

Agribusiness NEWS



Farm
Advisory
Service

National Advice Hub
T: 0300 323 0161
E: advice@fas.scot
W: www.fas.scot

May 2018

News in brief

Weather woes but support is available

The impacts of the prolonged adverse weather have been well documented and without doubt are still causing farmers issues. Slow spring grass growth, increased livestock losses, delayed sowings and plantings, the list could go on...

For some sectors, good farm-gate prices are at least bringing some relief and owing to the slight improvement in the weather over the past month, it has allowed field work to progress, albeit at least three weeks behind normal.

The full impact of the late spring on arable and forage crops will not fully be known until later in the year and will largely depend on the weather over the next four months, but yields could well be down, impacting on this year's winter feed supplies. As a result of poor lambing conditions, farm businesses 2018 lamb crop will be lower than previously expected, which will reduce output; fingers crossed the farmgate lamb price remains high to help compensate.

On a more positive note, the Scottish Government have recognised the impact that the weather has been having on farmers and in response have announced a new package of support. This includes a fallen stock support scheme, additional funding for Royal Scottish Agricultural Benevolent Institution (RSABI) and actions to address feed and fodder shortages. They have also extended the Scottish Upland Sheep Support Scheme (SUSSS) application deadline and retention period, providing greater flexibility, and have commenced payment of the Basic Payment, Greening and Young Farmer payments for the 2017 scheme year which will help with cash flow. See this month's *Policy* article for more details.

Next month....

- Management matters – Changes to AD support
- Input costs – Fertiliser update

Contents

Policy Briefs	2
- Weather support package & changes to CAP schemes	
Cereals and Oilseeds	3
- Late spring; impacts on malting spring barley	
Beef	4
- Demand continue to keep prices firm	
Potatoes	5
- Processing investments will help to grow sales	
Sheep	6
- Record prices, but for how long?	
Milk	7
- UK average milk prices continues to drop	
Sector Focus	8
- Egg production	
Sector Focus	9
- Craft alcohol sector	
Input Costs	10
- Feed prices	

This month's editor:

Gillian Inman



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



Scottish Government
Riaghaltas na h-Alba
gov.scot

Policy Briefs

Additional support and SUSSS changes

In recognition of the recent poor weather the Scottish Government has announced a new support package and made changes to the Scottish Upland Sheep Support Scheme (SUSSS).

Weather support package

To help farmers and crofters address the impact of the extreme weather, the Scottish Government has put together a new support package. The package includes:

- A Fallen Stock Support Scheme

Funds of £250,000 are available to help farmers and crofters offset the additional costs of the uplift and disposal of fallen cattle and sheep.

The scheme will be administered by the National Fallen Stock Company (NFSCO) on behalf of the Scottish Government and covers the period February to April 2018 inclusive. Further information about the scheme can be found at: <https://www.ruralpayments.org/publicsite/futures/topics/your-business/fallen-stock-support-scheme-2018-faqs/>

- Additional funding for Royal Scottish Agricultural Benevolent Institution (RSABI)

This extra funding will allow RSABI to provide further practical, emotional and financial support to farmers, their families and staff whose wellbeing might be suffering. For more detail about RSABI and how they can help can be found at: <http://www.rsabi.org.uk/viewItem.php>.

- Actions to address feed and fodder shortages

This will initially be tackled through a meeting with commercial feed companies and co-operatives to explore what more can be done to reduce shortages, increase resilience and create collaborative solutions.

Changes to SUSSS

Towards the end of 2017 temporary changes were made to the Scottish Upland Sheep Support Scheme application deadline and the retention period; these have now been permanently amended from the 2018 scheme year onwards. The changes include:

- SUSSS application period is now 1st September to 30th November; previously 1st September to 16th October.

- The retention period will be 1st December of the scheme year to 31st March the following calendar year; previously 17th October to 31st March.
- Eligible Ovine Animals must be less than 12 months old on 1st December instead of 17th October.
- Eligible Ovine Animals must be kept on the holding from birth and also during the period of 1st December to 31st March; previously 17th October to 31st March.

Update on other CAP schemes

Changes to Young Farmer Payment

Eligible young farmers, who set up from 2014 onwards will be entitled to receive a Young Farmer Payment (YFP) for a period of five years from the date of their first submission of an application for payment rather than from the date they set up as head of the business. For example, a young farmer who set up in 2014 and submitted their first application for the YFP in 2015 will continue to be eligible to apply for the payment until 2019, one year more than previously.

Note: a young farmer is someone who is less than 41 years of age on 31st December of the first year they applied for the Basic Payment Scheme. Head of the farm business means that the person is the main shareholder/partner, takes the majority share of any profits and makes the key business decisions.

The YFP must be claimed annually and the Scottish Government will undertake annual checks (i.e. proof of age and profit share) to ensure the business remains eligible for payment.

CAP Payments

Over the next few months, eligible farmers and crofters will receive their Basic Payment, Greening and Young Farmer payments for the 2017 scheme year. For those that opted to take advantage of the loan scheme, they will receive the final balance.

Three crop rule derogation?

In order to alleviate the difficulties farmers are currently facing due to the prolonged wet weather, Fergus Ewing has written to the EU Farm Commissioner asking for a one-year derogation to the three crop rule. Although at the time of writing this article a response was still pending, there is an expectation that it will be granted.

gillian.inman@sac.co.uk, 07803 222362

Cereals and Oilseeds

Late spring slows sowing

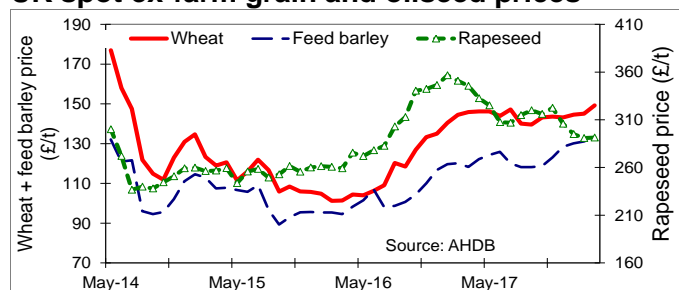
Later sowings are seen across northern and eastern Europe due to the cold and wet spring conditions. Better weather in April has permitted spring sowings to get under way. According to EU Mars crop reports, so far the weather has not had a large impact on the yield potential of the major EU winter or spring crops. However, much depends on the weather in the next few weeks as late crops will remain vulnerable to dry conditions.

In the US, maize plantings have been slow in the north but have caught up quickly in the last week with 15% planted by 23rd April, around the 5yr average of 14%. Late maize plantings favour a shift to soya. US spring wheat sowings are behind and winter wheat crop condition is poor.

In the last month, Scottish ex-farm prices rose; spot +£1.90/t for wheat (£154.20/t), +£2.20/t for feed barley (£139.10/t). New crop wheat is £155/t for Nov. '18. Old crop rapeseed fell -£1/t to £286/t del. May, new crop fell -£5/t to £277/t del. harvest '18.

- Late spring shifting US from maize to soya – potential lower oilseed, higher grain prices.
- Late spring may limit rise in spring barley crop.

UK spot ex-farm grain and oilseed prices



Late spring hampers spring barley

Following the wet autumn UK and EU spring barley sowings were expected to rise and this may well still be the case. However, the late spring may mean that the potential increase in spring malting barley supply may be less than first thought.

With spring sowings at least 3 weeks behind schedule, a number of implications may arise.

- Yield potential is dropping – though a good growing season may help offset this.

Indicative grain prices week ending 20 April 2018 (Source: SACC/AHDB/trade)

* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	Apr 18	May 18	Hvst 18	Nov 18	May 19	Nov 19
Wheat	Ex-farm Scotland	154.20	157.20	151.00	155.00	159.00	150.00
Feed barley	Ex-farm Scotland	139.10	141.00	125.00	130.00	134.00	125.00
Malt. barley - distil	Ex-farm Scotland			166.00			
Malt. barley - brew#	Ex-farm England		160.00		160.00	163.00	
Oilseed rape*~	Delivered Scotland		286.00	277.00	287.00		290.00

- Nitrogen levels likely to rise – particularly in England – may keep distilling market tight.
- Some cropping may switch – in the south of England, Germany – spring barley land may go to maize, in Scotland spring wheat/oats may go to barley – especially if Scotland obtains an EU derogation from the 3-crops rule (see Policy on page 2).

Shifts in wheat demand

Scottish distilling wheat demand has been very strong this season reflected in UK statistics showing wheat use in brewing, malting and distilling up 16% (77kt) to 568kt in the 8 months to February. Part of this increase stems from the North British distillery in Edinburgh switching from imported maize to UK wheat in summer 2017. It now appears that they will be returning to using maize. Lack of consistency in spirit yield and ease of processing, have been cited as reasons for the switch back to the more consistent maize. This appears negative for Scottish wheat demand. However, demand at other wheat distilleries in Scotland is expected to increase in coming months.

South of the border, wheat demand for ethanol is set to rise given the re-opening of the Vivergo plant on the Humber. This plant can use up to 1.1mt of wheat per year.

Looking to harvest 2018 Scotland is likely facing a significantly smaller wheat crop possibly sub 800kt (889kt in 2017) given the 9,000 ha fall in sowings and the poor condition of much of the crop that went in. Backing this up, forward wheat prices in Scotland remain at a strong premium to futures with November 2018 wheat prices at £155/t ex farm; similar levels as now.

The main threat is imports. Imported EU wheat is currently at ~£170/t delivered vs £162/t for Scottish wheat.

- Lower Scots wheat demand expected in the year ahead as North British go back to maize.
- But smaller wheat crop and increases in other distillers and ethanol likely to keep market tight.
- Main risk comes from imports.

julian.bell@sac.co.uk, 07795 302264

Beef

Working away nicely

Cattle availability will rebound once fieldwork is complete. In the meantime, market price is up 2-4p/kg deadweight on the week to week ending 21st April 2018.

It takes more than two consecutive days of sunshine for consumers to get the BBQ dusted down, especially for the first time in the season. Nonetheless, a bit more heat in the air – especially in Southern England – and lighter nights means folks start to think about it. That will bolster demand and prevent price softening, as had been muted.

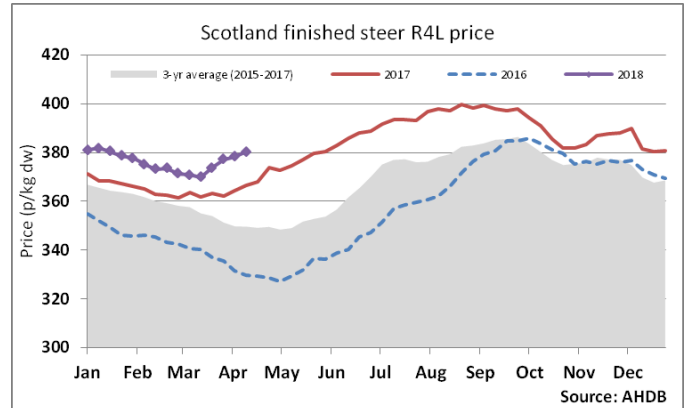
An R-grade Scottish steer is 375-380p/kg dwt or 10p up on the rolling 4-weeks. That makes a 370kg carcass £1,400 or £50 higher on the year. The current differential with Southern England is 8p/kg dwt while the difference with Northern England has widened (at least temporarily) to 6p, generating a sigh of relief for Scottish finishers trying to buy store cattle just now. Despite the seasonal price pressure on Aberdeen Angus, demand sees the brand retain a +20p premium.

Cow beef remains in keen demand and has even increased 10p/kg dwt in Scotland in 4 weeks to range between 305-313p/kg dwt. A 350kg beef cow carcass will gross £1,100/hd. This looks promising for the next while. Indeed, finishers with forage may even be looking at dairy culls for quick turnover cattle.

2018 Supplies

While beef calf registrations have increased year on year since 2014, strong demand, improved exports, reduced carcass weights and more dairy beef coming through (reducing the killing out percentage) means availability is not as high as first appears. Furthermore, GB calf registrations were actually lower on the year for the April to October period 2016 – the year most prime cattle are now being procured.

Coupled with the real prospect of store cattle being turned out to grass to heavier weights, sparing feed and bedding, means there could be a shortage of cattle through the summer.



Knowing costs v's market signals

LMC Northern Ireland recently reported that the first quarter of the year surprisingly numbered more heavier finished cattle. This is not a problem in itself provided they are in-spec. The problem could be a rising number of cattle at the top end of the weight range. Some 9% of steers were between 400 and 420kg and 8% were over 420kg dwt - 3% up on the year albeit 1% lower than 2016. The average weight of GB steers had not markedly changed over the same period but neither did they reduce to reflect the higher cost of keep.

Maybe this reflects the cost of replacements with store cattle meeting strong trade. A shortage of cattle also means it is hard for processors to adhere to their own specification and reward/penalise in/out of specification cattle as, first and foremost, they need throughput to meet contractual demands.

Although understandable, it will frustrate those producers endeavouring to produce what the buyer wants; an eternal problem. The best way to change this is for more producers to understand their cost of production. That does not just mean the average cost but also the optimal point of sale where costs rise to meet the value of liveweight gain. It is these daily figures that will identify when it would be more cost effective to sell and keep the feed for other cattle or sell and replace with younger more efficient converters. Getting real-time information is difficult in practice but rough values are better than none at all.

robert.logan@sac.co.uk, 07909 840534

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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
31-Mar-18	377.1	3.4	4.6	375.3	3.6	3.6	362.4	-0.9	315.3	292.4
07-Apr-18	378.2	1.1	4.8	377.5	2.2	6.4	369.7	9.7	312.8	294.5
14-Apr-18	380.3	2.1	6.4	377.1	-0.4	4.9	373.4	-3.4	313.9	291.6

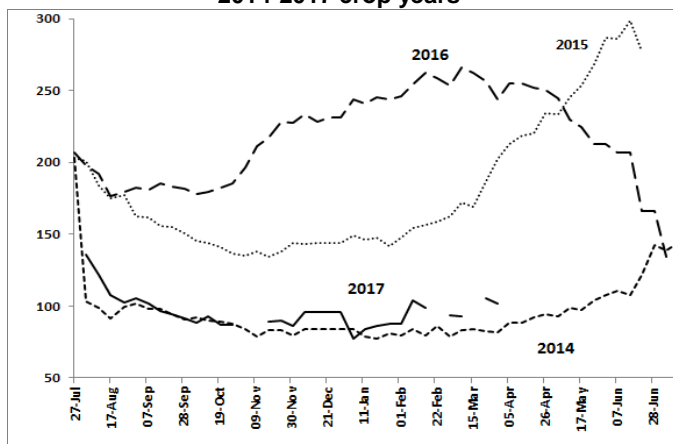
Potatoes

Market price update

- The GB Weekly Average prices for the week ending 21st April 2018 were £154.32/t for free-buy and contract purchases and £96.11/t for free-buy purchases.
- Compared to the previous reported week free-buy and contract was down £2.88/t and free-buy was down more sharply by £5.47/t.
- With farmers busy with field work, potentially less crop was coming forward for sale, however, the warmer weather may have also slackened consumer demand.

Crop Year	21 Apr	31 Mar	24 Mar
All potatoes 2017	154.32	157.20	156.87
All potatoes 2016	217.18	218.54	218.54
Free-buy 2017	96.11	101.58	105.65
Free-buy 2016	252.31	256.28	256.28

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



Source: AHDB

In Scotland, prices are very variable reflecting differences in quality. Grade 1 King Edward are trading around £100-120/t, up £20-£30/t in the last month. Grade 1 Maris Piper are up between £15-£40/t to £170-£210/t in the last month. Grade 1 whites are unchanged on the month at around £40-£60/t with lower prices for trade to England. Desiree is struggling to find demand with prices in the £60-80 range.

Major new processing investments

In Scotland Albert Bartlett announced an £18m investment in a new chilled product facility in Airdrie serving the food service sector (pubs, restaurants, etc). Bartletts first entered the processed potato products market in 2015 from their Norfolk plant to

diversify with new innovative products given the declining fresh potato market. This investment is supported by a £4m Food Processing and Marketing grant from Scottish Government. When operational, the plant will process 50,000t of potatoes per year of which around 90% will be Scottish. The development will generate 35 jobs at the factory and support others in the supply chain.

In Yorkshire McCain's announced they are investing £100m in their Scarborough frozen potato products plant. This follows a 3% growth in their sales in the year to 30th June 2017 to £466.2m. This was a good performance given the UK frozen potato product category grew just 0.3% in 2017. Continuing innovation, including the launch of Gastro Chips and Frozen Skin-On Fries targeted at the pub and restaurant trade last year, helped support growth.

These investments represent a welcome increase in UK and Scottish processing capacity with the potential to grow sales in growing domestic segments (chilled meals, service) and displace imported products (frozen chips). With Brexit on its way stronger local demand for potatoes is as they say "all good"!

Better late than never to plant

By the last week of April ware planting was underway on lighter land in Angus, Black Isle, Fife and the Lothians, but heavier land and that in Aberdeenshire remained largely unplanted. With spring barley still to drill most farmers were focusing on completing cereal sowing before starting on potatoes. Soil temperatures are now suitable for planting but continuing showers and wet subsoil are slowing progress.

Seed planting has not started but at present this is not raising major concerns given the short growing season the crop requires.

Overall planting in Scotland is 3-4 weeks behind last year with a similar picture seen across much of the UK and the Continent given the cold wet spring. If planting is delayed much longer then some yield potential may be lost, unless the growing season is particularly favourable. NIAB CUF suggest that yields in England will not be seriously affected if planting is completed by around 7th May – but at the time of writing (26th April) that is barely 10 days away! AHDB have produced a guide to managing late plantings – the key being not to rush it, wait until conditions are right. See the following link for more – [AHDB Late Planting](#).

julian.bell@sac.co.uk, 07795 302264

Sheep

Soaring trade for the few

Procuring enough in-spec lambs is becoming increasingly challenging as availability reduces. This does mean, that despite what processors would like to do and market price signals are designed to reflect, beggars cannot be choosers and both O-grade and fat lambs are gaining proportionately more than they would normally.

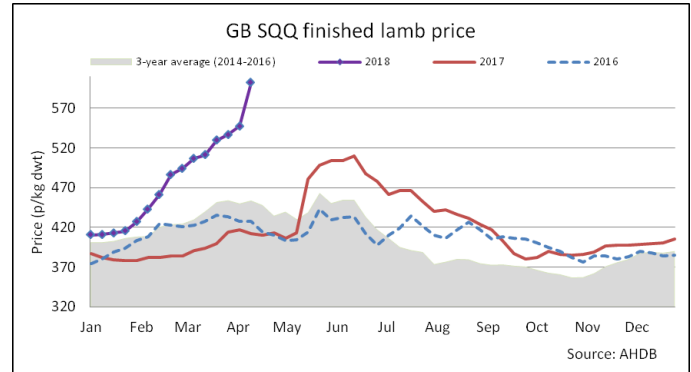
Even adjusting for the difference in timing of Easter between 2018 and 2017, there was still significantly lower hogg throughput in April than the same month last year. Hence, the prices lift.

Topping £6/kg dwt creates a bit of feel-good factor, something otherwise lacking in the sector after a hard winter. Everyone in the supply chain, including producers, is acutely aware that it is not sustainable. However, some context is required to ensure policy makers (particularly in Defra, looking at future trade scenarios) are aware of the strong but irregular nature of the current market price. Sales from February to April accounted for only 10% of GB lamb sales for the 12-months May'17-to-April'18, making this exceptional period an average of less than £1.50/hd for every lamb sent to the abattoir over the 12 months.

A 37kg lamb could still gross £85 by week ending 21st April. That is over £15 higher on the year. Notably, it is lower on the week, which is the first time since October that the lamb market has seen any significant downward movement. This probably reflects a poorer tail end of hogs coming through since 20kg dwt lambs of good type are still in excess of £100/hd.

- The latter could well tease out more lambs otherwise destined for autumn breeding sales.
- Despite cull ewes also meeting a flying trade, producers now need to start checking for teeth-up, which could incur a 30% discount.

Heady prices were maybe overcooked and scared trade away but we are now only days from the start of Ramadan (16th May) procurement, meaning a lift in demand, albeit not at these prices.



Growth, if less predictable

Opportunities exist for alternative trade deals but it also brings greater exposure to geopolitics and less certainty of market price. For example, New Zealand beef is currently benefiting from strong exports to China (up 29% in value for the Oct-Feb period on the previous year), which is largely a result of the US's change in trade policy and counter measures by China. It provides a bigger share of business with a large existing customer but there are no guarantees how long it lasts. Furthermore, the net benefit to NZ may be limited as the US looks to redirect its beef exports into alternative Asian markets. Meanwhile, a temporary tariff rise on frozen NZ beef to Japan was reduced from 50% back down to 36%. Albeit a temporary measure, it resulted in a 17% year on year drop in NZ beef receipts, from that market.

The point being, there will be opportunities but things can change quickly because of factors, not related to the exchange rate, consumer demand, quality or availability of UK beef or lamb. It requires a portfolio of complimentary trade deals to ensure flexibility and spread risk.

Indulge a scenario where UK negotiators agree a range of high value trade deals for lamb, with or without an EU market – would this make it similar to 'business as usual'?

It would still be less insulated than the current EU free-trade environment, meaning market risk increases and a different business model including lower debt structure would still be required.

robert.logan@sac.co.uk, 07909 840534

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
31 Mar 18	539.9	542.2	537.0	211.30	238.80	235.70	73.40	75.52
7 Apr 18	552.6	552.2	547.0	223.70	267.80	268.30	73.04	83.49
14 Apr 18	607.1	607.6	603.4	238.20	264.50	266.60	82.48	82.98

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

Source: AHDB.

Milk

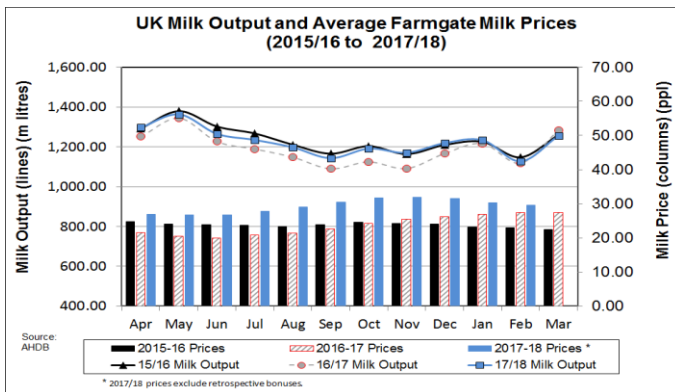
UK milk prices reduce in Feb '18

- UK average milk price reduces for the third consecutive month in February 2018; more price reductions announced for May 2018

The UK average milk price has reduced for the third consecutive month according to DEFRA's latest statistics, reducing by 0.72pppl between January and February 2018, leaving the UK average price at 29.64pppl for February. This is the third consecutive month in which the average price has reduced during the current production year (April '17 to March '18). Since prices peaked at 31.94pppl during November 2017, prices have dropped by 2.30pppl, to reach 29.64pppl for February 2018.

The latest production report indicates that UK milk output for March 2018 is estimated at 1,256.87m litres (before butterfat adjustment), which is a reduction of 26.67m litres against March 2017 production. Heavy snowfall during March 2018 resulted in milk being 'dumped' on some farms as milk tankers struggled to access all areas during the poor weather conditions. Cumulative production for 2017-18 is estimated at 14,701.47m litres. This means that cumulative output for 2017-18 is estimated to be around 450.85m litres above that of 2016-17.

- UK milk output reduces during March 2018; heavy snowfall was one of the main causes



Round-up of May 2018 milk prices

There are mixed fortunes regarding milk prices for May 2018. A small number of aligned contract prices have increased, whilst non-aligned contract prices have generally struggled to maintain their position from the previous month's price level.

- Graham's Dairies – 0.50pppl reduction from 1st May 2018. This takes the standard litre price down to 26.25pppl.
- Müller – 0.50pppl reduction from 1st May 2018 for Müller Direct suppliers. See table opposite.

- Co-op Dairy Group/Müller – 0.88pppl price reduction from 1st May 2018. This takes the standard litre price to 27.99pppl.
- TSDG – Tesco Sustainable Dairy Group is to increase its milk price by 0.32pppl from 1st May 2018. This takes the standard litre price to 29.84pppl for Müller suppliers, whilst Arla suppliers will see prices move up to 29.59pppl.
- Arla Foods amba – hold on the milk price for May which leaves the liquid standard litre price at 26.39pppl.
- First Milk – hold on the milk price for May 2018 (see table below).

Annual Average milk price estimates for May 2018 (pppl)	
Milk Buyers – Scotland	Standard Ltr*
Lactalis (No profile or seasonality) (3 month contract) ¹	26.00
First Milk Liquid ¹	26.00
First Milk Manufacturing (4.2% Butterfat & 3.4% Protein)	26.88
Müller - Müller Direct ^{1,2}	26.00
¹ Standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.	
² No monthly supplementary payment included in the price estimate.	

FM to sell its Scottish creameries

First Milk has confirmed that it is to sell its two Scottish creameries in Arran and Campbeltown, as the business continues to rid itself of loss-making enterprises. If no buyer can be found, the two creameries could be closed and supplying farmers could be left with the choice of supplying their milk to a mainland processor, or opting to cease dairying altogether. Transporting milk to the mainland will be costly but all options need to be explored if milk production is to continue on the west coast of Scotland. First Milk's exit from the west of Scotland leaves the FM business with its head office in Glasgow and two remaining creameries – one in the Lake District and one in Haverfordwest, south west Wales.

UK wholesale prices stable in Mar '18

UK wholesale prices remained stable in March 2018 as production volumes were lower than expected during the month. The latest Fonterra online auction saw the weighted average price across all products recover from US \$3,477/t to \$3,587/t.

UK dairy commodity prices (£/ tonne)	Mar 2018	Feb 2018	Oct 2017
Butter	4,220	4,300	5,050
SMP	1,150	1,130	1,350
Bulk Cream	1,930	1,850	2,180
Mild Cheddar	2,900	2,925	3,365
UK milk price equivalents (pppl)	Mar 2018	Feb 2018	Oct 2017
AMPE (2014)	26.68	26.88	32.73
MCVE (2014)	31.05	31.30	36.61

Source: AHDB

alastair.beattie@sac.co.uk, 07771 797491

Sector Focus: Eggs

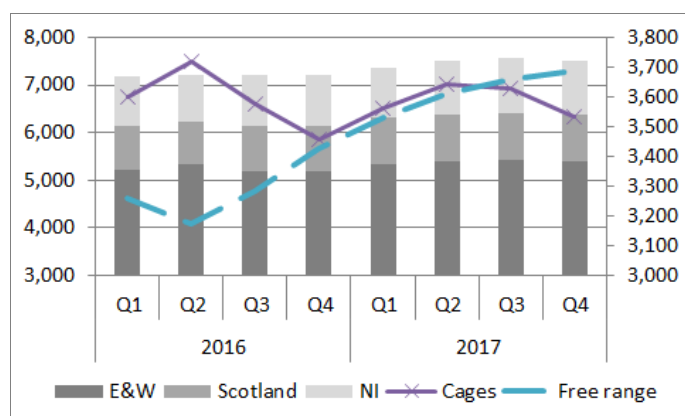
Free-range leads production rise

Total UK egg production was 29.9m cases last year (up 1.1m on 2016). The free-range egg packer to producer price fell 2.1p/doz (-3%) in 2017 to end at 81.1p/doz. The caged egg packer to producer price fell 0.7p/doz (-1%) in 2017 to end at 53.8p/doz. These were the lowest egg prices since 2010/11.

Within the UK egg production rose proportionately most in Northern Ireland; up 8.5% (+351m cases) on the year, followed by Scotland up 5% (+187m cases) and England and Wales up 2.9% (+599m cases).

During 2017 the free-range market rose 1% on the year to 49% of all production surpassing cage production for the first time as enriched cages share of the market fell 1% to 47%.

UK quarterly egg throughput and system ('000's cases)



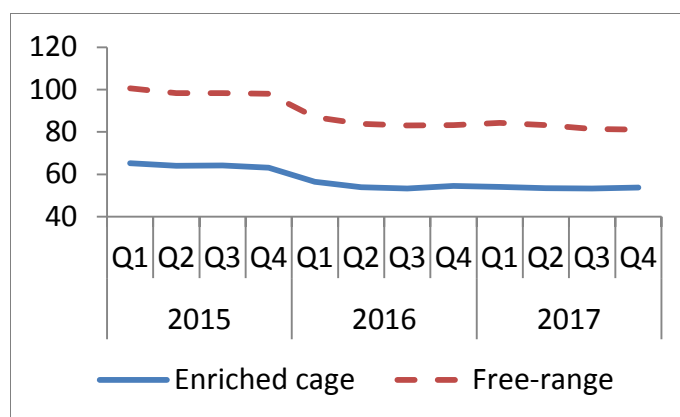
Source: DEFRA

Chick placings into layer units have risen sharply in recent years up 13% in the five years since 2012, to reach a record 112.4m chicks placed in 2017. So far in 2018 layer chick placings have been weaker down 2.2% in March 2018 on the year.

Feed prices fell £20/t during 2017, from £247.31/t in April 2017 to a low of £227.21 in October 2017, according to BFREPA, contributing to falling market prices for eggs. Since then however, feed prices have risen steadily to reach £240.90/t in April 2018. Since September 2017 in Scotland wheat prices are up £13.50/t to £162/t delivered by April 2018. GM soya prices are up £75/t from £290/t delivered to £365/t over the same period.

With rising feed prices and falling egg prices, margins are getting squeezed and this is already being seen in falling chick placing and may slow the recent expansion of the UK flock.

UK packer to producer egg prices (p/doz)



Source: DEFRA

Future issues

Avian Influenza (AI) - In 2017, UK poultry flocks were infected by AI and free-range birds were confined to houses, resulting in the loss of free-range designation for part of the season. So far, UK efforts to allow derogation to the EU free-range egg designation, during AI epidemics, has met little support in Brussels. The UK is an outlier within the EU in the high proportion of free-range egg production, and so is most disadvantaged by this issue. Brexit further lowers the EU's interest in accommodating UK concerns. To date in 2018, the H5N6 virus was confined to wild birds in the UK. When and how UK authorities may take over from Brussels' control of this legislation remains uncertain with current arrangements likely until 2021.

Brexit - The UK has a high degree of self sufficiency in egg production at around 86% but will remain vulnerable to any adverse changes to EU trading arrangements.

Loss of skilled labour is one of the major concerns of the egg sector, as it is highly dependent on EU labour on farm (35-40% of workers) and in packing plants (55-60%) according to a BEIC survey. If the UK's EU transition period to December 2020 is ratified, the industry will have more time to develop a solution. Nonetheless, the egg industry is waiting with growing concern for the government to release details of its planned immigration policy post Brexit.

julian.bell@sac.co.uk, 07795 302264

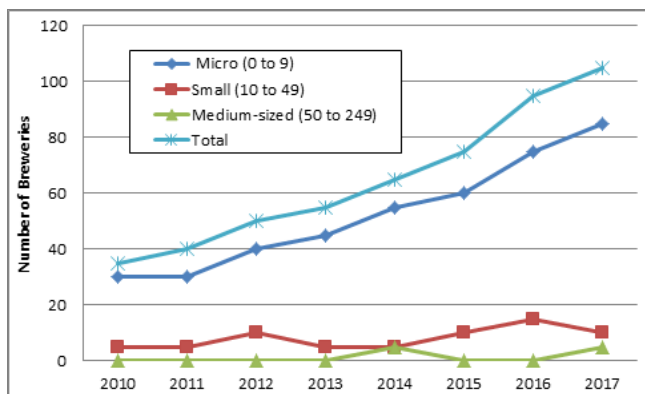
Sector Focus: Craft alcohol sector

Craft alcohol production

Recent changes in global consumption patterns, fiscal incentives and growing interest in local food and drink have led to a sharp rise in the demand for craft beer and artisanal spirit (gin & vodka).

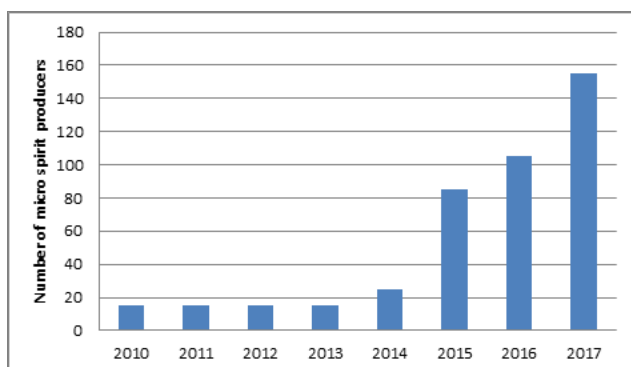
Scottish producers have been particularly quick to capitalise on this new demand with an explosion in the number and diversity of craft brewers and distillers. With many of these based in rural areas, the sector has considerable potential to create jobs and boost the economy across rural and remote areas of Scotland. There are also opportunities to increase the sourcing of local raw materials.

Breweries by number of employees in Scotland



Source: ONS

Scottish spirit micro-distilling, rectifying and blending businesses



Source: ONS

Market drivers

The definition of craft brewers and distillers is not clear cut, but they are generally smaller scale, independent and 'authentic'.

According to Cask Marque craft beer consumption appears driven by a range of factors including; an interest in premiumisation supported by falling beer consumption; i.e. fewer pints but higher quality! Consumers also appear bored with big brands and are seeking authentic local brands. Similar trends are also supporting craft distilling.

Improvements in small-scale brewing and distilling equipment and training have enabled smaller producers to match or exceed the production quality of larger operators whilst being more innovative. Small scale brewers in particular also benefit from a reduced rate of duty up to 60,000 hecto litres of production in the UK.

Opportunities for the rural economy

Tourism – visitor centres attached to whisky distilleries received 1.7m visitors in 2016, spending an average of £31/head and bringing in total revenues of £53m, according to the Scotch Whisky Association. A growing number of craft breweries and distilleries have developed associated visitor centres, pubs and restaurants, though currently no estimates of their economic impact have been obtained, but this is expected to be significant.

Remoteness and distribution – rural breweries benefit strongly from their regional and rural association but may suffer limitations due to their small-scale and remoteness. The development of industry collaboration initiatives such as the "Beerflex" scheme run by the Society of Independent Brewers (SIBA) enables small producers to join together for more effective marketing and distribution to larger established pub chains and distributors.

Raw materials – there are opportunities for the increased use of Scottish grown grains, malt, botanicals and other ingredients in the craft sector given that many supplies are sourced from elsewhere in the UK or imported.

This information was taken from a study led by Andrew Barnes of SRUC and funded by Scottish Government under RESAS - [Craft Beer and Artisanal Alcoholic Drinks Sector in Scotland](#)

julian.bell@sac.co.uk, 07795 302 264

Input Costs: Feed Prices

Commodity	Price for bulk delivery (£/t)*	Commodity	Price for bulk delivery (£/t)*
Soyameal	360	Potatoes	32-40
Rapemeal	250 (220 late summer)	Draff	
Sugar beet pulp	205+	Dairy Compound18%	222
Wheat Dark Grains	198-215	Beef Blend	187
Maize Gluten	218	Lamb Finisher Pellets	225
Soya Hulls	186	Pig Grower	250
Molaferm 20	175 (10t)	Pig Finisher	230
Pot Ale	73-80 (haulage variation)	Dry Sow	217

Animal health	Product Detail	(£ ex VAT)	Fodder	Ex farm (£/tonne)
Pour – On Wormer	Ivomec 2.5ltr	58.00	Hay (4x4)*	120
Drench Wormer	Panacur Sheep 10. 1ltr	65.00	Silage (4x4)*	£20/bale
Inj Wormer	Ivomec Supercattle 500ml	124.00	Straw *	120
Magnesium (bottle)	Mg Sulphate 400 ml	5.50		
Calcium (bottle)	Ca + M40 400 ml	5.50		
Flukicide	Fasinex 240 0.8ltr	80.75		

Note: the above prices are for May 2018 at time of writing (mid April), based on 29t loads, they are a guide only and may vary from region to region; Wide variation in prices depending on the area and quality and type. *Finished feeds are estimated.

After a long winter there has been a lot of feed used and replacement straights for the summer months are not looking cheap. It is estimated that blends and compounds will be up £5-7/t on April prices but could be as much as £20/t up on autumn 2017 contracted prices. Some ruminant feeds may be less of a rise. Although world stocks of soya are reported to be sound, weather and politics still dictate. The US planting more wheat versus soya beans and drought conditions in Argentina have also kept the soya market firm and it looks to remain this way well into next winter. This time last year soya was £310/t. Dark grains remain harder to get hold of with Vivergo currently withdrawn from sales and Invergordon to be closing their dark grain plant in the near future. Dark grains look to be dear all summer, it might be worth keeping an open mind and looking at other options for example imported product (if it comes available) or other liquid options. Pot Ale still remains very good value (speak to suppliers about availability). Rapemeal is currently dear but will come back in price to around £220/t in August when new crop becomes available.

Draff looks to be a bit more available than was anticipated this time last year but prices from now on will be higher than what we are traditionally used to at this time of year. Although it takes a bit of getting used to these higher prices, draff is still reasonable value compared to some other feeds. For example 4kg of draff replaces 1kg of maize gluten. It is worth spending a bit of time considering the suitable storage of draff to reduce wastage of it when paying more for it. If you require draff or tatties for silage pits get in early to speak to suppliers as there may be longer lead times to get the amount required. Do keep in touch with your feed suppliers over the summer months in anticipation of being prepared for next winter as well. It is worth taking partial cover on straights that you need to spread the risk and know your input costs. Straw and hay are near impossible to get with extremely tight supplies. Potatoes and turnips are currently available at around £12-15/t ex farm. Potatoes look very good value with barley currently around £145/t ex farm (4kg potatoes replaces 1kg dried barley). karen.stewart@sac.co.uk, 07796 615719

Key economic data

General Indicators		Price indices for February 2018 (Defra 2010 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.50% (0.25% Nov '17)	Wheat	118.9	Seeds (all)	106.8
ECB interest rate	0.00% (0.05% Mar '16)	Barley	129.4	Energy	123.4
UK (CPI) inflation rate	2.5% (target 2%)	Oats	122.8	Fertiliser	95.7
UK GDP growth rate	0.4% (Q4 '17)	Potatoes (Main Crop)	115.3	Agro-chemicals (all)	112.3
FTSE 100	7,429 (27 Apr '18)	Cattle and Calves	133.3	Feedstuffs	111.8
		Pigs	102.0	Machinery R&M	117.2
		Sheep and Lambs	119.6	Building R&M	117.9
		Milk	120.2	Veterinary services	109.0

© SAC Consulting 2018. SAC Consulting is a division of Scotland's Rural College (SRUC)

This publication is funded by the Scottish Government and EU as part of the SRDP Farm Advisory Service

SAC Consulting, Rural Business Unit publication

Annual subscription: free on-line at www.fas.scot or £50 for printed copies

Contact: janis.forrest@sac.co.uk or 0131 603 7525