SRDP FARM ADVISORY SERVICE

October 2016

News in brief

Has the tide turned?

Low farm gate prices in 2015 and during the first half of this year, combined with delays in CAP payments resulted in many farmers having to increase borrowings just to tick their businesses over. However, over the past few months, driven by a weaker pound and more favourable supply and demand factors, commodity prices have lifted bringing some relief.

Further to this the Scottish Government are offering eligible farmers the opportunity to receive a loan of 80% of their anticipated direct payments for 2016 which will help avoid the problems seen last year with delayed payments. In addition the exchange rate used to calculate 2016 payments (BPS and greening payment) has been set at: €1 = £0.85228, an increase of 16.5% compared to last year.

This rate is based on the average exchange rate set throughout September and sets the amount that farmer's who elected to take the BPS payment in Sterling will receive.

Even though prospects might be looking a bit more promising, there is no room for complacency given the uncertainty around Brexit. However, whatever materialises forward planning and budgeting remain essential. The 2016-17 edition of the SAC Farm Management Handbook is an essential tool to help with this and will be released shortly – order your hard copy now (*see page 10 for details*). This year margin data from the handbook will also be released electronically without charge under the Farm Advisory Scheme (see below).

Farm Advisory Service launched

The Scottish Government recently launched the SRDP Farm Advisory Service to provide; advice, information and resources, aimed at increasing the profitability and sustainability of farms and crofts throughout Scotland. SAC Consulting has been awarded the contract to deliver this service which includes support for Agribusiness News and the Farm Management Handbook - www.fas.scot

Next month…

- Sector focus: Inheritance Tax
- Management matters: Feed update

Contents

Policy briefs 2
- Simplification of Greening on the agenda

Cereals and oilseeds 3
- UK grain prices increase due to weak pound

Beef 4
- Finished cattle prices likely to stabilise

Potatoes 5
- Average yields helps keep prices firm

Sheep 6
- Weak pound helps to keep finished lamb price up

Milk 7
- Further milk prices increases confirmed

Sector focus 8
- Cereal trade flows and tariffs

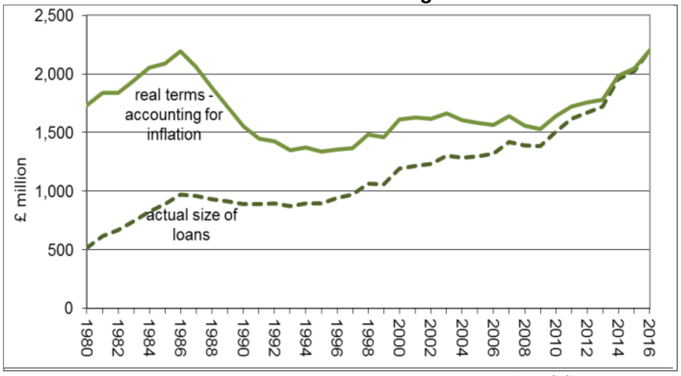
Management matters 9
- Harvest update

Farm Management Handbook
- Pre-order your copy now 10

Farm debt reaches record high

The latest figures released by Scotland's Chief Statistician reveal that outstanding debt from all of the banks and mortgage companies that lend to Scottish agriculture at 31 May 2016 was £2.20bn, £177m (9%) higher than the previous year. In real terms, accounting for inflation this is an increase of £155m (8%). This is the seventh consecutive year that outstanding debt has risen and is now higher than the peak in the mid-1980s.

Current and real term outstanding debt since 1980



Source: Scottish Government

The increase in debt just highlights the difficulties farmers have been facing, with many having to increase borrowing to help with cash flow.

New loan scheme now available

The National Basic Payment Support Scheme is open to applications whereby eligible farmers can apply for a loan to receive 80% of their anticipated Basic Payment Scheme and Greening payments for 2016. The loan will be capped at €150,000.

Letters are now being sent to eligible farmers and crofters providing further details; those who wish to make an application for a loan will need to complete and return the application slip to their local RPID area office.

Further information about the scheme, including Q&A's can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/national-loan-schemes/loans-for-2016-17-payments/

Greening changes on the horizon?

At the start of the year the European Commissioner issued a consultation to seek views from farmers and the industry on the first year of the greening requirements. At an EU level the review investigated the impact of greening on competitiveness and production, whether it resulted in administration burdens and ways to simplify greening. The results of this review are available at: http://ec.europa.eu/agriculture/direct-support/greening/index_en.htm, a summary of the findings in relation to suggested changes are provided below.

When the new CAP was first introduced concerns were raised about the additional administrative burden it would generate. Areas identified within the review to simplify greening and improve the scheme include:

- Better specification and/or clarity of what is required, especially with regards to EFA landscape features

For example, it was deemed that the EFA landscape sub-categories were too detailed and differing requirements across some EFA options have led to confusion. Merging certain EFA types, such as buffer strips and field margins, and streamlining certain conditions associated with these EFA types were identified as potential changes that could be made.

- Eliminating some requirements without lowering the environmental benefits

Certain management requirements attached to some EFA types have created an extra burden without providing a clear positive impact on the environment. Possible changes identified include the introduction of more flexibility in certain climatic conditions with regards to sowing dates especially for green cover or catch crops.

- Improved harmonisation of some requirements

It was identified that in order to help achieve the environmental objectives set for each EFA, changes should be made to certain management prescriptions. Possible changes identified include extension to the EFA fallow land period, modifications of the weighting factors to ensure they better reflect the potential to enhance biodiversity and limiting the use of inputs on productive EFA areas, i.e. plant protection products on fallow land, catch crops, green cover and nitrogen-fixing crops.

The outcomes from this consultation are being used to help draw up secondary EU greening legislation. Whether any of the suggested changes actually get approved at EU level and then be implemented by the Scottish Government only time will tell.

What is certain is that the clock is ticking with only three months left until farmers need to know what changes, if any, will be made to the greening rules for next year.

gillian.reid@sac.co.uk, 07803 22236

Weak sterling adds support in a flat global grain market

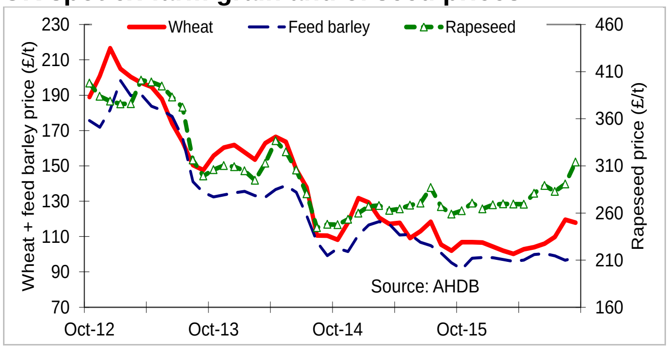
World grain prices have remained relatively stable in the last month but further sterling weakness linked to on-going Brexit developments has added around £3/t to UK values. Ex-farm wheat is currently around £120/t. Without the recent devaluation of the pound values would be around £20/t lower i.e. £100/t.

In the USDA's latest estimate world grain production forecasts were reduced and demand increased resulting in lower projected ending stocks (though still up on last year). This harvest represents the fourth year of rising world grain ending stocks. However, a sharp rise in global demand up 91mt to 2,148mt means that stocks-to-use ratios are actually set to decline marginally 24.5% (24.8%).

World wheat production estimates rose 1.4mt in the last month to 744.85mt (734.8mt in 2015/16), demand rose 4.2mt to 736.7mt and stocks fell 3.75mt to 249.1mt (240.9mt in 2015/16). Production rises in Australia, India and Canada were offset by falls in the EU and China.

World coarse grain (maize, barley etc) production estimates in the last month fell 2.8mt to 1,319.7mt (1,247.6mt in 2015/16), demand rose 4.2mt and stocks fell 3.75mt to 253.3mt (245mt in 2015/16). US maize crop estimates were cut by 1.6mt but output of 383mt remains a record. Increased production estimates were seen in Brazilian maize as high prices there are expected to boost summer maize plantings.

UK spot ex-farm grain and oilseed prices



UK LIFFE wheat futures for November 2016 were up £3.15/t over the last month to £127.05/t. MATIF oilseed rape futures rose £7.97/t to £323.53/t in the last month for November delivery.

World oilseed production estimates rose 1.0mt in the last month to 544.5mt (520.6mt in 2015/16). In the last month lower rapeseed crops in the EU are more than offset by strong rises in US soyabean output. EU rapeseed values have benefitted from a shortfall in the EU crop necessitating increased imports and boosting rapeseed above soyabean prices. Good prospects for the Australian rapeseed crop may dent this price premium come the New Year.

- Record world grain crop but also a large growth in demand leaves higher stocks but a slight decline in stocks–to-use ratio.
- While still overburdened the world grain supply and demand situation is improving slightly.

European spring barley prices ease

The supply situation for malting barley within Europe appears to have stabilised despite the poor crops seen in France and Germany. As a result prices have fallen on the export market. In August spring barley in England for November delivery was £155/t delivered, by the end of September it was down to around £145/t.

In Scotland a promising start to the spring barley harvest in the south of Scotland gave way to much poorer results further north. Yields of malting varieties struggled to reach 5t/ha (2t/ac) in parts of Aberdeenshire with high levels of screenings (10-20%) and patchy skinning issues. This appears to have resulted in a shortfall in malting barley supply in the north of Scotland and created demand for surplus barley in the south of Scotland. The impact on malting barley prices appears relatively limited with ex-farm values around the £130/t level. Nonetheless, farmers with uncontracted malting barley should get its specification and value checked, even if not mainstream varieties as it may be worth a premium. (See page 9 for a harvest update).

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

Indicative grain prices week ending 30 August 2016 (Source: SAC/AHDB/trade)
*Nominal, before oil bonus, # Ex-farm England spring max. 1.85%N

£ per tonne	Basis	Sep/Oct'16	Nov'16	Nov 2017	Nov 2018
Wheat	Ex-farm Scotland	120.40	121.90	129.50	134.50
Feed barley	Ex-farm Scotland	101.30	104.00	109.00	114.50
Malting barley	Ex-farm Scotland	127.00	134.00#	140.00#	-
Oilseed rape*	Delivered Scotland	317.00	317.50	306.00	309.00

Finishers looking happier

The price chart shows a remarkable five months. Since it bottomed in mid May, the average Scottish steer price has risen by 58p to 385p/kg dwt. Finishers south of the border will also be breathing out after, like their Scottish peers, enduring a six month period of severe price erosion; and all of this against a backdrop of beef becoming cheaper in the supermarkets. Processors will no doubt be the ones in the chain currently holding their breath. Especially those supplying Angus beef where the right cattle are predicted to achieve 430p/kg dwt week beginning 26/9/16.

Since the end of July the cull cow price has outperformed the same period in 2015. However, both in Scotland and south of the border, prices are now similar to a year ago and declining. No big surprise given the offloading of dairy cows as the grazing season ends.

But may be less generous for stores

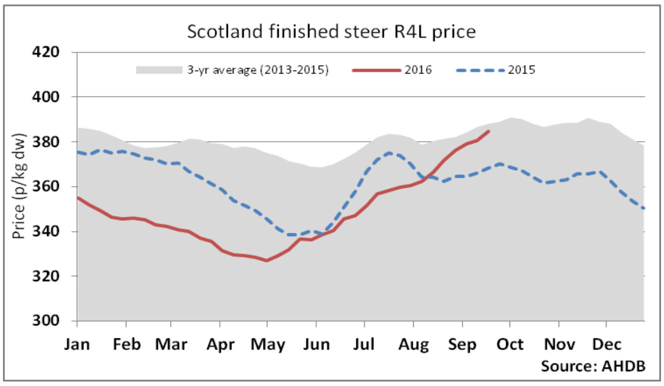
A further significant lift in the finished price seems unlikely. The welcome drop in sterling following the Brexit vote, has limited the competitiveness of beef imports from the Irish republic. But with commercial cattle down to 320-330p/kg dwt this week in the republic, Irish beef imports are regaining their edge, though Irish finishers will hardly be cheering. So we may be entering a period of relative stability for finished prices.

Perhaps more interesting in the next month, will be the store cattle trade. How generous will finishers be? Probably not as much as suckled calf and store producers would like.

Finishers' bidding will be driven by a number of factors. First, the predicted total value of the store when finished, which will be determined by its breeding (e.g. Angus), grade, weight and general market price level. Regarding the latter, a quick look at the price chart suggests that finishers may well adopt a cautious view of market prices. Critically, the actual finished price may vary much from the average because of carcase weight, breed, grade and provenance.

Recent AHDB analysis reveals that only around half of cattle killed are within the target range (conformation R or better and fat class 3 or 4L). If the upper carcase weight range is lowered to 400kg, the share hitting target drops to 39%. Should it drop to 380kg, just 31% of the animals analysed would have made the grade.

Further sharpening the finishers' judgement will be their expected subsidy income. Cattle finishers in general received high subsidy rates per hectare. But in the past couple of years Scottish finishers have seen there subsidy cheques hit hard. The weak pound through September will set a helpful conversion rate. Nevertheless for most Scottish finishers the continued move to the area based payment, will limit their scope for generosity at the store ring.



That leaves cost of production. Grain should be cheap again this winter and into next year, which obviously helps (though aids chicken and pig meat more). Some finishers with access to brock veg, etc, will have a particular competitive advantage in terms of cost of production, so can be a tad more generous if necessary.

Based on the 2015 QMS enterprise costings (forage based cattle finishing under 22 months), to breakeven at a finished price of 385p/kg dwt (£1,279/hd), the average finisher should pay £743 for the store. This compares to the £792 paid in 2014/15, against a gross sale of £1,202 (355p/kg dwt), which resulted in a loss of £127 a head for the average Scottish finisher!

kev.bevan@sac.co.uk, 07990 777813

Prime cattle prices (deadweight) (Source: drawn from AHDB data)

Week Ending	Average prime cattle price (p/kg dwt)						-U4L Steers		
	E&W			Scotland			E&W		Scotland
	South Steers R4L	North Steers R4L	North Y. Bull -U3	Steers R4L	Heifer R4L	Y. Bull -U3	South	North	All
3-Sept	338.6	348.3	323.5	371.9	374.1	352.5	357.0	358.3	379.6
10-Sept	343.2	353.2	320.9	374.8	379.6	354.1	364.4	360.9	380.5
17-Sept	341.8	354.6	316.2	377.4	381.8	354.5	362.2	358.4	385.4

Potatoes

Market summary

- For the week ending 16 September, the AHDB's Weekly Average GB price for all ware potatoes was £167.12/t up by £2.07 (1%) over the previous week. The Weekly Average Free-buy price was £185.30/t up by £4.56 (8%) over the week. Prices firming may be down to the uncertainty over this year's harvest with reports of yields being average at best.

Crops slow to bulk

As September rapidly disappears, crops will be slow to bulk with the prospect of a late harvest likely to compromise on quality.

Most ware growers in Scotland continue to wait for skins to set and crops to bulk a bit more. Days are still quite long and cereal harvesting continues to take priority resulting in growers delaying burning down. Crops currently being lifted are reported to be of good quality but with average yields.

Lifting of earlier planted Scottish seed crops is gaining momentum with others expected to be ready soon. Growers generally are reporting that seed crop tubers are small with the knock-on-effect of less seed tops available for the ware market.

Prices firming

Packers continue to use some old 2015 crop material as new crop samples with the right skin finish is still relatively scarce.

Free-buy demand and prices are mostly holding firm, with free-buy movement reported to be forming a significant portion of white's destined for packing.

Maris Peer salads are trading within the £300-£320/t range. Odd lots of grade 1 Desiree are making £250/t while grade 1 Maris Piper is within the £190-£200/t range. General whites for packing are making around £200/t depending on sample quality and baker content.

Prices in the bag trade are steady with chipping material sold through the Glasgow fruit market trading within the £130-£180/t price range. General ware at the fruit market is making £160/t but movement is reported to be slow. In general movement in the bag sector is largely based on low volumes for the local trade.

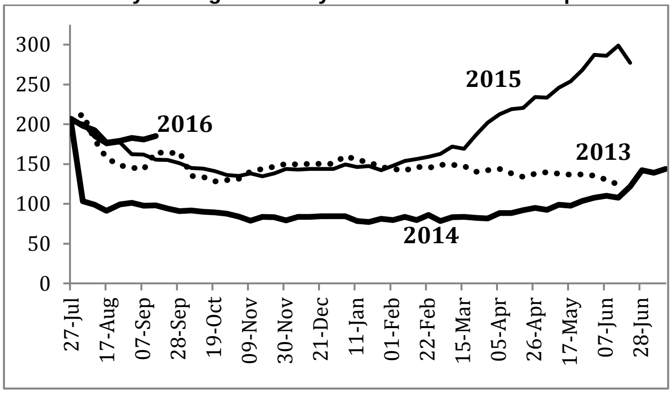
Low volumes of Sharpes Express are moving from Scotland to the Faroe Islands in 5kg bags at £450/t.

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

Crop Year	16 Sep	9 Sep	2 Sep	26 Aug
All potatoes 2016	167.12	165.05	177.76	168.83
All potatoes 2015	151.51	162.32	152.40	166.27
Free-buy 2016	185.30	180.74	182.72	179.15
Free-buy 2015	155.64	161.72	162.27	177.32

Source: AHDB

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



Source: AHDB

Brexit questions – no answers yet

The Scottish seed potato sector is estimated to be worth £167m hence Scottish Government has a vested interest in protecting this part of the economy post Brexit. This is compounded by the overwhelming remain vote from Scotland which will undoubtedly be used in discussions with Brussels.

Scotland produces 75% of UK seed, 80% of UK seed exports equivalent to 300,000t annually, 20-30,000t of which go to EU countries, 80-90,000t to non EU countries; the rest is used within the UK.

Registration – the EU currently provides a one stop registration process allowing exporters to deal with one set of requirements. Will registration be required from every EU country with damaging cost and time delay implications?

Migrant labour – grading of seed has to be done by hand as to date there is no machine to perform the task. Many of these migrant workers are now settled in Scotland but will they be allowed to stay?

EU plant variety rights for plant breeders – Scotland has an abundance of breeders working on new potato varieties for specific growing conditions and markets. The EU system of plant variety rights has proved to be a robust and cost effective tool for plant breeders to protect their varieties and obtain a return on their investment through royalties to fund further breeding. Will post Brexit legislation ensure that the UK remains an attractive place for plant breeders to operate and do business?

iain.mcgregor@sruc.ac.uk, 01292 886190

Sheep

Main lamb price still good

Despite some recent price slippage, supermarket type lambs are still grossing around £10 a lamb more (c.£72) than late September last year. A much weaker pound plus a good store trade has helped. AHDB recently noted that 11% more store lambs had been sold to early September than last year, while the average store was £8.50 up (at £57.30) for the week ending 6 September. By comparison, light lamb prices are poor, which is worrying given the big exchange rate advantage Britain now has. It suggests that lamb consumption in southern European export markets is struggling.

The cull ewe price was £47 per head last week in Scotland, a few pounds more down south. Hopefully, the price is near its bottom as farmers clean out their flocks. But with no Muslim festivals imminent, a boost from better demand is unlikely.

Cautious optimism

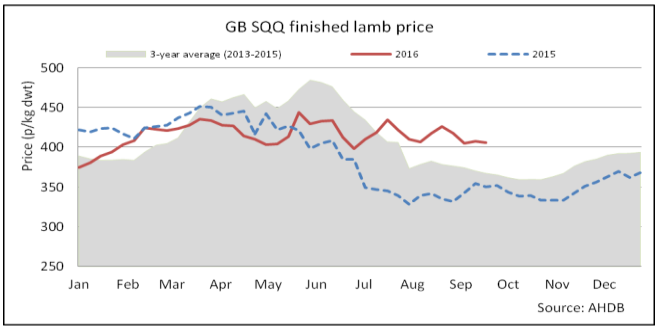
At a predicted base of 380p/kg dwt for the week beginning 26 September here in southern Scotland, the deadweight price is 60p/kg up on the same time last year. Given the help from a much weaker currency (86p cf. 73p/€ last September), the price of 18-20kg dwt lambs should remain above 350p in the next couple of months.

Further price erosion depends on how many lambs are still out there. English and Northern Irish June census data points to a slightly larger lamb crop than last year. Moreover, unhelpful summer weather has meant that lambs have not come forward at a rate that the good finished price should have encouraged (killing out percentages have also been lower than normal). While the strong store trade suggests that finishers are expecting good finished prices this winter, more ewe lambs going into breeding may also be a helpful factor.

The English June census revealed a 4% lift in ewes available for first time breeding. But is this more a reflection of older farmers switching to "gimmering" systems? Some auctioneers note that selling ewe lambs is a lot easier than gimmers/yearlings. One wonders if the decent store trade also partly reflects a trend to trading rather than breeding systems.

Kiwis under perform

Two other factors will influence lamb prices for the rest of the season: domestic consumption and New Zealand imports. Problems for New Zealand sheep farmers suggest better lamb prices for British producers in both the run up to Christmas and the New Year. However, that depends on whether the British supermarkets will carry the cost of running significant lamb promotion campaigns at Christmas and Easter.



The latest statistics from New Zealand highlight the long-term decline in the lamb market faced by us all. The Kiwi breeding flock has basically lost 1m head a year over the past decade and now stands at just 28m head. Lambing is about over with an estimated crop of 23.3m lambs, which means that this season's kill will be below last season's 19m head. Disease and drought partly explain the recent decline. Yet low profitability is the main problem, with a strong Kiwi dollar (up 30% against sterling) resulting in farmers budgeting mid NZ$80's per head this season (about £47/head).

The only bright spot is some improvement in the Chinese market. Indeed, developing the Chinese market seems the big hope for the Kiwis. Since 2000 Chinese per capita consumption has increased 60% to 3.33kg. If, as expected, Silver Ferns sells a 50% stake to Shanghai Maling, the farmer owned processor will have the capital to develop its Plate to Pasture added value strategy into both China and its traditional European and US markets. Some farmers, however, fear they have sold their soul (and control) to get this capital.

kev.bevan@sac.co.uk, 07990 777813

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
3 Sept	408.3	405.2	396.2	169.2	176.9	173.6	52.8	55.1
10 Sept	411.6	410.5	399.8	174.5	184.5	178.0	51.4	55.5
17 Sept	409.5	406.8	399.0	171.0	177.8	173.7	47.5	50.1

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

Rising world prices for butter

UK dairy commodity product prices are continuing to rise with UK butter and cream prices now at their highest point since January 2014. UK prices are being driven by rising world price levels. World market prices for butter during August 2016 climbed to average US $4,042/t.

UK dairy commodity prices (£/ tonne)	Aug 2016	July 2016	Mar 2016
Butter	3,250	2,850	1,850
SMP	1,570	1,500	1,200
Bulk Cream	1,470	1,370	820

UK milk price equivalents (ppl)	Aug 2016	July 2016	Mar 2016
AMPE (2014)	26.01	23.35	15.48
MCVE (2014)	28.02	23.55	16.22

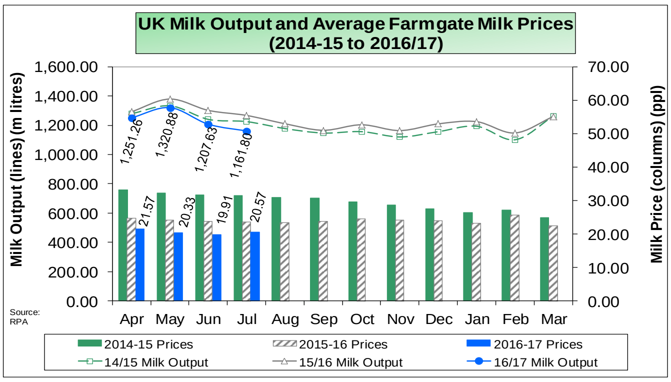
Source: DairyCo

The latest Fonterra auction (GDT) on 20 September 2016 witnessed a 1.7% rise to the weighted average price across all products traded, taking the average price level to US $2,975/t. This was the fourth consecutive rise to the GDT price index, there being no reductions to the average price level since 19 July 2016 when prices averaged US $2,336/t.

Production slowdown continues in UK

UK milk output for July 2016 is estimated at 1,161.80m litres (before butterfat adjustment). This is 105.62m litres lower than July 2015 milk output. On a cumulative basis, the UK has produced 4,941.57m litres from April up until the end of July 2016 which is 300.39m litres lower than the cumulative total at the same point last year (5,241.96m litres).

The UK average milk price for July 2016 increased to 20.57ppl (up by 0.66ppl from the June av. price).



Price round-up for October 2016

Recent price announcements for Scottish producers include:

- Lactalis – 0.50ppl increase from 1 Oct; this follows increases of 2ppl + 0.5ppl during Sept.
- Müller – 0.90ppl increase for Müller Milk Group members from 1 Oct 2016. The Direct Milk group (ex-Dairy Crest suppliers) will receive an increase of 1.189ppl from 1 Oct 2016 as the company tries to harmonise the farmgate price received by its two non-aligned milk pools.
- Müller M&I – Aug 2016 supplementary payment confirmed at 2.564ppl.
- Müller M&S – Marks & Spencer base price is to reduce by 1.462ppl from 1 Oct 2016; this takes the M&S group milk price down 29.01ppl.
- Sainsbury's – SDDG is to reduce by 2.27ppl from 1 Oct. 2016, taking the prices down to 27.03ppl for Müller Milk Group (ex-Wiseman) suppliers, 26.91ppl for Arla suppliers, and 26.97ppl for Müller Direct Milk (ex-Dairy Crest) suppliers.
- First Milk – further price increases expected during Oct 2016.

Annual Average milk price estimates for October 2016 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract)	21.00
First Milk Balancing- A price (90% of production). [1]	18.02
First Milk Manufacturing (Lake District)- 4.0% Butterfat & 3.3% Protein-A price (90% of production). [1]	18.88
Müller Wiseman- M&I - Müller Milk Group	19.56
* *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.*	
[1] *FM prices for Sept 2016. October 2016 price increases to be confirmed.*	

Update: dairy aid for volume reduction

Applications for the second reduction period (1st Nov 2016 to 31 Jan 2017) must be received at the RPA by 11am on 12 October 2016.

Silage sample results at SAC

As the grazing season draws to a close, estimating the quality of grass silage and other conserved forages is key to planning winter feeding programmes. The table below outlines target levels for grass silage analysis and sets out the average results achieved from dairy silages across Scotland.

Grass Silage Analysis Results		
Parameter	**Target Range**	**SAC 2016 Average***
Dry Matter (%)	23-30	33
Ash (%)	<9.0	8.16
D-value (%)	70-75	71
Metabolisable Energy (ME) (MJ/kg DM)	11.0-12.0	11.4
Crude Protein (g/kg DM)	140-180	117.9
pH	3.90-4.25	4.3
**Dairy pit silages 2016*		

If you would like to get your forage analysed or require assistance preparing winter rations and estimates of forage stocks, contact your local SAC Consulting office.

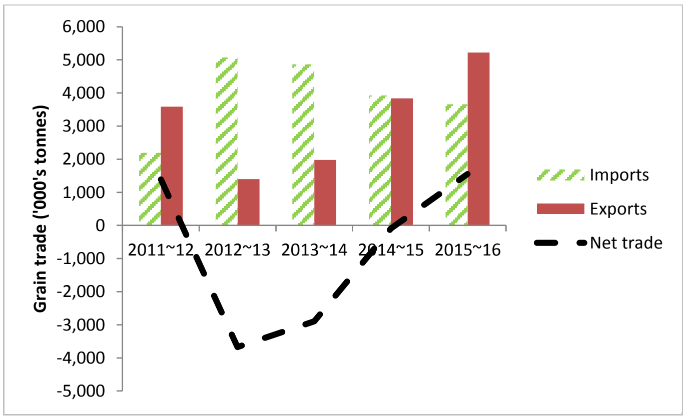
alastair.beattie@sac.co.uk, 07771 797491

Sector Focus:
Cereal trade flows and tariffs

UK cereal trade

In a ‘normal’ season the UK is a net exporter of cereals, however periodically poor harvests (e.g. 2012 & 2013) can plunge the UK into deficit. The following chart details cereal trade patterns over the last five years. Trade in the last 10 years has remained predominantly within the EU; 70% of imports and 79% of exports.

UK cereal imports, exports and net trade

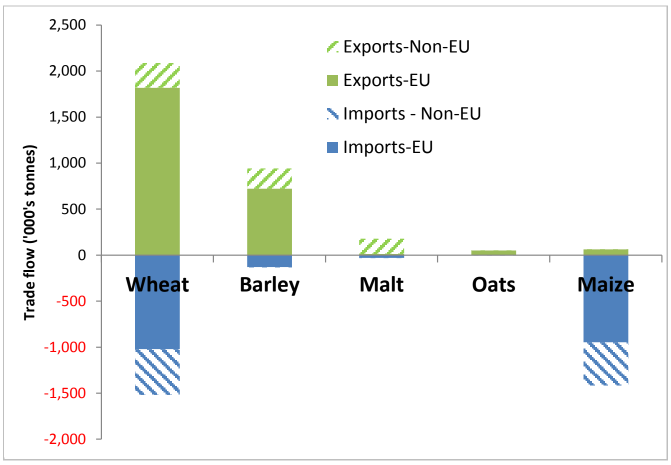


Source: AHDB

The pattern varies widely from year to year, by cereal and by region across the UK. For 2015/16 the main UK trade flows were as follows:

Wheat – in 2015/16 the UK exported 2.85mt of wheat, 80% of which went to the EU. Exports represented 17% of UK production. Imports totalled 1.45mt 67% of which came from the EU. The UK largely exports feed or low grade milling wheat to Spain, Ireland, the Netherlands and North Africa and imports mainly high quality bread milling wheat from Germany, France and Canada.

UK cereal trade by grain type – average ‘07-‘16



Source: AHDB

Barley and malt – in 2015/16 the UK exported 1.9mt of barley, 67% of which went to the EU. Malt exports totalled 0.179mt of which 6% went to the EU and 94% non-EU. Exports represented 26% of production or 29% when malt exports are included. Imports totalled 0.157mt 99% of which came from the EU.

Scotland typically produces a surplus of feed barley and has a shortfall of wheat driven by large scale demand from the grain distilling sector. In the last two seasons, a large Scottish wheat crop and depressed distilling demand has meant Scotland has had a small surplus of wheat.

The future situation following Brexit is highly dependent on the trade relationships negotiated with the EU and other 3rd countries.

EU Tariffs

EU import tariffs for high quality wheat and maize have been zero since November 2014 but are subject to change. Imports of low quality wheat (the main UK export) and barley are however subject to stricter limits under the Tariff Rate Quota system. For low quality wheat the EU offers TRQ access at €12/t for a total of 4.062mt of which 1.631mt is assigned to specific countries such as the US and Ukraine. TRQ’s are offered for barley of 607kt at a tariff of €8-16/t. Once fulfilled the tariff for low quality wheat and barley rises to an eye-watering €95/t. In season’s of large surplus the UK could face severe disruption to wheat and barley exports if subject to the current EU tariff regime. Oilseeds are not subject to EU tariffs.

- UK grain trade flow remains predominantly with the EU.
- Patterns of grain trade vary widely year-to-year driven by fluctuations in weather / output.
- Exclusion from the EU single market in agricultural products could be very disruptive to both UK cereal producers and consumers (livestock) depending on the terms agreed.
- EU tariffs for low grade wheat and barley are a significant hurdle and access could be disrupted.
- Price fluctuations would likely be higher outside of the EU raising the importance of price insurance and risk management.

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

Management Matters : Harvest Update

2016 harvest

For harvest 2016, initial establishment in autumn 2015 went well with dry and warm conditions into October. It then turned incredibly wet in late autumn and right through the winter causing waterlogging, flooding and stressing crops. The spring was then wet and cold with very late drilling of many spring crops. Weather was pretty mixed over the summer but generally cool and wet at times. Yield expectations were not generally very good. The harvest itself has been one of the latest in recent years, beginning under stop start conditions including strong winds which resulted in considerable shedding of oilseed rape. By September conditions had become more settled enabling completion of harvest under relatively good conditions. Yields and quality of most crops were generally better in the Lothians and Borders deteriorating further north particularly in Aberdeenshire and Morayshire. The Scottish Government's initial harvest estimates detailed below indicate that national grain yields are down on last year's exceptional levels but in-line with the five year average.

Provisional Scottish cereal harvest estimates

	Wheat	Wint. Barley	Spr. Barley	Total Barley	Oats	Total Cereal	OSR
	Area ('000's ha)						
2015	110	52	256	308	26	444	36
2016	110	48	239	287	31	428	31
Chng.	-	-4	-17	-21	5	-16	-5
Scot.	*Yield (t/ha)*						
5yr av.	8.17	7.20	5.72	5.92	5.61	6.45	3.64
2015	9.26	7.81	5.94	6.26	5.85	6.98	4.11
2016	8.70	7.20	5.30	5.61	6.60	6.50	3.00
Scot.	*Production ('000's t)*						
2015	1,019	406	1,521	1,927	152	3,101	148
2016	953	345	1,266	1,611	206	2,774	94
Chng.	-66	-61	-255	-316	54	-327	-54

Source: Scottish Government

Winter cereal yields appeared to be at or above the five year average with wheat performing relatively well reflecting it's predominance in the south. Oilseed rape yields were disappointing and may reflect the level of seed shedding that occurred due to high winds. One of the weakest performing crops has been spring barley reflecting its late and poor establishment and its predominance in the north where growing conditions appear to have been poorer. An estimated crop of 1.266mt would be 255kt down on last year and the lowest in 18 years. Malting barley crop quality was also poorer in the north with substantial problems of high screenings and localised skinning in some spring malting barley varieties notably Concerto.

Straw yields appear to be lower in the north and local prices have risen. Typical ex-harvest values are equivalent to £45/t for spring barley and £40/t for wheat though prices vary widely by region.

Local market situation

- Spring malting and feed barley – a combination of lower plantings and the poor yields in the north have resulted in a shortfall in local malting barley on contract. With good old crop stocks in store and distilling demand subdued Scotland is not expected to see a large deficit of malting barley. Maltsters have also accepted below specification barley (with deductions) helping make the most of what is available. There have been some opportunities for farmers in the south to sell uncontracted barley (even less common varieties) into premium malting markets to help make up any shortfalls. Feed barley may be relatively short in the north of Scotland this season.
- Wheat – Scotland has harvested another large wheat crop which combined with good stock levels and subdued distilling demand is expected to leave the market adequately supplied. This is reflected in current prices on a par with surplus regions of England so Scotland starts the season again without a price premium over the English market. The main difference with last season is the resumption of ethanol production from the Ensus plant in north east England. As the season progresses the Scottish premium is likely to increase as the potential for a deficit arises in Scotland and the north of England.
- Forward grain prices for harvest 2017 are £6/t higher than spot values but still well below average costs of production. However, currently good autumn sowing conditions are likely to encourage farmers to maximise their winter crop area. Better premiums for spring malting barley this season may increase interest in the crop for next spring.

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

Key economic data

General Indicators	
Base interest rate	0.25% (0.50% Mar '09)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	0.6% (target 2%)
UK GDP growth rate	0.7% (Q3 '16)
FTSE 100	7,038 (7 Oct '16)

Price indices for May 2016 (Defra 2010 = 100)			
Output Prices		Input Prices	
Wheat	96.0	Seeds (all)	95.3
Barley	98.4	Energy	93.6
Oats	115.8	Fertiliser	76.1
Potatoes (Main Crop)	155.2	Agro-chemicals (all)	97.8
Cattle and Calves	123.8	Feedstuffs	106.3
Pigs	90.1	Machinery R&M	112.2
Sheep and Lambs	109.2	Building R&M	109.0
Milk	83.4	Veterinary services	107.9

Funded by the Scottish Government as part of the Farm Advisory Scheme.
ISSN 1749 5741 (print) ISSN 1749 575X (online)

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

SAC CONSULTING

Scottish Government
Riaghaltas na h-Alba
gov.scot