up

UK chicken meat production rose 17% (218kt) to 1.515mt in the five years to 2016. This trend is a long standing one driven by a range of factors including:

- *Growing UK consumption of poultry meat driven by; its improving price competiveness versus other protein sources and consumer preferences in terms of taste, health and religious neutrality.*
- *While imports of poultry meat have also increased UK production has benefitted from the growth in sales of fresh poultry meat which favours domestic supply chains.*
- *The steady improvement in technical efficiency of UK poultry producers has enabled them to improve cost-competitiveness with red-meat.*



Scottish chicken meat output down sharply

By contrast Scottish chicken meat production fell by 35% (44kt) to 81kt in the four years to 2015 (the latest available data). The reasons behind this decline are varied but include:

- *The contraction in the processing sector in Scotland, reducing the demand for locally produced broilers.*
- *The apparent loss of competitiveness of Scottish broiler production due to a combination of; inadequate investment in infrastructure (housing and processing), loss of critical mass to support this investment, the higher price of grain versus England and other factors.*

Contracts for many of Scotland's broiler producers were cancelled in 2013 and 2014 following a rationalisation of processing capacity by 2 Sisters Food Group following their purchase of VION's Scottish poultry operations. Broiler producers in locations distant from the plant in Coupar Angus (such as in Aberdeenshire and the Scottish Borders) were selected for closure and production is now clustered in Central Scotland.

The loss of contracts was a severe blow to poultry producers particularly those who had recently re-invested in modern housing. The loss of 44kt of broiler production has also had a knock-on-effect on suppliers including arable producers with the loss of thousands of tonnes of local wheat demand.

The Scottish Government working with key stakeholders including the NFUS and the Scottish Chicken Growers Association responded by developing a Poultry Plan in December 2013. The objectives included ensuring poultry meat production remained financially sustainable and helping ensure output remains above the critical threshold needed to support processing and other infrastructure. The Plan also includes proposals to; develop a premium brand for Scottish chicken, identify opportunities for poultry farmers to work together to cut costs, and support for the Scottish Chicken Growers Association.

Market research in 2014 indicated that over 90% of shoppers wanted Scottish poultry available in their local supermarket. As ever, the difficulties remain in supplying this in a cost effective manner in a sector where economies of scale are all important.

Future trends

In their latest release for March 2017, DEFRA showed that UK broiler chick placings were up by 9.3% at 82.7m chicks, UK broiler slaughterings were 3.0% higher at 76.3m birds and total UK poultry meat production was 137kt, up 7.2%. With positive consumer demand trends expected to continue and UK producers benefitting from the weakness of sterling, this trend in rising domestic production is expected to continue. In Scotland broiler numbers rose 19% to 6.68m birds in the 2016 December agricultural survey.

European production forecast to rise

The latest medium-term prospects for EU agriculture point to poultry production rising 0.8% to 14.6mt in 2017. The UK recently moved past France into 2nd place with only Poland producing more amongst EU poultry producers. Like all sectors of UK agriculture the outcome of the Brexit negotiations will be important. EU poultry producers are currently protected by import tariffs, and several major producers, particularly the US and Brazil, have the potential to substantially undercut UK production costs. The UK sector may therefore be seeking to maximise its credentials for local, safe and higher welfare production to secure its future place in the market.

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Management Matters: Brexit and UK agriculture

Lords report on Brexit and agriculture

The UK House of Lords EU Energy and Environment Sub-Committee recently published its report investigating the implications of Brexit for UK agriculture and food including leaving the EU's Common Agriculture Policy and the Single Market.

The report looked in detail at a range of implications and took evidence from a wide range of stakeholders and experts. Key findings include:

- *The loss of CAP funding is one of the main threats facing UK agriculture*
- *Any new UK agricultural policies will need careful consideration of the needs of the industry, future trade deals and devolution.*
- *The EU is the UK's main trading partner for agricultural products. As a major food importer UK farmers as a whole could benefit in the short term from the imposition of trade barriers. However, trade is important to all sector and most stakeholders seek to maintain tariff free access to the EU*
- *The long planning horizon of agriculture makes it essential that a transitional period is put in place to allow farmers to adapt and prosper post-Brexit*

CAP replacement

Forty years of reliance on CAP payments has shaped the structure of UK agriculture and most farmers in the UK rely heavily on CAP funding. It is estimated that EU subsidies comprise 50-60% of UK farm business income rising to 75% in Scotland. Within Scotland subsidy support varies from 55% of farm business income in the dairy sector up to 231% in the LFA cattle and sheep sector. The implications for the rural economy of remote and upland areas are potentially serious if subsidy levels fall. Rural communities also benefit from EU development programmes. Stakeholders tended to seek to maintain current subsidy levels but there were concerns the UK Treasury would seek significant savings.

However, the CAP also faces criticism for being over bureaucratic and inefficient in re-distributing support. The UK will now be able to design agricultural policies to more closely meet the needs of farmers and consumers across the UK. It is also argued that UK farmers will need more time to adapt to changes in regulation or funding.

Both farming and conservation groups saw potential to pay farmers for delivering environmental and ecosystem benefits; the main debate was the extent this should take precedent over support for food production. Animal health and welfare and supporting innovation are also potential areas to direct support. It was also accepted that international agreements will be important in shaping UK support policies including the WTO and the EU. There were also fears that EU farmers would gain a competitive advantage from higher support, though it is likely EU farm payments will fall in the next spending round without the UK's contribution.

The issue of how much agricultural policy will be devolved to the four home countries remains unresolved. It is recognised that policy preferences vary widely across the UK, though it is considered essential that some over-arching co-ordination is in place to ensure a level playing field.

Trade in agri-food products

The EU is the UK's largest trading partner and around 80% of the UK's agricultural exports go to the EU. Following Brexit, the UK must develop its own tariff schedules and negotiate new trade agreements. UK farmers risk facing high tariffs and significant non-tariff barriers when exporting, and competition from lower-priced imports domestically. Trade barriers could threaten integrated supply chains and pose a major challenge for the agri-food sector in Northern Ireland.

Labour access

The UK's farmers and food processors rely heavily on workers from other EU countries across all skill levels. Following Brexit it is vital that access to labour is maintained to both temporary and permanent EU staff. The abattoir sector was highlighted as one of the most dependent on EU staff for veterinary inspection. UK employers were already facing difficulty in recruiting EU staff. The UK Government is urged to address this urgently within the negotiation period.

For more details see: "Brexit: agriculture report" at https://www.parliament.uk

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Input Costs

Commodity	Price for bulk delivery (£/t)	Commodity	Price for bulk delivery (£/t)
Soyameal	310	Potatoes	N/A
Rapemeal	215	Draff	20-30*
Sugar Beet Pulp	195	Dairy Compound 18%	199
Wheat Dark Grains	203	Beef Blend	177
Maize Gluten	174	Lamb Finisher Pellets	200
Soya Hulls	150	Pig Grower	230
Molaferm 20	185 (10t)	Pig Finisher	211
Pot Ale	70	Dry Sow	210

Animal health	Product Detail	(£ ex VAT)	Fodder	Ex farm (£/tonne)
Pour – On Wormer	Ivomec 2.5ltr	48	Hay (4×4)*	15-20/bale
Drench Wormer	Panacur Sheep 10.1ltr Ivomec Supercattle 500 ml	65 145	Silage (4×4)*	10/bale
Magnesium (bottle)	Mg Sulphate 400 ml	3.50	Straw (Quads)	80
Calcium (bottle)	Ca + M40 400 ml	3.75	Straw (Rounds)	80
Flukicide	Fasinex 240 0.8ltr	79		

Note: the above prices are for April 2017 at time of writing (mid March), based on 29t loads, they are a guide only and may vary widely.

Soyabean meal has eased in price due to increased plantings and growth of stocks. Argentina's harvest of beans is underway albeit slowly due to the weather and Brazil's harvest is nearly over. Looking forward to next winter soya for November is sitting around £5/t higher than current prices, but varies daily with weather and currency! Rapemeal price tracks soya and is always a bit higher at this time of year until new crop comes on line in August/September time.

Feed barley is currently trading around £122/t ex farm (average) with new crop currently looking to be around £117/t ex farm. Plantings of spring malting barley in Scotland may be back slightly with the good autumn more winter wheat was put in. This, coupled with a recovering demand for whisky and Scotland moving from a two year surplus into a potential supply deficit, may help ex farm prices. EU wheat futures are up slightly with continued focus on the weather with parts of Western Europe looking drier.

Compound feeds that contain a lot of soya/protein concentrate feeds may see a drop in price for the summer months on some products. Complete feeds such as dairy cakes and beef feeds may only see a small reduction, if any at all. Mid protein feeds like wheatfeed and malt culms, used by mills, are back in price but this is dulled by the slight rise in the dark grain price.

Straw is still trading well and thoughts are that there will be enough until new season, but it will be tight. There is plenty of haylage around, however not so much silage. Top quality hay is getting harder to source, plenty of poorer quality hay, some sellers are starting to hold back a bit now in case we don't get rain soon! Potatoes are a bit tight at present, mainly due to the busy spring planting period and summer stocks for pitting are uncertain at present.

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Key economic data

General Indicators		Price indices for February 2017 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.25% (0.50% Mar '09)	Wheat	116.0	Seeds (all)	99.7
		Barley	120.0	Energy	115.5
ECB interest rate	0.00% (0.05% Mar '16)	Oats	123.8	Fertiliser	93.8
UK (CPI) inflation rate	2.3% (target 2%)	Potatoes (Main Crop)	161.4	Agro-chemicals (all)	109.1
		Cattle and Calves	128.5	Feedstuffs	112.1
UK GDP growth rate	0.3% (Q1 '17)	Pigs	105.3	Machinery R&M	113.5
		Sheep and Lambs	98.9	Building R&M	112.9
FTSE 100	7,261 (4 May '17)	Milk	111.3	Veterinary services	108.5

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