Farm Advisory Service

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

October 2022

News in brief

Cost-of-living crisis dominates markets

Twelve months ago, net zero and biodiversity were at the forefront of the political and economic discussion around the future of post-Brexit British farming. How much can change in 12 months. With a mix of soaring gas and fuel prices, war in Ukraine having ripple effects on inputs and food prices, and the predicted post-Covid recession closing in, food security is top on the agenda. The issue is now even closer to home, the cost-of-living crisis is having direct impacts on household and business purses.

This creates an even more challenging environment that expected for policy development, throwing a whole new set of unprecedented factors into the mix. Governments must now juggle sometimes competing priorities of climate change, food security, nutrition, biodiversity, support for British farming, quality food and affordability of food, within the new era of farming support. Scottish Government is currently holding a consultation on the proposed Agricultural Bill, online and via live events, open until the 21st November. Take the opportunity to have your say if you can.

Meanwhile, the fall in the value of sterling following Downing Street's recent mini-budget announcements has pros and cons for UK farmers. A weak pound makes British product more attractive to foreign buyers, and falling at the biggest period of income in the year for many farmers, producers of export products such as cheese, beef, lamb and pork may do quite well. On the downside, buying in imported inputs will now cost you more, and products like fertiliser, often bought on credit, will face uncertain and variable interest rates. Now is a good time to be assessing cashflow forecasts, and attempt to reduce risk on overdrafts, loans and purchase agreements.

Next month:

- Financial planning
- Forestry & woodland update

Contents

This month's editor:
Anna Sellars

Increased rates for Basic Payment Scheme and Greening 2022

Following a budget review, the Basic Payment Scheme (BPS) and Greening payments for 2022 have been increased to:

BPS and Greening Revised Payments				% increase over 2021
Region	**BPS**	**Greening**	**Total 2022**	
1	£147.26	£ 75.82	£ 223.08	0.42%
2	£ 32.39	£ 12.82	£ 45.21	0.27%
3	£ 9.43	£ 4.30	£ 13.73	0.37%

While the increase in payment rate is welcome, the percentage increase is small in comparison to the current rate of ag-inflation.

Planting trees is getting greener

From November, small woodlands approved under the Scottish Rural Development Programme (SRDP) since 2015, can be utilised as Ecological Focus Areas (EFA).

While the planned legislative changes will be subject to Parliamentary approval, the move is aimed at encouraging crofters and land managers to plant small areas of trees to help boost biodiversity and tackle climate change. Currently, Scotland's forests and woodlands cover around 1.45 million hectares, accounting for ~19 % cent of the land area.

At present, there are seven EFAs which can be used on their own or in combination to meet the EFA regulations, namely:

- fallow land, margins, catch crops,
- green cover, nitrogen-fixing crops,
- hedges and agro-forestry.

The proposed changes will be brought in for the 2023 claim year, with areas planted since 1 January 2015 being eligible to be claimed for from 2023.

Preparing for Sustainable Farming (PSF)

An amendment has been made to the PSF guidance to allow businesses which soil sample their whole farm in a year to claim for the costs over multiple years. For further details, click here.

Agricultural Bill consultation schedule

As part of the consultation process for the proposed new Agricultural Bill for Scotland, a series of five online, regional events (one general and four thematic) to discuss the proposed Agricultural Bill in have been announced. For details of events in your own area or online please click here. The draft bill is also available to respond to online here.

Cost of living crisis & families

To help families mitigate the impact of the cost of living crisis, from the 14th of November, Scottish Government is increasing the Scottish Child Payment to £25 per week per eligible child. The eligible age range is also changing from 'Under 6' to 'All eligible children under 16'.

Rent freeze & moratorium on evictions

As a means of helping people through the ongoing cost of living crisis, emergency legislation has been introduced as part of the 2022-23 Programme for Government (PfG) to freeze house rents, and continue the Coronavirus (Recovery and Reform) Act 2022 which made all mandatory eviction grounds discretionary. Both acts will be in place until at least 31 March 2023.

Further afield: Environmental schemes in England and Wales

Defra released a Blog on the 26th of September outlining that "*in light of the pressures farmers are facing as a result of the current global economic situation, including spikes in input costs*", they were looking at where and how improvements can be made and how best to deliver the new ELMS schemes which include a sustainable farming incentive, local nature recovery and landscape recovery. Detailed plans are now expected later in the year with regards how the UK Government plans to "*increase food security while strengthening the resilience and role of farmers as stewards of the British countryside.*" This may set a tone for evolution of policies in other regions of the UK.

In contrast, Wales has announced that its new Agricultural Bill will move to the next step in its journey to become law, paving the way for new and greener support schemes.

While environmental schemes are within the remit of the devolved governments, it highlights the increasing importance of food security and the important role that UK farmers have in strengthening resilience with regards current economic climate.

Key date

Date	Action
30 Nov	Scottish Upland Sheep Support Scheme Application period closes.

christine.beaton@sac.co.uk

Global grains consumption set to fall

At 2,256Mt, the forecast for 2022/23 world total grains (wheat and coarse grains) output has lifted by 8Mt, month-on-month, as increases for wheat and barley (mainly for Russia, Canada and Australia) more than compensate for a downgraded US maize output. Production is forecast 2% below the previous season's record, with year-on-year declines for maize (-51Mt) contrasting with increases for wheat (+10Mt) and barley (+3Mt).

With the global consumption outlook still projecting to decline for the first time since 2015/16, and larger than previously estimated carry-ins pairing this with the upgraded production figure, expectation is currently for a 10Mt uplift to closing stocks mostly relating to a revision for Russia. This 'record-breaking' Russian crop, now estimated to be in the region of 99Mt (47Mt of which is exportable), will have the potential to weigh on the global market going forward, especially if demand subdues substantially due to recession and subsequent demand-destruction.

Total grains: Supply and demand summary(source ICG)

m t		19/20	20/21	21/22 (est.)	22/23 (f'cast)	y/y change
Opening stocks		623	615	603	606	+ 0.5%
Production		2,192	2,226	2,291	2,256	- 1.5%
Total supply		**2,815**	**2,842**	**2,894**	**2,862**	**- 1.1%**
Total use		**2,199**	**2,239**	**2,289**	**2,274**	**- 0.6%**
of which:	*Food*	*732*	*744*	*751*	*756*	+ 0.6%
	Feed	*991*	*1,008*	*1,039*	*1,018*	- 2.0%
	Industrial	*357*	*360*	*368*	*368*	+ 0.1%
Closing stocks		**615**	**603**	**606**	**587**	**- 3.0%**
Major exporters [a]		*153*	*132*	*145*	*143*	- 1.8%
Trade (Jul/Jun)		**397**	**426**	**424**	**409**	**- 3.4%**

[a] Argentina, Australia, Canada, EU, Kazakhstan, Russia, Ukraine, USA
EU-28 to 19/20, EU-27 from 20/21.

There is still a lot to play out for this marketing year from a supply point of view with Southern Hemisphere crops still developing.

Although UK feed wheat futures (Nov-22) have come down from the highs seen in May, they have found a foundation at a level that hasn't dropped below £250.00/t since July. The political and economic sentiment demonstrated by UK government in recent weeks has fuelled increased volatility; UK feed wheat futures (Nov-22) have traded within a £35.00/t range in just 60 days, and Nov-22 futures closed at £292.50/t, (29th Sept) currently the highest closing price recorded for the contract since the start of July.

Scottish malt barley suits distillers

Whilst there have been many positives reported surrounding the Scottish wheat harvest buyers have indicated that on reflection the winter barley harvest has been a little disappointing, with nitrogen levels slightly higher than expected. Retention, too, has provided some issues with screenings 5.0% higher than normal. Yield reports from growers have been favourable though, with slightly above average yields although movement off farm has been slow in the face of subdued consumer demand. Malting barley crops in general have produced ideal nitrogen levels for the distilling market. Yields too have been pleasing for many growers with an 'above average' consensus holding. There has been very little demand for feed or malting barley either in the domestic or export markets and there seems to be ample malting supplies for the rest of this year which is seeing the discount between feed wheat and feed barley widening again.

UK malting barley is at a premium over Scandinavian barley. This is due to Danish malting barley being perceived to be too low in nitrogen and the UK's quality deemed more suitable for brewing demand.

The oat market is struggling to follow the price increases seen in other grain markets due to the strong bounce in global oat production. Canada is forecasting the second-largest crop on record and Europe is seeing a wide availability of good quality milling oats. The UK oat market remains flat for the moment.

Matif rapeseed continues to make gains, with the Nov '22 contract gaining €4.50 to settle at €607.25, and the Feb '23 contract at €613. With ample global supply of rapeseed/canola this season and relatively in-elastic demand, the soyabean market will have a greater influence on rapeseed prices once again this season and heads will be turned to the US and South American crops over the next 6 months.

mark.bowsher-gibbs@sac.co.uk

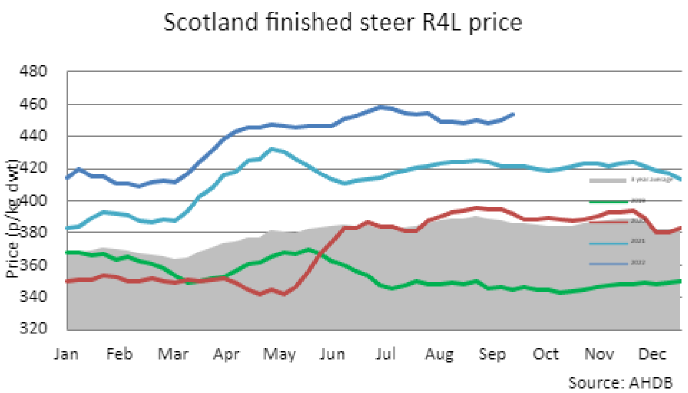
£ per tonne	Basis	Spot '22	**Nov '22**	**Nov'23**
Wheat	Ex farm Scotland	284	292.50	276.35
Feed Barley	Ex farm Scotland	255	260	245
Malt. dist. Barley	Ex farm Scotland	280		
Oilseed Rape	Delivered Berwick		534	532

Cattle prices hold strong

Despite a drop in prices at the start of the month, prices remain at historically high levels, supported by strong global demand and tight supplies. A price drop at this time of year reflects the seasonality as grass-finished cattle and cull cows come online in greater numbers and farmers look towards housing their herds. Prices are sitting around 454p/kg/dwt for R4L steers (+33p in comparison to this week in 2021).

Reports suggest a tightening in supply of cattle numbers coming forward in the next few months, which may result in processors lifting prices. However, despite finishers needing more return (at least to a more sustainable level, and input costs continuing to weigh heavily on businesses, with little sign of feed prices returning to more recognisable levels due to a tighter global supply outlook) retailers will not want to increase retail prices and face consumer resistance.

Cull cow prices remain at record high – despite a downward trend earlier in the month – and continue to be the most lucrative of all beef enterprises. Scottish R4L grade cows are sitting at approx. 400p/kg/dwt with many cows are making well over £1,000 in the live ring, with many farmers taking advantage of this trade. On paper this looks good reading; one farmer recently alluded to his cull cows averaging £1350 – the same price as 2 tonnes of fertiliser. It is these dramatic increases in input costs that are making suckler farmers rethink the viability of their herds.



Processors will soon think towards Christmas and concentrate on building up stocks of prime beef and with the number of cull cows coming through likely to increase ahead of housing, it remains to be seen how price, processor demand, and cow availability balance.

Auction sales

Prices in the store ring remain strong, with Scottish store prices currently being pushed up by English buyers, mirroring what we saw at the spring sales. This will affect supply of finished cattle for Scottish abattoirs. Farmers will be considering what to sell next, with many stores and weaned calves coming into the market in the coming weeks, which may lead to a lesser trade as weaned calves are not suited to everyone's system. The strong continental types with good confirmation and weights will sell well however lighter longer-term calves, may well be met with resistance from buyers.

Weighing up the cost

Feed and forage calculations for the winter ahead will be taking place on farms soon. Purchased feed is already incredibly higher than last year coupled with the increase in fuel costs adding to delivery charges, this could well lead to livestock numbers taking a hit to reduce the strain on finances. However, care must be taken if reducing or dispersing herds in terms of tax implications, so liaising with an accountant will be important.

Food trends over the past few years have been dominated by the impact of Covid-19 however the cost-of-living crisis is now impacting shoppers as consumers face significant economic challenges. Food price inflation is affecting both retail and foodservice with people eating out less. The crisis leads more price-conscious shoppers to the discount supermarkets e.g. Aldi and Lidl who have plans for opening more stores. The continued strain on shoppers' budgets is going to have the biggest impact on consumer meat buying behaviour going forward.

sarah.balfour@sac.co.uk

Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
03-Sep-22	**535.2**	-1.8	-2.5	0.9	**232.10**	-5.7	13.8	-0.6	78.35	75.18
10-Sep-22	**530.2**	-5.0	-1.3	3.1	**234.10**	-2.0	12.8	-0.5	74.51	75.81
17-Sep-22	**526.1**	-4.1	-0.6	1.5	**231.30**	-2.8	11.7	-1.7	77.70	75.38

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

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

Finishing cattle options this winter

With feed costs being a significant factor in the profitability of beef enterprises, it is often asked as to what the best way is to feed finishing cattle. Do we reduce the amount of grain fed and feed more home-grown forage such as silage, but admittedly this often leads to more days to finish.

On the flip side, for those short of forage this year, what are the implications in terms of finishing times and/or the cost of needing to buy in more concentrates?

Table 1 below shows the effect of supplementation of an average quality silage (30% DM; 10.6 ME) with varying amounts of concentrate for a steer in the midpoint of a finishing period.

Table 1				
Level of Concentrate (kg/day)	Ad-lib	7	5	3
DLWG (kg/day)	1.4	1.31	1.14	0.91
Silage (kg/day)	1 (straw)	16.2	20.6	25.2
Cost/ day (pence)	286	241	208	176
Cost/ kg gain LW	204	184	182	193

Assuming silage at £40/t FW, feed barley at £252/t (ex-farm).

What the difference a day makes

Table 2 below shows the cost to finish this forward store steer including variable and fixed costs of bedding straw at 20p/day, labour at 45p/day, fuel at 20p/day, vet & med at 15p/day.

Assuming the steer is bought on the 1st October, the slaughter dates are calculated from the days to finish from that date.

Table 2				
Level of Concentrate (kg/day)	Ad-lib	7	5	3
Days to gain 100kg	71	76	88	110
Slaughter date	11th December	16th December	28th December	19th January
Feed costs (£/hd)	203	183	183	194
Other costs (£/hd)	71	76	88	110
Total cost (£/hd)	274	259	271	304

The table above highlights the importance of carrying out fast finishing on silage-based diets. If good quality silage is available, then lower levels of concentrates can be fed whilst still achieving good performance.

Know your silage quality

To ensure good performance levels, it is important to know the quality of silage being fed. This can allow finishing costs to be reduced through the requirement for less concentrates if silage quality allows.

It is important to analyse different cuts separately and group bales accordingly, as differences in ME, protein levels and dry matter can all have an effect on the business achieving its daily liveweight gain or slaughter date targets.

Sale prices needed just to breakeven

Whilst these examples have not included all costs (such as machinery, interest, haulage) these can also be included to build up a fuller picture of the outcomes of the finishing enterprise.

If we assume a purchase price of 230p/kg for the 550kg steer, a final weight of 650kg and a kill out of 54%, the breakeven point for the enterprise using the costs shown are illustrated in the table below:

Table 3				
Level of concentrate	Ad-lib	7	5	3
Purchase price (£)	1265	1265	1265	1265
Total feed and other costs (£)	274	259	271	304
Total costs (£)	1539	1524	1536	1569
Breakeven point p/kg	438	434	437	447
Net Margin	55	70	58	25

While the R4L price for the week ending 17th September of 454p/kg DW, it can be seen that if this sale price is achieved the net margins above are small.

It is important for each producer to use their own cost figures to fully understand where their breakeven point and potential margins based on the various feed options available to them.

Seasonal effect

We must also be mindful of how the beef price changes in the run up to Christmas and into the new year as this will be when these animals are likely to be killed.

lesley.wylie@sac.co.uk

Mini budget and currency exchange

The Chancellor of the Exchequer Kwasi Kwarteng announced the UK mini budget on the 23rd of September, which included various economic policies, which has since made an impact on the value of the pound. At the time of writing (26th September) the pound is at a record low against the dollar at £1 = $1.08 (the same day we saw this as low as £1 = $1.035). When the pound is low, the cost of inputs from abroad tends to be higher, this will include fuel, fertiliser and some feeds e.g. soya.

With inflation over 10%, the highest it has been for 14 years, The Bank of England has increased their base rate to 2.25% (23/09/22). Often when an interest rate of any given currency increases, foreign investors find it very attractive to invest in, which in turn strengthens the value. But given the potential financial crisis that the UK is progressing towards this affect hasn't happened, with the euro exchange currently standing at €1 = £0.89 (26/09/22).

But what does this mean for the lamb market?

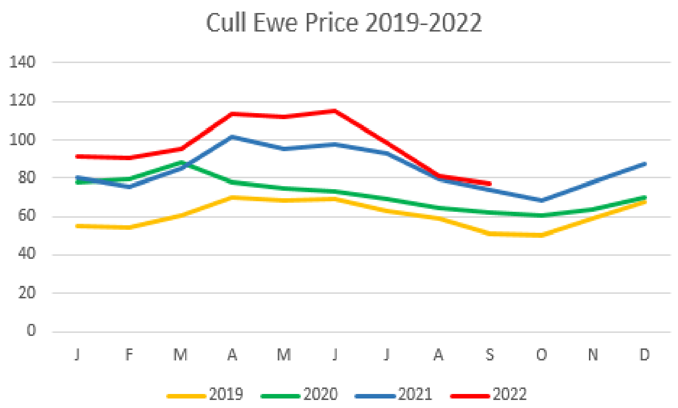
The pound is low against other currencies, which makes our product attractive to foreign buyers and most importantly our European customers. Combined with this our lamb price is low compared to European countries. Figures released from BordBia (the Irish food board) show the week ending 17/09/22 French lamb at €8.00/kg DW, Spanish lamb at €7.19/kg DW and Irish lamb at €6.13/kg DW, compared to UK lamb at €6.03/kg DW. Kiwi lamb isn't far behind us at €5.78/kg DW, while the Australian product is far lower at €5.11/kg DW. The French lamb is currently just under a €2/kg premium to the UK lamb, which should sustain our export market while the currency responds to the economic policies.

Cost to finish lambs v selling store

Following the dry conditions for half of Scotland during the summer, there are some producers with heavy lambs, a poor finish. These lambs may require concentrate feeding to finish them, affecting the overall profitability of the system. The alternative is to sell lambs store, eliminating the requirement to feed concentrates and prioritise the grass for the breeding stock.

The market is varied for short-, medium- and long-keep lambs. With a mixed class forward for sale between lowland, hill and those lambs affected with a lack of grass through the summer. Hill long keep lambs are currently trading between £25-55/head. We may see more of these store lambs coming forward depending on the pressure of cash flow and grazing availability.

Lean grazing cull ewes coming forward are increasing as producers are selling feeders prior to breeding as well as hill weaning progressing. The market for these will be interesting to watch and will vastly depend on how finishers view future cull ewe prices which tend to rise towards the turn of the year.



Breeding tup sales are progressing well across the country, with good averages being achieved at most centres. Many producers are looking at their systems, how to reduce costs and labour, with many looking to reduce the time the tup is in for this year, and to maximise the nutrition gained from forage.

kirsten.williams@sac.co.uk: 07798617293

Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	**Med.**	Change on week	Diff over stan.	Diff over heavy	**All**	**All**
03-Sep-22	**535.2**	-1.8	-2.5	0.9	**232.10**	-5.7	13.8	-0.6	78.35	75.18
10-Sep-22	**530.2**	-5.0	-1.3	3.1	**234.10**	-2.0	12.8	-0.5	74.51	75.81
17-Sep-22	**526.1**	-4.1	-0.6	1.5	**231.30**	-2.8	11.7	-1.7	77.70	75.38

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

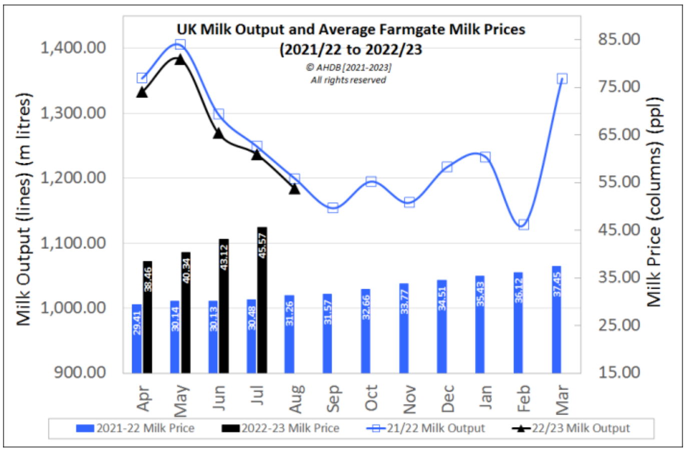
Standard weight 32.1 - 39.0kg; Medium weight 39.1 - 45.5kg; Heavy 45.6 - 52.0kg

Price increases continue into October

- *For the five-month period April to August 2022, cumulative UK milk output is 100m litres behind last year.*
- *Several UK milk buyers have increased farmgate milk prices from 1st October 2022 after continued contraction to supply.*

AHDB milk production data indicates that output for August 2022 is estimated at 1,184.31m litres (before butterfat adjustment) – a reduction of 15.50m litres compared against August 2021. Cumulative production for the 2022/23 milk year to the end of August 2022 stands at 6,407.51m litres (before butterfat adjustment), which is 100.26m litres lower output than the same time last year.

UK average milk price for July 2022 is estimated at 45.57ppl. This represents a 2.45ppl rise from June 2022 and a 15.09ppl year-on-year increase from July 2021. Some price increases have been confirmed for October 2022 (see below). Across the UK, most farmgate milk prices are currently sitting within the range 45-50ppl for October 2022.



Farmgate prices: October 2022

The main price changes for October 2022 are shown below:

- **Arla Foods amba** – farmgate milk price is set to increase by 1 euro cent/kg for Arla members from 1st October 2022. However, the increase to the milk price is negatively impacted by Arla's quarterly currency smoothing mechanism by 0.33ppl. As a result, the liquid standard litre increases by 0.54ppl to 48.96ppl. The manufacturing standard litre (4.2%BF & 3.40% protein) increases by 0.56ppl to 50.91ppl.
- **Arla Foods organic** – Due to there being no price increase for organic suppliers, the organic milk price will reduce because of currency smoothing adjustments. The organic manufacturing standard litre reduces by 0.32ppl to 55.69ppl. The liquid standard litre price reduces by 0.30ppl to 53.57ppl.
- **Müller Direct** – Müller Direct milk price will increase by 1.00ppl from 1st October 2022. See Milk Price table, right.
- **First Milk** – FM milk price will increase by 0.75ppl from 1st October 2022. See Milk Price table, right.
- **Co-op** – suppliers will receive 0.67ppl increase from 1st October 2022. This mirrors the price increase from 1st September 2022. This latest price increase means that the liquid standard litre price for October 2022 moves up to 47.67ppl.
- **M&S** – have confirmed a 1.279ppl increase from 1st October 2022. This takes the liquid standard litre price up to 51.38ppl.
- **Sainsburys** (SDDG) – confirmed another hold on milk price. This means that October 2022 will see Müller members of SDDG hold at 47.00ppl for the liquid standard litre, whilst Arla members hold at 46.88ppl. This is despite the Sainsburys cost of production tracker indicating that total cost of production has increased by 1.79ppl (to 43.65ppl).
- **Tesco** (TSDG) – 1.00ppl increase from 1st October 2022. The liquid standard litre for Müller TSDG suppliers increases to 48.00ppl, whilst the milk price for Arla TSDG suppliers increases to 47.75ppl.

Annual average milk price estimates for October 2022 (ppl)	
Milk Prices – Scotland	**Standard Ltr***
Lactalis / Fresh Milk Co. (No profile or seasonality) [1]	47.32
First Milk Liquid [1, 2]	47.72
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	49.39
Müller - Müller Direct - Scotland [1, 3]	47.75

1 Liquid standard litre – annual av. milk price based on supplying 1m litres at 4.0% butterfat, 3.3% protein, bactoscan = 30, SCC = 200 unless stated otherwise.
2 The FM member premium is set to remain at 0.50ppl from April 2022.
3 No monthly supplementary payment included in the price estimate. Includes 1.00ppl Müller Direct Premium and additional 0.25ppl haulage charge for Scottish suppliers.

Wholesale prices bounce back

After a dip to UK wholesale prices during August 2022, prices have bounced back during September, with price levels rising across the board for cream, butter, SMP and mild cheddar.

UK dairy commodity prices (£/ tonne)	Sept 2022	Aug 2022	Mar 2022
Butter	5,980	5,850	5,460
SMP	3,110	2,990	3,330
Bulk Cream	2,858	2,774	2,330
Mild Cheddar	4,860	4,700	4,280
UK milk price equivalents (ppl)	**Sept 2022**	**Aug 2022**	**Mar 2022**
AMPE (2021)	53.13	51.32	54.48
MCVE (2021)	53.92	52.06	49.95

Doubts over future of Dale Farm sites

Dale Farm has entered a consultation process with staff regarding the future of its sites at Rowan Glen (Dumfries & Galloway) and Kendal (Cumbria). The consultation process follows the completion of a review into Dale Farm's business operations to identify which parts of the business are sustainable.

The company has reported declining demand for its products (yogurts, cottage cheese, and fresh desserts), in addition to inflationary cost increases and significant reinvestment requirements as being major reasons for the review of the business.

alastair.beattie@sac.co.uk, 07771 797 491

Why so important?

"*Productivity isn't everything, but, in the long run, it is almost everything. A country's ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker*." The words of Nobel prize winning economist Paul Krugman capture why most governments place so much emphasis on the pursuit of productivity growth. The Scottish food industry has ambitious growth targets. Achieving these targets requires a step improvement in productivity at both the farm and chain levels.

Technical know-how

But what exactly do we mean by productivity? The output achieved by a farmer obviously depends on the use of inputs like feed, fertiliser, and labour. A farmer that gets more output from the same level of inputs (or the same output from less inputs) achieves greater productivity. So, farm productivity is strongly linked to how well a farmer runs their business. Countries achieving higher levels of farm productivity, are marked by both access to the best technologies and farmers capable of exploiting them.

Worsening terms of trade

Scotland is a big food (and drink) producer so productivity matters because it is key to competitiveness. Exposure to international (and British) competition is rising. The current impact of high fertiliser, feed and fuel prices is obvious and already driving changes in farm management. Perhaps more onerous longer term, our trading arrangements with the EU, Australia and New Zealand have become tougher – less free with the EU and freer with our antipodean mates. Kiwi sheep farmers, for instance, produce far more lambs per person which gives a big unit-cost advantage.

The drive for higher productivity also comes from a declining work force. Not simply less east European workers, but less sons and daughters wanting to succeed given the often better pay and conditions with off-farm jobs.

Direct farm support will also decline. While area payments are likely to continue in Scotland post 2024, funding of vital services like education, health and care seem likely to shrink the overall (c.£600m) farm budget pie. Allocating more of that pie to encouraging public goods provision, will further reduce the share allocated to area payments.

Regulations and rules to protect the environment will also affect how the agricultural industry does things. Environmental compliance pressures should, however, be less onerous than in many competitor countries. The Scottish dairy industry, for instance, is unlikely to face the nitrogen emission rules affecting Dutch dairy farmers. New Zealand sheep production is already dropping and expected to go lower as land goes into trees, sparking concerns about processor viability.

Creating the conditions for better productivity

Countries achieving high productivity invest more in R&D and knowledge transfer processes. Digitisation to enable precision farming, gene editing to reduce chemical use, vertical farming to save on land are exciting new technologies. Governments can encourage companies to invest in R&D via a supportive funding and regulatory framework. Converting great research into proven commercial technologies is the holy grail. The Dutch are masters at it.

Yet probably more important is how well an industry adopts the best technology. Scottish farmers have access to globally developed technology, ideas, and systems. Getting widescale take up of these "spill over" opportunities can mitigate relatively low investment in R&D at the domestic level. Effective knowledge transfer is critical to competitiveness.

Better measurement at all levels important

UK (including Scottish) agricultural productivity has underperformed most other developed countries since the 1980's according to the OECD, a global think tank. Interestingly, American research found that while both the UK and Dutch took a similar approach to deregulating agricultural research in the 1980's, agricultural productivity growth has diverged sharply since. There is little evidence to suggest that Scottish agricultural productivity has fared much better than the UK figure.

Better measurement is part of the answer. OECD benchmarking using total factor productivity, especially as it is developed to account for environmental impact, is clearly important. Yet it is almost meaningless to normal people. Some useful metrics would help farmers understand how farm level actions affect national productivity. The Welsh government is consulting on making future support conditional on farmers calculating a range of key performance indicators annually.

Grants, better advisory systems, and support for chain level collaboration are also options directly available to governments to improve take up of new thinking and improve productivity. How to best to shape and fund these options will be an important part of the current Scottish policy consultation process.

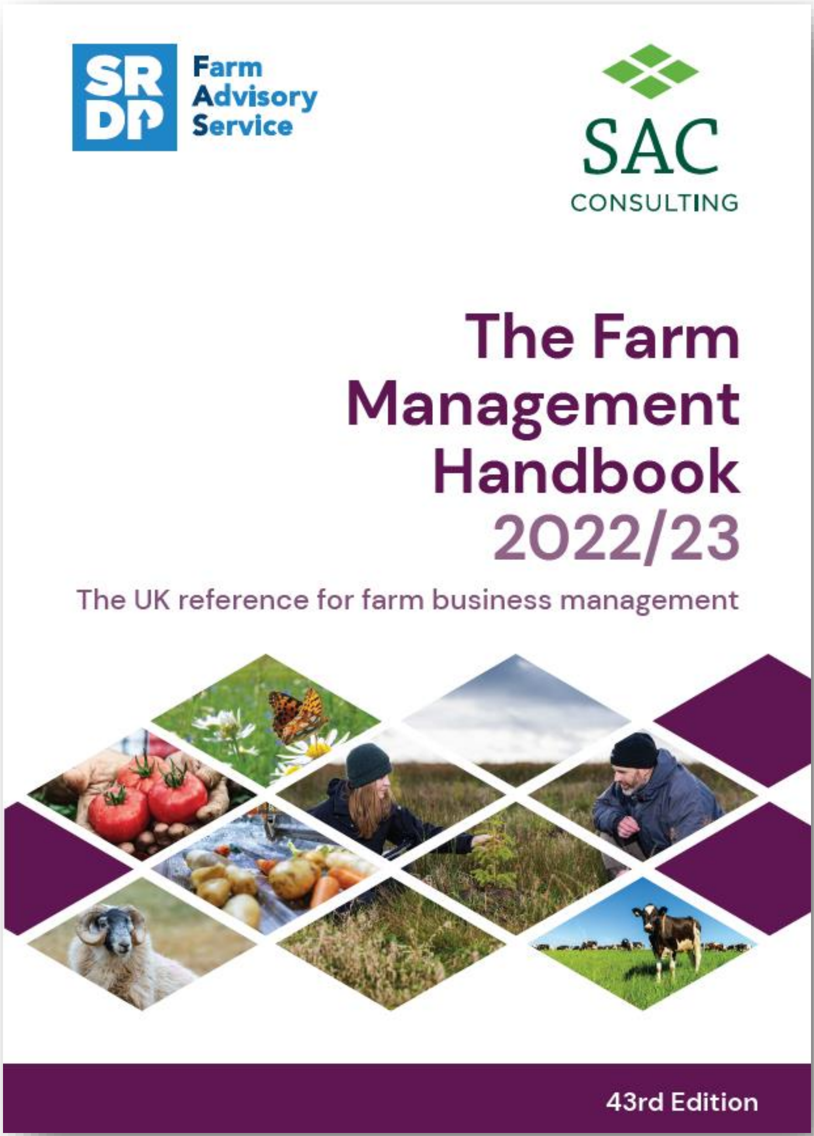
Kev Bevan, 07368 825877

SAC Farm Management Handbook 2022/23

The 43rd edition of the Farm Management Handbook is an essential tool for any progressive farm business, providing a comprehensive and up-to-date source of information for farmers, crofters, rural professionals, policymakers, students and consultants.

Co-funded by the Scottish Government, the 43rd Edition of the SAC Farm Management Handbook will shortly be available to download free on the Farm Advisory Service website at https://fas.scot/publication/fmh2022

If you would like to buy a hard copy of this year's handbook, please visit www.sac.co.uk/fmh or contact us on 01835 823322 or fmh@sac.co.uk



The handbook includes:

- Gross margins and technical details for livestock, crop and organic enterprises.
- Information on Direct payments (Basic Payment Scheme, Greening, Grant Schemes) and Rural Development Programmes.
- Guidance on diversification, building and machinery costs, renewable energy, farm woodland, crofting and small farms, new entrants, finance, taxation and much more.
- Now includes a Carbon section which highlights the main greenhouse gases in agriculture, explains how the carbon footprinting process works, identifies mitigation measures, and provides farm benchmarks.

Beef contracts - Is now the right time?

With increased input prices, particularly fertiliser and feed, the margins in beef production continue to be squeezed with many producers questioning the viability of their beef finishing enterprises.

Whilst some producers will have had reasonable returns for their financial year ends in 2021 due to the higher beef prices coupled with lower input costs; the outlook for 2022 does not look to be as positive. With the rises in variable costs to record levels it is very difficult to draw up a budget for finished cattle when the end price is just an estimate.

Cull cow values have also seen record highs this year, leading to fears from the processing sector that prime cattle numbers will decline in coming years and there is a limitation to the amount of beef from the dairy that can be produced to fill this potential gap.

So, is now the time to ask the questions around having a forward pricing strategy for beef? If processors are that concerned about where their beef supply is coming from and retailers are all putting pressure on their supply chains to work towards net zero, would it not be beneficial for suppliers to have an incentive to produce beef?

What kind of contract?

Fixed price

This gives the producer a level of confidence and allows accurate budgeting to be done. This would be particularly beneficial for longer keep cattle that are perhaps, the biggest gamble for producers.

Minimum price

Knowing where the bottom is in the market is essentially what a minimum price contract would do. If the spot price is above that, you receive more that agreed contract price and if the spot price moves below the agreed price, you are cushioned from that drop below the agreed price.

Cost of production

In a similar way to some of the retailer aligned milk contracts cost of production contracts require the producer to 'open their books' up to the processor/ retailer and share their cost of production and agree on margin above that.

Whilst with all types of contracts understanding your own costs is the only way you will know if the contract price will be beneficial to you or not; cost of production contracts can sometimes be challenging. If costs rise like they have this year, and the contract does not allow for change then the producer will have to absorb those price increases.

Challenges

Many producers are concerned that by signing up a proportion of their cattle to a contract they are effectively letting the processors know what cattle are in front of them and giving them the opportunity to reduce the spot price.

Producers also have concerns that if a better price is achieved through a contract that often the grades of the cattle may be impacted, resulting in the value of the cattle being reduced.

On the other side, if the spot price is better than the fixed contract price producers may seek a way out of the contract as they feel it is only beneficial to them when the contract price is better than the spot price.

Contracts may be a way to incentivise the type of cattle the processor or retailer would prefer so producers must be willing to meet those tighter specifications in order to gain the benefit of the contract.

By building up better communication and trust in the supply chain some of these concerns may be overcome and would perhaps establish a more sustainable beef supply chain than the current one.

lesley.wylie@sac.co.uk

Key economic data

General Indicators	
Base interest rate	2.25% (0.25% Dec 21)
ECB interest rate	0.75% (-0.5% July 22)
UK (CPI) inflation rate	9.9% (target 2%)
UK GDP growth rate	-0.1% (Q2 '22)
FTSE 100	6,881.59 (29 Sept 22)

Price indices for June 2022 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	248.4	Seeds (all)	122.2
Barley	224.0	Energy	204.1
Oats	189.9	Fertiliser	304.1
Potatoes	138.2	Agro-chemicals (all)	158.4
Cattle and Calves	136.1	Feedstuffs	175.1
Pigs	146.8	Machinery R&M	125.0
Sheep and Lambs	158.4	Building R&M	161.8
Milk	186.1	Veterinary services	117.8

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