SRDP Farm Advisory Service

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September 2018

News in brief

Higher Feed Costs

Rains have greatly helped to replenish grass growth and bulk-up second or later silage cuts, which will provide some relief to livestock producers. However, not all forage is safely clamped, cooler weather has slowed regrowth and there remain many worrying cases of forage shortfalls out there. The big message for livestock producers, which resonates throughout this edition, is not to panic but assess supply, budget demand and plan. There is still time to react but the season is shortening and key supplementary feeds are projected to lift in price e.g. note the recent rise in the cereals market on page 3.

The Cabinet Secretary acknowledges it is not new monies but the effective advance in BPS 2018 payments that will be much needed and provide very welcome cash flow.

Recently published statistics on cross compliance identified a concerning increase in SMR 13. These animal welfare infringements sit firmly in the shadow of cattle and sheep identification breaches but, directly correlated or not, animal welfare often manifests in farmer welfare. Despite being very different, 2018 provides little to help ease financial or performance pressures, so again, a problem shared and worked through bit by bit, now, will help shed light on the best and most cost effective course of action.

Don’t Forget the Opportunities

In the age of changing consumer demands, it is easy to feel vulnerable and disillusioned by uncertainty and, what feels like, constant attack on a proud industry (cue specific reference to Alternative Proteins and Brexit, see pages 8 and 10). For the more adaptable and entrepreneurial mind, these also bring opportunities. Meanwhile, let us never forget that pride to deliver, reinforced by quality, as the market defines it, tends to find a higher value market – exactly what Scotland’s farming industry needs.

Next month….

- Input costs – feed and forage
- Harvest update

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This month’s editor:
Robert Logan

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

SAC CONSULTING

Scottish Government
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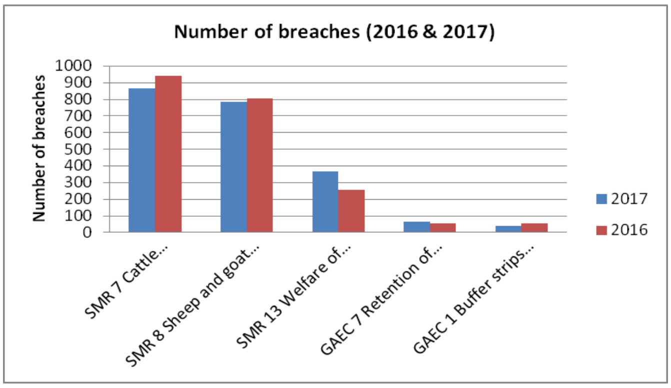
Cross compliance inspection statistics

The Scottish Government (SG) is required by EU law to carry out cross compliance inspections to ensure that farmers and land managers are meeting the various requirements. The breaches found at these inspections were recently published by the SG.

In 2017 the top five areas of non-compliance were:

- Cattle identification and registration (SMR 7)
- Sheep and goat identification (SMR 8)
- Welfare of farmed animals (SMR 13)
- Retention of landscape features (GAEC 7)
- Buffer strips along watercourses (GAEC 1)

Between 2016 and 2017 there was a reduction in the number of breaches relating to cattle and sheep and buffer strips but an increase in those relating to animal welfare and retention of landscape features, see chart below:



Although the actual number of inspections carried out over the two years is not identified, the reduction in breaches relating to cattle and sheep is positive; the significant increase in animal welfare breaches is more concerning. The most common reason for the breaches was as follows:

Cattle identification and registration (SMR 7)

- Lost a tag but still identifiable (double or single).
- Failure to report animal deaths or movements to CTS within legislative deadline.
- Animals registered with incorrect sex or breed.
- Post 01/01/1998 animals that have lost both tags but can still be identified by other means.
- Animal details not found in farm records.
- Animals registered with an incorrect date of birth.

Sheep and goat identification (SMR 8)

- Lost or illegible identification has not been replaced and/or the record of replacement identification has not been maintained.
- Individual identities of home bred animals, present on the holding, have not been included in records.
- Failure to record death details of an animal born or identified after 31/12/2009.
- Failure to record complete movement details (other than individual identifiers via a CCP).
- The number of animals counted on the holding indicates the records are not accurate.
- Animals have not been tagged or have been incorrectly tagged before leaving the holding or reaching the appropriate age.

Welfare of farmed animals (SMR 13)

- Medicine records are not complete and available for previous 3 years.
- Sick animals are not suitably cared for including, where necessary, getting veterinary advice.
- Animals (kept outside) are not protected, when necessary and possible, from adverse weather conditions, predators and other risks to health.
- Number of deaths not recorded and have not been kept for the previous 3 years.
- Animals have not been fed to meet their physical needs or have not had adequate access to a suitable water supply or are able to satisfy fluid intake by other means.

Retention of landscape features (GAEC 7)

- Land within 2m of the centre line of a hedge (where the exemptions do not apply) had been cultivated.

Buffer strips along water courses (GAEC 1)

- Land within two metres of the top of the bank of surface water had been cultivated or pesticides had been applied.
- Field heaps located within 10 metres of surface water or 50 metres of any well, borehole, etc.
- Organic manure applied to land situated within 10 metres of any surface water or 50 metres of any well, borehole, etc.

Whilst not all the listed breaches resulted in financial penalties being applied, penalties of 3-5% were not uncommon, and in some cases a breach of SMR 7 and 13 resulted in 100% penalties being applied.

In order to protect CAP payments, knowing the rules is essential; further information on cross compliance can be found at: https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/

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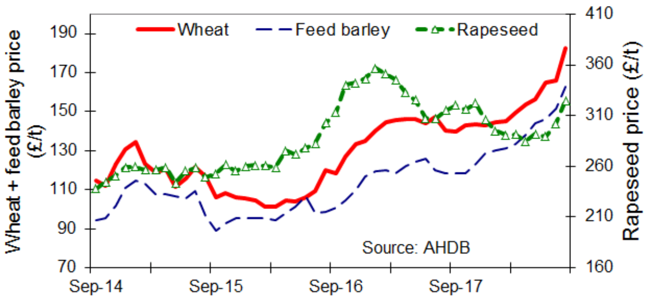
Prices up again as grain yields fall

Further poor harvest results across Northern Europe confirm the impact of the drought and with much of the EU harvest now in, the market is becoming clearer on available supplies. Prospects for the EU maize harvest are good in contrast and crop estimates have risen. Significant areas of Australia remain under severe drought putting paid to winter crops in many areas of NSW and Queensland. In Ukraine and Russia, news of grain export restrictions boosted prices in the EU as this is our nearest and largest competitor for export markets. However, news that any Russian restrictions may be delayed caused prices to fall.

In the US, good weather has continued to support crop condition of maize and soyabeans and these crops remain the main counterweight to poorer conditions elsewhere.

Scottish spot ex-farm grain and oilseed prices



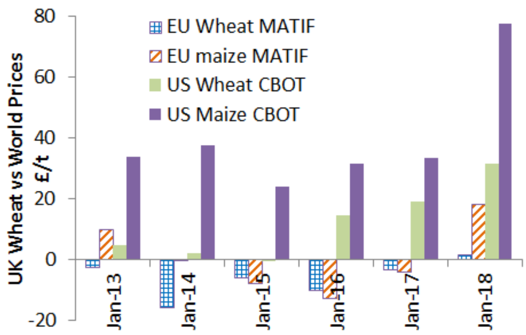
The UK harvest is drawing to a close in England with wheat yields reportedly better than expected. The Scottish harvest has seen rain delays.

In the last month, Scottish ex-farm wheat prices rose; +£13.60/t (£183.60/t) while barley rose +£16.30/t to £166.10/t for August. English malting barley rose £23/t to £208/t. New crop rapeseed rose +£22/t to £325/t delivered August.

Imported maize sets a cap to UK prices

UK wheat and barley prices have risen to a large premium over most of our major competitors. UK wheat futures are currently +£77/t more than US maize futures (+£31/t on 5yr av.) and +£18/t more than EU maize (normally parity). As a result imported grain, maize in particular, is now competitive in some areas of the UK and Scotland with feed wheat and barley.

UK wheat premium to rest of world grows



Source: SAC Consulting, AHDB

- Imported maize now caps UK cereal prices – prospects for EU & US maize harvest improving.

Malting barley

Yields of malting barley in key northern European producers; Sweden, Denmark and Poland could be down 40% due to the drought. Good crops in France are not expected to make up for this. The EU is now expected to have a deficit of 0.5mt of malting barley compared to the usual surplus.

The spring barley harvest in England has been variable in both yields and quality. In Scotland rain has delayed harvest just as much of the crop approached maturity. Better weather has enabled Morayshire and the Black Isle to almost finish harvest with yields reasonable though below average. Progress is slower further East and South with much still to cut. Early signs are of below average and variable yields while nitrogen levels are high. Otherwise quality appears good. Maltsters have in general lifted upper nitrogen levels to between 1.7% and 1.8%N to ensure delivery.

The wet harvest is causing delays and a break in the weather is needed to bring the crop in safely. Pricing is also unclear; a typical issue in Scotland until harvest yield and quality becomes known. English spring brewing malting barley is currently £200-210/t ex-farm and Scottish distilling barley prices may be similar or higher if yields are down on a national basis.

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Indicative grain prices week ending 16 August 2018 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Aug 18	Sep 18	Nov 2018	May 2019	Nov 2019
Wheat	Ex-farm Scotland	183.10	184.00	186.00	190.00	165.00
Feed barley	Ex-farm Scotland	166.10	171.00	174.00	178.00	
Malt. barley - all	Ex-farm England	194.30	207.00	212.00		
Malt. barley - brew	Ex-farm England			208.00		185.00
Oilseed rape*~	Delivered Scotland	325.00		335.00		

Finished price lifting

Scottish finishers will be relieved that the finished steer price is back above 380p/kg dwt. As the chart shows, since the end of June the price has underperformed last year by some margin. The turnaround in prices has been especially noticeable for Aberdeen Angus cattle where 420p is possible this week (w/b 27th August). The cull cow trade has also steadied after an alarming drop in the summer.

Lower cattle supply and better demand seems to explain the lift in prime and cow beef. While the hot summer helped the barbeque demand for burgers, it knocked demand for prime cuts. English schools reopening shortly, is also a big positive for beef demand.

If schools are helping the demand side, rain is helping the supply side of the beef industry. While the actions needed to deal with a British drought don't stretch to extraordinary levels needed in Australia where massive destocking can flood the market with cattle, the culling of non-productive dairy and suckler cows has been a market factor.

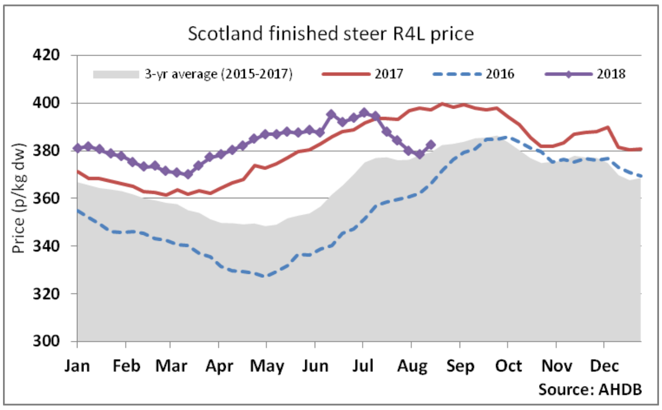
Looking forward, the expectation is for further recovery in the finished price. The normal autumn rise in beef demand should be complemented by a weak pound hindering imports and helping exports. Furthermore, production should be tighter thanks to limited cattle numbers, plus lighter carcase weights, as finishers accelerate finishing to save on expensive grain.

2 Sisters sold to the Irish

With Kepak's purchase of 2 Sisters' red meat division, Irish processors now dominate British beef and sheep supply chains. Is this a negative for Scottish and British farmers?

Combined, McIntosh Donald (Aberdeen) and St Merryn (Cornwall and Glamorgan) kill around 235,000 cattle and 750,000 lambs annually. As a result of the takeover, Kepak has roughly doubled its turnover of cattle and sheep. Add in the heft of ABP and Dawn/Dunbia, and the Irish Farmers Journal calculate that the big three Irish processors will now account for 60% of the British and Irish cattle kill (2.7m head).

Clearly, such concentration raises competition fears for farmers. How prices are set (discovered) each week has long been a concern of producers given that auction markets now only account for a small proportion of prime cattle sales. On the plus side, these well run Irish processors will argue that they are in a better position to negotiate with the likes of Tesco, Asda and McDonalds. They also have strong track records of investing in modern plants, processes and export opportunities.



As such, it may well be the remaining Scottish and British owned processors that have most to fear, as too Irish beef farmers. For farmers there suspect that Irish cattle prices take the brunt in periods of market downturn when the gap between an Irish and British steer can stretch to a few hundred pounds. Clearly, the home owned processors haven't got that procurement flexibility.

Brexit, of course, will have been a big factor in Kepak's thinking. As early as next spring, the Irish beef industry could overnight be excluded from their biggest, best paying market which takes half (250,000t) of Irish beef output. Though such an abrupt rupture remains unlikely, Kepak has covered this market risk by getting a strong processing base here. They will have judged that even if the UK eventually opens its marketplace to cheaper beef from the likes of South America, a substantial tonnage of beef will still be needed from domestic production.

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

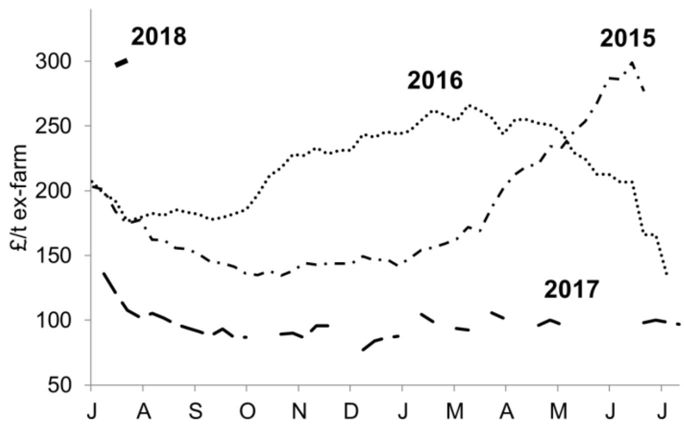
	R4L (R3 bull) cattle price (p/kg dwt)						-U4L Steers		
	E&W			Scotland			E&W		Scotland
	South Steers	North Steers	North Y. Bull	Steers	Heifer	Y. Bull	South Steers	North Steers	All Steers
4 Aug	360.8	375.8	342.3	379.9	377.4	359.2	366.6	367.9	373.9
11 Aug	361.5	380.2	344.1	378.2	376.0	361.5	367.4	367.8	377.4
18 Aug	363.3	370.8	342.6	382.5	383.0	363.7	373.4	367.9	379.0

Market price update

- New crop free-buy potato prices have started at £300/t – the highest recorded opening price (based on the last 30 years of records).
- The GB Weekly Average Prices for the week ending 17th August were £216.41/t for combined free-buy and contract purchases, and £300.75/t for free-buy purchases.
- Compared to the previous reported figures on 10th August, contract and free-buy purchases were up by £13.61/t and free-buy purchases were up £3.83/t.

Crop Year 2018	17 Aug	10 Aug	27 Jul
Average Price (£/t)	216.41	202.80	159.52
AVP change on week (£/t)	13.61	43.28	-6.12
Free-Buy Price (£/t)	300.75	296.92	106.97
FBP change on week(£/t)	3.83	189.95	9.25

GB Weekly Average Free-Buy Price
(2014-2017 crop years)



Trading Season July - July Source: AHDB

Prices for old crop packing supplies in Scotland have risen due to the anticipation of tighter new crop availability. Grade 1 Whites are trading around £100-130/t ex farm. No old crop trade is reported for Maris Piper or King Edwards this week.

Tight availability and a delay in bulking of new crop supplies has resulted in a price jump for English old crop Whites. Grade 1 Whites are trading between £120-200/t, an increase of around £50/t on the previous week. English new crop salads Bambino, Gemson, and Maris Peer are trading around £400/t with Charlotte trading around £450/t. New crop Marfona is trading between £250-300/t and good quality Maris Piper is trading around £300/t.

Common scab low despite dry conditions

Local reports suggest that crop health is good in both seed and ware crops. As weather conditions seared to over 25°C in many parts of Scotland during early summer, some crops struggled to get to 100% ground cover. That said, common scab levels are low and tubers are looking very good once washed. There is some concern in England that bruising may be an issue at harvest in un-irrigated crops. If dry conditions continue over the next 2-3 weeks this may also be a factor to consider in Scotland. Although Scotland doesn't usually have an issue with bruising, this season may be one to take additional care. Maintaining a regular irrigation programme until the weather relieves the soil moisture deficit is recommended. Continued irrigation will ensure dry matters are not too high, reducing the risk of bruising at harvest.

GB planting down 3%

According to AHDB, the total area of potatoes planted in Great Britain is 119,000 hectares, a reduction of 3% on 2017. This represents the third-lowest planted area on record. A cold spring with sub-zero temperatures brought by the infamous "Beast from the East" followed immediately by a prolonged spell of wet weather delayed planting across many regions. Although crops have caught up and are reported to be looking good, it is anticipated that yields could be around 5-10% down on last year.

GB growers optimistic for EU demand

There is optimism in the GB market as growers foresee greater demand from the continent this season for packing and processing supplies. Near drought conditions in EU countries is expected to impact on crop yield. The latest August press release by the North-Western European Potato Growers (NEPG) highlighted concerns over water shortages in all of the NEPG countries. Under half of the total North-Western potato growing area has access to irrigation. Irrigated crops in Belgium, France, Germany, and the Netherlands are reported to be looking well but non-irrigated crops have suffered from prolonged dry conditions. The April 2019 EU processing futures contract closed between €279-320/t for the last two weeks, remaining significantly higher than April contracts in previous years.

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Economics and weather hits prices

High retail prices and hot weather depressing consumption has driven the farmgate lamb price sharply down since May. Despite a bad lambing and poor pasture growth lowering lamb supply.

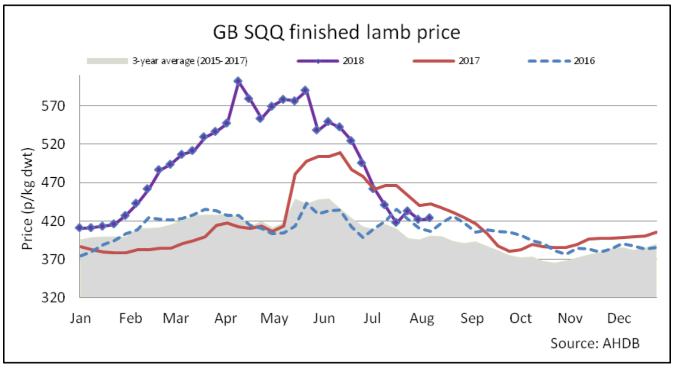
Nevertheless, a decent 19kg dwt lamb has grossed £78 in mid August, which as the price chart shows, is above the three year average. However, the trade for light lambs remains worrying thanks largely to poor export demand. The cull ewe price also suffered in July but has recovered some poise of late, helped by Eid-al-Adha, an important Muslim festival.

Rain lifts prospects

A lack of feed has stymied the early store lamb trade. Fortunately, recent unsettled weather has greened up pastures south of the border, though more is needed to lift autumn feed supply and bolster the store lamb trade. By comparison, more persistent rainfall across western Scotland has resulted in a flush of grass and the store lamb trade has responded well.

Prospects for the finished lamb price are decent, if better feed supply gets bidders to the store lamb sales. For despite the AHDB's forecast of a much smaller lamb crop in 2018 (around one million lambs down), poor growth rates have resulted in the cumulative kill of new season lambs running well behind last year. In addition, export demand has been low owing to the relatively high price of UK lambs despite a very favourable exchange rate. The other variable that may well influence lamb supply is the number of ewe lambs retained for breeding. The bad winter certainly raised ewe mortality, especially in areas where fluke is endemic, suggesting that more ewe lambs will be kept for breeding.

The counter argument is that UK sheep farmers may wait to see how Brexit plays out before rebuilding flocks. The likelihood of a (sheep) trade agreement that retains access to the key continental market remains most likely, but the chances of a hard Brexit have clearly risen over the past couple of months.



Growing dependence on cake

A recent bit of AHDB analysis reveals, for year ending June 2018, just over half a million tonnes of purchased concentrates were fed to "growing and finishing sheep" compared to 158,000t in 1992/93. While the particularly bad weather of the past year did boost consumption by 15% over the previous year, the trend over the past quarter of a century has been consistently upward. That the annual production of lambs has markedly declined over the same period means that average per head consumption has risen even more.

Finishing lambs on concentrates consistently works and typically gives a level of finish that ensures a good killing out percentage. Trouble is the cost. Lambs are poor converters of concentrates into meat with 6-8kg of concentrates needed to add 1kg of liveweight (at £210/t a cost of around 170p @ 87%DM).

By comparison, finishing lambs off pasture mid-season costs around 25p/kg lwt, off late summer/autumn grown pasture using nitrogen c.90p (AN @ £250/t), with an autumn forage crop similar given good utilisation. Of course, successfully growing and utilising forage crops in the west and uplands of Britain is risky compared to feeding concentrates.

One suspects that back in the day, more lambs were finished in the east of the country where growing forage crops is more reliable. Perhaps this old model might be revisited especially if crop farmers are compelled to lift the organic matter content to improve soil health?

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Week ending	GB deadweight (old season) 16.5 – 21.5kg			Scottish auction (new season) (p/kg LWT)			Scottish Ewes (£/hd)	E&W Ewes (£/hd)
	R2	R3L	R3H	Stan	Med	Heavy	All	All
04 Aug	420.8	421.2	412.0	176.7	178.8	175.7	58.8	58.3
11 Aug	422.1	423.1	414.0	182.8	188.6	184.7	58.4	61.0
18 Aug	433.5	436.1	427.4	176.2	184.0	183.5	52.9	53.2

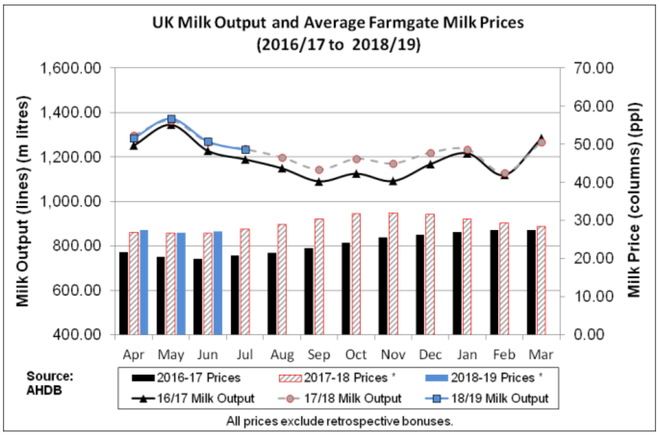
Deadweight prices may be provisional. Source: AHDB

Dry weather hits July '18 output

UK monthly milk output for July 2018 is estimated at 1,232.04m litres (before butterfat adjustment). This is 3.05m litres lower output compared against July last year. Cumulative UK production between April and July 2018 is currently estimated at 5,157.32m litres; this is 3.91m behind last year.

- *The reduction to milk output was due mainly to a slow spring and prolonged hot weather and unfavourable grass growing conditions*

The latest DEFRA statistics show that the UK average milk price increased by 0.38ppl between May and June 2018 taking it to 27.16ppl. The UK average for June 2018 is 0.41ppl above the same price last year (26.75ppl).



Outlook – difficult winter lies ahead

- *Milk prices will need to increase further to maintain output*

With milk production statistics for July 2018 showing further slowing in output compared with July 2017, the possibility of declining milk production during the latter half of 2018 is very real. Although grass growing conditions have improved markedly between July and August, many farms have already used some first cut silage and will need to replenish winter feed stocks to maintain production. This means the de facto early BPS 2018 payment will be most welcome although a larger share will be required to fund more, higher priced, feeding especially in the absence of some meaningful farmgate milk price increases.

Positive price movements for Sep '18

Although some milk buyers are holding August prices going into September, the following price announcements have been confirmed:

- Graham's Dairies: +1.50ppl from 01 September 2018 taking the liquid standard litre to 29.50ppl.
- Arla Foods (amba): hold on the conventional milk price into September 2018. Maintaining the basic liquid standard price at 30.16ppl.
- Müller: +1.50ppl price for Müller Direct members taking the standard litre price to 29.50ppl. See table below.
- Yew Tree Dairy: +1.00ppl increase from 01 September 2018 taking the standard litre up to 29.50ppl.

Annual Average milk price estimates for Sept 2018 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	29.00
First Milk Liquid [1]	28.50
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	29.47
Müller - Müller Direct [1, 2]	29.50

[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.*

Butter prices recover during Aug '18

UK dairy commodity prices rebounded during August on the back of a recovery to butter prices. With butter recovering from the July average of £4,880/t to £5,080/t during August, there has been a clear uplift to AMPE (33.18ppl for August 2018). However, EU butter prices mask the wider picture. At a global level, dairy product prices continue to soften, as evidenced by yet another drop in the latest GDT (Fonterra) online auction. The auction for 21 August 2018 left the weighted average price across all products at US $3,044/t (the lowest average price since December 2017).

UK dairy commodity prices (£/ tonne)	Aug 2018	Jul 2018	Mar 2018
Butter	5,080	4,880	4,220
SMP	1,380	1,340	1,150
Bulk Cream	2,230	2,150	1,930
Mild Cheddar	3,050	3,050	2,900
UK milk price equivalents (ppl)	**Aug 2018**	**Jul 2018**	**Mar 2018**
AMPE (2014)	33.18	31.80	26.68
MCVE (2014)	33.62	33.37	31.05

Source: AHDB

Dates for the Diary

UK Dairy Day – Wed 12th September 2018

The International Centre, Saint Quentin Gate, Telford, Shropshire TF3 4JH. T: 01923 695225w: www.ukdairyday.co.uk/

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Sector Focus: Alternative Proteins

Drivers behind shift to new proteins

There has been a recent growth in demand for alternative proteins beyond traditional meat and dairy; many plant based. The number of vegans consuming only plants in the UK has risen by over 360% in ten years but remains at just 2%. One in eight British adults are vegetarian, and the introduction of diets such as Flexitarian (a plant-based diet with the occasional addition of meat) and Reductarian (individuals who are committed to eating less red meat) all show an increase in the demand for alternative proteins. At the same time, 91% of the UK population continue to eat meat to varying degrees and it remains the predominant protein source. Drivers behind the shift to alternatives are varied and include consumers seeking to address concerns (real or perceived) over; human health, ethical and animal welfare, and the environment. In August the AHDB released a consumer insight report on the issue; The rise of plant-based food products and implications for meat and dairy which provides a useful insight.

The whole area of consumer attitudes is complex and results from the confluence of a range of underlying factors, which can be hard to disassociate.

The rise of veganism is driven by concerns over animal welfare plus environmental and health concerns – growing quickly but from a very low base. There is evidence that consumers struggle to sustain a wholly vegan diet as so far plant based meat and dairy alternatives do not exactly match the sensory experience of the real thing. However, massive investment in R&D is starting to change this. US company, Beyond Meat, produces a burger made from pea protein, coconut oil and other ingredients which is modified to mimic the taste and bleeding of a conventional beef burger. This product is due to arrive in UK Tesco stores this summer, to be sold in the meat counter. Traditional meat processors have been quick to identify the trend and are repositioning themselves as protein producers; their real commitment is to making money from what ever protein source that may be. Tyson; the world's second largest processor of poultry, pork and beef is a major investor in Beyond Meat and Memphis Meats (lab grown meat).

It is clear that the gauntlet has now been laid down by the disruptors – if protein alternatives, from whatever source, can show they are just as good or better to eat, healthier, better for animals and the environment and cost effective then the market potential will be huge. However, we should also recognise that mimicking meat and dairy will not be an easy "nut" to crack and there are consumer weaknesses in the plant based / alternative protein sector. One Achilles heel may be how "natural" these heavily processed alternatives are in the eyes of the consumer.

For now the overall market impact of veganism is relatively small but it does signal a bigger shift into a much wider trend of plant based eating. Increased plant consumption within a mixed diet is driven primarily by concerns over health evidenced by the growth in Flexitarian and Reductarian lifestyles. This could have a much larger effects on meat and dairy consumption than veganism. Flexitarians are not opposed to meat and dairy; they seek to eat less but higher quality/healthier/more ethical products.

What could this mean for UK and Scottish agriculture?

While the growth of plant based and alternative protein sources may be a "threat" to meat and dairy they also signal an opportunity to produce higher quality, healthier, more welfare friendly meat and livestock products. Also, looking beyond developed countries, overall global meat and dairy demand is projected to continue steadily as populations rise out of poverty. The question for the UK and Scottish meat and dairy sectors is whether they can service these export markets on cost grounds or whether they should simply target the top-end?

Currently Scotland produces very little of the alternative proteins available on the market, but there are some possibilities. Our available land, climate, and desire to innovate, make Scotland a key candidate for the production of alternative proteins for human consumption. SRUC are working on a project to extract protein from grass which can produce as much high quality protein per hectare as soyabeans, but with a substantially lower environmental impact. So in a resource constrained world hungry for protein, improving the sustainability and welfare credentials of meat and dairy while developing alternative protein sources may well provide Scottish and UK farmers more opportunities than threats.

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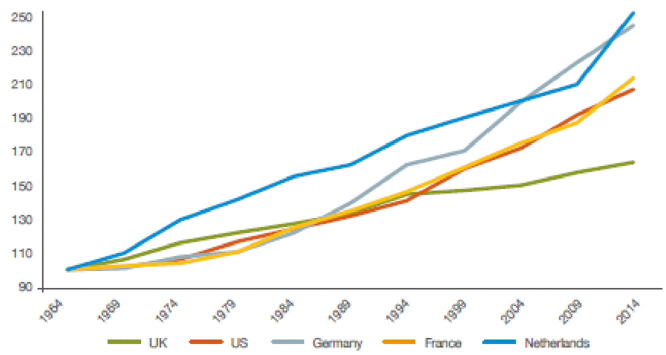
Future Focus: Tax & land leasing in Ireland

The need to boost UK productivity

Agricultural productivity in the UK and Scotland has been shown to lag well behind that of close neighbours within Europe and competing nations around the world. AHDB's recent report Driving Productivity Together highlights key issues and solutions here.

A key measure of productivity is total factor productivity which simply put is an aggregate measure of how efficient farming is in turning inputs into outputs. As the chart below shows, since the early 1990's the UK has lagged well behind.

Total factor productivity growth – 1964-2017



Source: AHDB

In Agribusiness News we will be running regular Future Focus articles looking at practical measures that can help improve the underlying productivity of agriculture in Scotland in a potentially less supported post-Brexit world.

A key issue in the UK is the high average age and low level of formal training of farmers. In many cases this is stifling the younger generation and their new skills, ideas and dynamism.

Part of this problem arises from current systems of land tenure and taxation, which can at times hinder the leasing of land to younger farmers. Therefore, it is useful to study how recent changes to taxation in Ireland are helping encourage the leasing of land to younger farmers.

Encouraging land letting in Ireland

In the Republic of Ireland, agricultural leases are dominated by short, often annual 'con-acre' rental agreements. At the same time the country has ambitious plans to boost agricultural productivity and output. Encouraging greater security and access to land for younger and more entrepreneurial farmers is seen as one of the best ways to boost productivity.

In the 2015 budget the Irish government introduced changes to taxation which increasingly rewarded land owners who rent land on longer leases. Income tax reliefs for longer leases were increased by 50% as follows;

- On 5 to 7 year leases tax relief on up to €18,000 p.a.
- On 7 to 10 year leases tax relief on up to €22,500 p.a.
- On leases over 15 years tax relief on up to €40,000 p.a.

These changes encourage land holders to lease land out to tenants on longer leases and enable them to retain ownership of the land while allowing younger or expanding farmers to take on land more securely. This in turn encourages greater capital investment and it is expected to boost output and productivity growth.

The cost of these reliefs to the Irish Exchequer has been significant rising from €9.2m in 2014 prior to their introduction to €13.9m in 2015. However, these costs are considered acceptable given the benefits to industry restructuring.

It soon became evident that the changes had led to an increase in long term letting of agricultural land with lets of over 5 years increasing by a third in 2015 alone. In the same year 27% of tenants surveyed stated that they had started a new long-term lease.

Lessons for the UK and Scotland

The closeness of the Irish land tenure system to that of the UK makes comparisons between the two countries valid and realistic. The changes in Ireland have done much to encourage the shift of land management from older farmers and farming investors who own the land to active and often younger farmers.

Similar changes to taxation in the UK could incentivise a similar shift in the Scotland and the UK and further investigation of this approach is to be encouraged.

Thanks to the Central Association of Agricultural Valuers - www.caav.org.uk for supporting information.

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UK "No Deal" Brexit papers released

The UK government recently released 25 technical notes to prepare the country for what to do in a "No-Deal" Brexit come 11pm UK time on 29 March 2019. Another 59 papers are due for release in the next few weeks. The UK government is reportedly actively seeking a deal with the EU but if this fails the following guidance is of relevance. There are two notes which relate specifically to agriculture though many others are of relevance. The complete list can be found here:

https://www.gov.uk/government/collections/how-to-prepare-if-the-uk-leaves-the-eu-with-no-deal

Farm Payments - https://www.gov.uk/government/publications/farm-payments-if-theres-no-brexit-deal

- The UK government commits the same financial budget as currently given to farm support until the end of this parliament – scheduled for 2022. This includes all Pillar I and II payments. This commitment applies to the whole of the UK. (If an election is called before 2022 then there is no guarantee that this commitment would be met by any following government.)
- During this period beneficiaries will require to conform to the same standards as they do currently in order to receive payments. This will include on-site inspections to UK farms receiving payments, which will continue as normal.
- All of these rules and policies will remain the same until DEFRA and the devolved administrations introduce new agriculture policies, either through the Agriculture Bill due to be introduced in the UK Parliament or an Agriculture Bill in one or more of the devolved parliaments.

Rural development payments https://www.gov.uk/government/publications/receiving-rural-development-funding-if-theres-no-brexit-deal

- The UK government has guaranteed that any rural development projects where funding has been agreed before the end of 2020 will be funded for their full lifetime.
- This also means that DEFRA and the devolved administrations can continue to sign new projects after the UK leaves the EU during 2019 and 2020, up to the value of programme allocations.

Organics - https://www.gov.uk/government/publications/producing-and-processing-organic-food-if-theres-no-brexit-deal

UK organic control bodies would lose their approval status on exiting the EU and would be required to reapply in a process which could take up to 9 months. During this time UK approved organic produce could not be sold as such into EU markets.

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Key economic data

General Indicators		Price indices for June 2018 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	124.57	Seeds (all)	103.7
		Barley	123.85	Energy	120.9
ECB interest rate	0.00% (0.05% Mar '16)	Oats	115.84	Fertiliser	95.6
UK (CPI) inflation rate	2.5% (target 2%)	Potatoes	115.14	Agro-chemicals (all)	104.1
		Cattle and Calves	108.16	Feedstuffs	110.8
UK GDP growth rate	0.4% (Q2 '18)	Pigs	113.80	Machinery R&M	106.1
		Sheep and Lambs	136.55	Building R&M	110.0
FTSE 100	7,564 (24 Aug'18)	Milk	110.86	Veterinary services	101.4

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