SRDP Farm Advisory Service

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News in brief

September 2019

The food we need

Following the political turmoil in the UK parliament over the past few weeks it is hard to know whether a No Deal exit from the EU on 31st October is more or less likely.

What remains crystal clear is that a No Deal exit continues to pose a very serious threat to many sectors of agriculture with potential impacts for the consumer.

The leaking of government papers from "Operation Yellowhammer" indicates the government are well informed of the potential risks to food supply, distribution and prices that could arise. What is worrying is the government's unwillingness so far to publically share these documents or to admit that this could amount to much more than "a few bumps in the road". While Michael Gove, responsible for No Deal planning is confident that "everyone will have the food they need", the public are still left wondering at what price, level of choice and safety standards? For a nation not at war it is truly incredible that we face such uncertainty about where our food might come from in only two month's time.

EU convergence money to be returned

Given the uncertainties facing Scottish agricultural trade, market access and future support it is good news the UK government has announced Scotland will now receive £160m of EU "convergence money". In addition, the UK government has announced a further payment of £51m on top to give a total of £211m. The £160m of convergence money was intended to bring UK area subsidy payments up to the EU average. The discrepancy is largely due to Scotland's historically lower area payment rates. While this money is clearly welcome further details are sought as to how and where this will be spent. The Bew review provides recommendations as to how this should be allocated and is due out soon. However, the final details of the allocation will be subject to a final decision by Scottish Government.

Next month – harvest update

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This month's editor:
Julian Bell

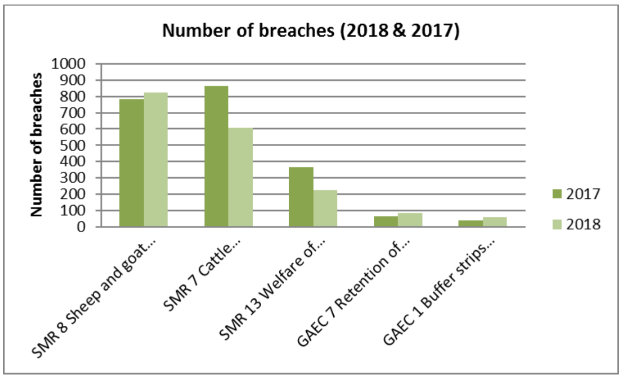
Cross compliance inspection statistics

Cross compliance inspection statistics for 2018 were recently published by the Scottish Government and are available at: https://www.ruralpayments.org/publicsite/futures/topics/inspections/all-inspections/cross-compliance/inspection-outcomes/cross-compliance-inspection-statistics

In 2018 the top five areas of non-compliance were:

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

Compared to 2017, there was a reduction in the number of breaches relating to cattle and animal welfare but an increase in breaches relating to sheep, buffer strips and retention of landscape features, see chart below. Although the actual number of inspections carried out over the two years is not known, the significant reduction in breaches relating to cattle and animal welfare is positive.



The most common reasons for the breaches are not dissimilar to previous years and are as follows:

<u>Sheep and goat identification (SMR 8)</u>

- Lost or illegible identification had not been replaced and/or the record of replacement identification had not been maintained.
- Individual identities of home bred animals, present on the holding, were 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 were not accurate.
- Animals were not tagged or were incorrectly tagged before leaving the holding or reaching the appropriate age.

<u>Cattle identification and registration (SMR 7)</u>

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

<u>Welfare of farmed animals (SMR 13)</u>

- Sick animals were not suitably cared for including where necessary, getting veterinary advice.
- Stockperson does not have the knowledge and professional skills to look after the animals.
- Animals (kept outside) were not protected, when necessary and possible, from adverse weather conditions, predators and other risks to health.
- Medicine records were not complete and available for previous 3 years.
- Animals had not been fed to meet their physical needs.
- Number of deaths were not recorded and had not been kept for the previous 3 years.

<u>Retention of landscape features (GAEC 7)</u>

- Land within 2m of the centre line of a hedge (where the exemptions do not apply) had been cultivated.
- Landscape features had been removed or destroyed without written consent of the Scottish ministers and/or other statutory body.

<u>Buffer strips along water courses (GAEC 1)</u>

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

While not all the listed breaches resulted in financial penalties being applied, penalties of between 1% and 5% were not uncommon, and in some cases 100% penalties were applied for breaches of SMR 13 and SMR 8.

In order to protect subsidy payments, knowing the rules is essential.

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Crops rise, prices fall

World cereal markets fell sharply led by US maize futures where upward revisions to stocks and yield estimates left markets weaker. In Europe, harvest weather has been favourable and most of the harvest is now safely in. Strong export competition and a rise in wheat and barley export surplus has put EU grain prices under downward pressure.

In it's August report the USDA cut 2019 world wheat production estimates by 3.4mt to 768mt, use fell by 2mt to 758.2mt and 2019/20 end stocks fell by 1.1mt to 285.4mt but remain 10mt up on the year (275.5mt in '18/19). The EU wheat crop is expected up 10% (13mt) on 2018 to 150mt.

For coarse (feed) grain such as maize in 2019 the USDA increased production 3.3mt to 1,398.8mt, use fell by 4.8mt to 1,417.5mt and 2019/20 end stocks rose by 8.3mt to 336.3mt but remain 18.6mt down on the year (355mt in '18/19).

In the UK, good harvest results so far indicate a larger than expected surplus of wheat and barley necessitating a stronger export campaign. At the same time the impending risk of a No-Deal on 31st October is forcing grain exports to EU markets to be compressed into the limited time available to avoid the risk of tariffs, adding downward price pressure.

Barley outlook

Barley prices have dropped sharply due to:

- Good yields in Scotland, UK, EU and high level of carry-over stocks in the UK.
- Falling world feed grain prices as US maize crop estimates are raised.
- The UK's need to export as much of the barley surplus as possible; both feed and malting, before 31st October to avoid the risk of a No-Deal and subsequent Tariffs into the EU.

Spring malting barley yields and quality appear to be generally good in Scotland. Initial reports indicate around £140/t ex-farm.

The South west of England has a surplus of around 300kt of spring malting barley normally sent to Belgium and Germany – this has to go before 31st October – further pressuring UK malting barley prices. As a result the UK has seen record weekly trading volumes of barley on the Corn Returns.

The good news is that UK feed barley prices are competitive and export pace is strong though logistics prevent the full surplus being shipped before the 31st October. AHDB estimate that up to 250kt of UK feed barley will be shipped before the 31st October largely to EU markets.

UK feed barley is also good value and domestic demand will grow in the feed sector displacing imported maize.

If you need the cash and don't want to take chances with Brexit then it's hard to avoid the need to sell the barley in the next couple of months while the export market is open.

If you have the storage then holding the barley later into the year usually pays. The big caveat this year is Brexit – No Deal kills EU exports stone dead. There are only 307kt of barley Tariff Rate Quota available at €16/t tariff. Out with that the tariff is €93/t. Focus then shifts to non-EU export markets and the UK is already competitive into Saudi Arabia for instance. There are issues with Scotland supplying these markets – they need <14% moisture, generally big boats are required to service these distant markets. Scotland is not well served – Dundee is the best located deep-water port beyond that its Teeside or Immingham.

Wheat outlook

The UK is expecting a larger surplus of wheat for export following good yields. Like barley the risk of a No-Deal Brexit on 31st October also presents challenges for EU export markets. However, there is a much larger Tariff Rate Quota open to the UK (and other origins) for wheat of 2.4mt at a tariff of €12/t. There are also a wider range of non-EU markets open particularly for milling wheat. Nonetheless, UK wheat prices will remain under time and price pressure to ensure EU exports are maximised by 31st October unless an EU deal or extension are agreed beforehand.

(See page 9 for more on cereal trade and Brexit.)

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Indicative grain prices week ending 23 August 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Aug 2019	Sep 2019	Nov 2019	Jan 2020	May 2020	Nov 2020
Wheat	Ex-farm Scotland	130.00	133.00	135.00	139.00	143.00	142.00
Feed barley	Ex-farm Scotland	118.00	115.00				
Malt. barley - distil	Ex-farm Scotland	140.00	140.00				
Malt. barley - brew	Ex-farm England#	125.00	130.00	134.00	139.00		
Oilseed rape*~	Delivered Scotland	328.00	332.00	337.50			

Little movement in finished price

There has been little to no movement among deadweight price, with prime cattle prices continuing to sit on a similar trend.

The Scottish base price for R4L steers week ending 17th August was around 330-340p/kg/dwt, this is approximately 4p lower than the previous month and some 33.5p/kg back from this point in 2018. Finishers are making a loss of £150 - £200 per head (40p/kilo deadweight) with many commenting that prices are unsustainable currently. Bear in mind that last year was by no means a buoyant one for those finishing cattle.

Base price in Southern England was averaging around 325p/kg/dwt. Over 40p/kg less than in the previous year.

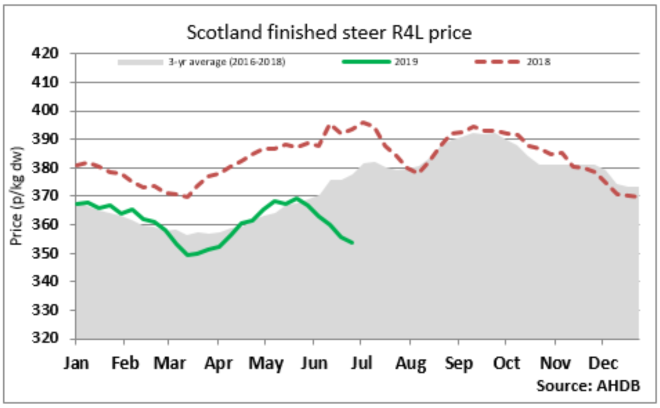
The cull cow trade has been affected by the poor August weather, with the demand for manufacturing beef (BBQs) falling. The demand for BBQ beef has been nothing like that of last year. Cow prices averaged 260-265p/kg/dwt.

Store Trade

Store cattle trade is relatively good considering the low finished cattle price. The finishing trade has not had the effect on the store trade to the extent that one may think.

However with the major store sales about to get underway then a price drop in the store cattle ring may well be around the corner. Without immediate change for finishers it is likely that that the store trade will feel the impact.

On a positive note plentiful supplies of forage could well encourage those contemplating buying in stores to fill sheds this winter. Time will tell.



Consumer Demand

Consumer demand for beef is simply not there, with the ongoing *'beef bashing'* and misinterpretations associated with red meat in the media spotlight now seemingly taking their toll on the market.

A soft consumer market continues to be a theme.

QMS's *'Meat with Integrity'* campaign is set to be broadcast to over 1.8 million Scottish consumers over the next few weeks as a new radio campaign is launched. It is hoped that these adverts along with 'meet the farmer and meet the butcher' will give consumers positivity and help to encourage beef back into the shopping baskets.

The prime market has certainly been affected by the high rolling stocks in chill with chiller space remaining to be pretty full, as there are still some retailers who have concerns over Brexit. The market confusion caused by Brexit has reportedly been a pricing factor throughout the summer.

Retail prices have only fallen by 2.5% over the past year with the big retailers having no desire to lift prices as they battle with those who are clearly focussed on using beef as a loss leader to encourage shoppers into their stores.

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

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
03 Aug 19	**348.0**	-1.9	5.0	**344.0**	0.7	6.6	327.4	-1.5	273.0	248.8
10 Aug 19	**347.8**	-0.2	6.9	**347.7**	3.7	16.8	332.4	7.5	270.9	248.0
17 Aug 19	**349.0**	2.2	12.8	**345.4**	-2.3	7.9	330.5	5.4	369.9	248.0

The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

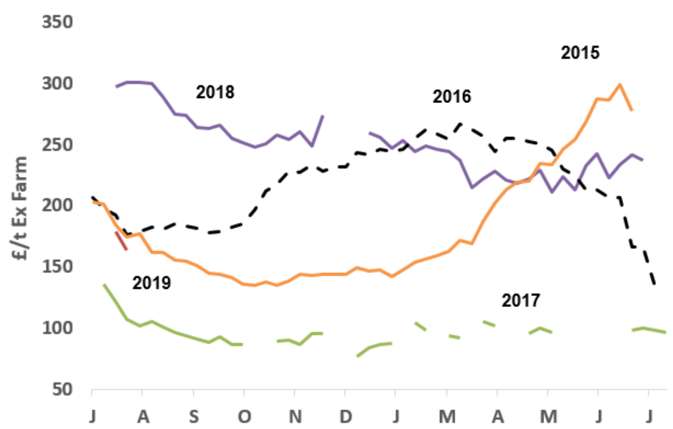
Market price update

- *The GB Weekly Average Prices for the week ending 17th August was £183.28/t for free-buy and contract purchases, and £163.83/t for free-buy purchases.*
- *Compared to the previous reported figures on 10th August, contract and free-buy purchases were up by £0.03/t and free-buy purchases were down by £14.63/t.*

Crop Year 2018/19	17 Aug	10 Aug	29 Jun*
Average Price (£/t)	183.28	183.25	215.55
AVP change on week (£/t)	0.03	-32.3	0.33
Free-Buy Price (£/t)	163.83	178.46	237.42
FBP change on week(£/t)	-14.63	-58.96	-4.38

*No WAPS prices were reported between 29 June and 10 Aug

GB Weekly Average Free-Buy Price (2015-2018 crop years)



Trading Season July - July Source: AHDB

Market Overview

The 2019 crop season is now underway with the first WAPS price reported w/e 10th August at £183.25/t ex farm. The weekly average free-buy price reported w/e 10th August was £178.46/t ex farm. No weekly average prices were reported between 29th June and 10th August.

New crop prices and domestic trade has been relatively subdued for the time of year as most pack houses and processors are covered by contracts. Lifting is reported to be going well across many parts of the UK, but combining on arable farms has taken priority over potatoes. Crop quality is reported to be good but in regions which experienced severe rainfall in recent weeks, the risk of disease is heightened.

In Scotland, Grade 1 Maris Piper is trading around £190/t ex farm, down by around £20/t on last week. Grade 1 whites, reported on 16th August, are trading around £210/t ex farm.

In England, Grade 1 Maris Piper is trading around £175/t ex farm, down by around £10/t on last week. Grade 1 whites are trading around £190/t ex farm, down by around £5/t on last week. Salads including: Maris Peer, Charlotte, Gemson, Jester and Bambino below 45mm are trading around £330/t ex farm, down by around £20/t on last week. Maris Peer, Gemson and Jester 45mm+ are trading around £140/t ex farm. Grade1 Reds coming onto the market are trading around £250/t ex farm with a high of £325/t ex farm reported depending on quality and location.

Prices in the GB bagging market have dropped as supply exceeds demand. In the East of England, chipping Piper is trading around £165/t ex farm, down by around £15/t on last week. Agria is trading around £170/t ex farm, down by £10/t on last week. Prices in the South of England have remained steady with no price movement reported in recent weeks - Agria, Daisy, Sagitta, and Piper are all trading around £190/t ex farm. The processing market is following a similar trend to the packing market with the majority of processors supplied largely with contracted material and showing little interest in any free-buy stocks. Where there is some free-buy movement, peeling piper and whites are both trading around £110-120/t ex farm.

EU shortfall may boost UK trade

Reports indicate that ongoing hot temperatures and drought conditions in Poland, Czech Republic, and Germany may have a significant impact on total production this harvest. Last season (2018/19) production shortfalls across Eastern Europe increased demand for fresh packing Scottish potatoes. This had a positive effect on the Scottish market as UK exporters were able to out-compete traditional suppliers to Poland and Czech Republic. During July 2018 – May 2019, UK fresh exports to Poland (14.8Kt) doubled on average, and those to the Czech Republic (5.6Kt) tripled on average. Typically, Polish import activity is from March onwards usually sourcing the majority of potatoes from Germany (c.30%) and France (c.10%). Due to tight supply availability towards the end of last season, UK exports to Poland made up around 20%.

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Auction market slips post festival

The finished market experienced a bit of a frisson in the run up to Eid-al-Adha. Since, the live ring in particular has dropped while the deadweight price has remained steady. For the coming week (w/b 19th August 19) the trade is quoting a base in the range of 370-380p/kg dwt in Scotland. Farm Stock (Scotland) Limited note that lamb quality has taken a dip of late probably thanks to weather, weaning and a rush to get lambs away for the Muslim festival.

Cull prices have also eased following good demand from the festival, allied to the availability of more old ewes as many flocks wean.

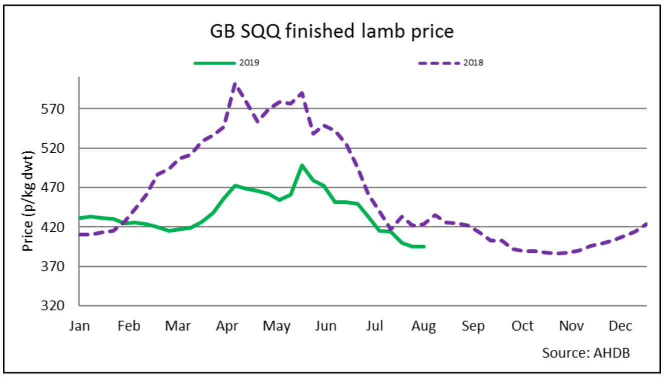
Making most of next two months

If they are ready, get them slaughtered. Of all years, this is not one to moan about the price and run them on, for 31st October is coming rapidly toward us. A forecast for better weather will help as lamb growth rates have struggled of late as weaned lambs have struggled to cope with wet pastures.

Hopefully the finished lamb price will gain some stability. The store buyers are playing their part thanks to an abundance of pasture to chew off. The first Lairg sale was marginally up on the previous year and reports from other store sales were generally good.

Yet despite AHDB estimating the 2019 lamb crop being 700,000 down at 16.5 million and good numbers killed to date, the chances are that the finished price will edge lower. Fears that less ewe lambs will be kept for breeding may be misplaced. Demand has been strong in early breeding sales.

A weak pound helps the export trade, but EU buyers understandably are buying week-to-week. Stockpiling lamb into storage their end would certainly help demand for British lambs in October, though stockpiling into chills is not a normal practice.



Planning for a no-deal

Negotiations between London and Brussels may go right down to the wire. A deal remains very much the preferred outcome for the UK sheep industry. Yet a no-deal Brexit seems increasingly likely. That is, from 11pm on 31st October we will be leaving the EU without a trade deal.

What does that mean? Basically thereafter our sheepmeat exports to the EU will be subject to a massive tariff (tax). Exporting will still be possible (assuming export licencing is in place), but only if processors can buy lambs far cheaper to offset this tariff. Will you be prepared to sell your lambs 30-40% cheaper?

Given continued good throughputs over the next two months, lamb supply will be starting to decline. Nevertheless, there will still be too many lambs for the UK market alone to absorb. A drop in the retail price may help home consumption but is unlikely to be enough to balance the market. Less New Zealand imports will help, and the Kiwis are decidedly concerned about the important UK Christmas market this year. Producers opting to hold onto lambs if the market price drops sharply will either incur extra feed bills or you run the risk of animal welfare issues as feed runs out.

(continued on page 10)

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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
3 Aug	395.2	-4.3	-2.2	8.1	176.0	2.9	0.7	4.8	60.03	56.19
10 Aug	394.3	-0.9	-2.1	4.9	182.0	6.0	3.7	2.6	57.61	54.71
17 Aug	394.0	-0.3	-2.3	5.5	170.8	-11.2	3.6	4.4	58.14	52.97

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

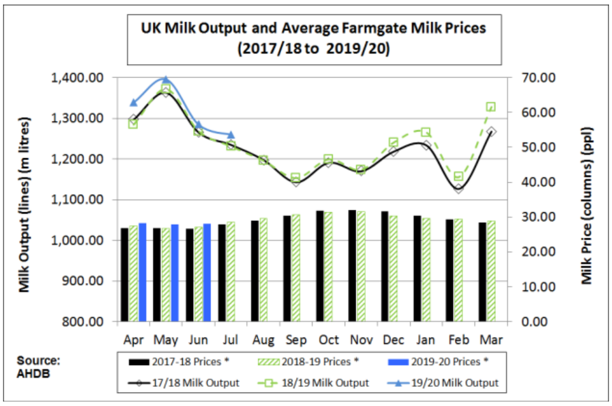
UK production high continues in July

According to AHDB data, UK monthly milk output for July 2019 is estimated at 1,260.48m litres (before butterfat adjustment). This is 29.37m litres above milk output for July 2018. Cumulative UK production up until the end of July 2019 is now estimated at 5,279.71m litres. This means that cumulative production for 2019/20 is 123.30m litres higher than the cumulative total at the same time last year. This reflects the trend of increasing milk supplies across the EU where production for the first three months (April – June) has increased by 145m litres (0.42%) to 35,011m litres.

In Scotland, 2019 continues to be an almost perfect year for grass growth with alternating periods of rainfall followed by sunshine. At the time of writing, fourth cut silage is under way on many farms and several dairy businesses across Scotland will have an excess of grass to be ensiled this year.

The UK average milk price increased during June 2019, rising by 0.25ppl to 28.09ppl. The average milk price for June 2019 is 0.91ppl higher than the average price received in June 2018.

- *UK milk output continues to increase. 2019 production for April - June is currently running at 2.39% ahead of 2018*
- *EU 2019 production is also marginally ahead of 2018*
- *Despite high production volumes, the UK average milk price improved during June 2019, rising to 28.09ppl*



Farmgate prices hold firm into Sep

The main price announcements for September 2019 are summarised below:

- Müller Direct – Müller has confirmed a hold on August 2019 prices for its Direct suppliers. See following table.
- Grahams Dairies – Grahams Dairies has confirmed a hold on its producer price. This maintains the liquid standard litre price at 26.00ppl.
- First Milk – FM has confirmed a hold on August prices going into September 2019 (see following table).
- Lactalis (Fresh Milk Company) – The Lactalis minimum price guarantee remains in place up until the end of September 2019. See table below.
- Arla Foods amba – Arla has confirmed a hold on its conventional milk price for September 2019 (the eighth consecutive month that the company has held its farm gate milk price). The liquid standard litre price remains at 29.05ppl, whilst the manufacturing standard litre (4.20% b/f and 3.40% protein) remains at 30.22ppl. Arla's organic milk price remains at 40.33ppl and 41.97ppl for the liquid standard litre and the manufacturing standard litre, respectively.

Annual Average milk price estimates for September 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	27.13
First Milk Liquid [1, 2]	27.45
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	28.37
Müller - Müller Direct [1, 3]	26.75
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 FM prices include 0.25ppl Member Premium.	
3 No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.	

Dairy wholesale prices weaken

Wholesale prices for cream, butter and SMP all reduced to varying degrees between June and July 2019, with only cheddar prices managing to hold during that time. Cream prices are now at their lowest point since July 2016. This is hardly a surprise given the high volume of milk that's being produced – both at home and abroad. Wholesale prices and the AMPE could struggle at this rate. During the last GDT auction prices reduced by 0.20% with the weighted average price across all products finishing at US $3,255 – confirmation that trade is quite flat at the moment. More recently, the risk of a 'no deal' Brexit continues to weaken sterling against the euro (currently €1 = £0.92) (good news for BPS payments). Looking ahead, the weakening of sterling may help to support dairy commodity values.

UK dairy commodity prices (£/ tonne)	**July 2019**	**June 2019**	**Feb 2019**
Butter	3,150	3,240	3,680
SMP	1,810	1,820	1690
Bulk Cream	1,410	1,450	1,610
Mild Cheddar	2,830	2,830	2,880
UK milk price equivalents (ppl)	**July 2019**	**June 2019**	**Feb 2019**
AMPE (2014)	27.86	28.41	29.30
MCVE (2014)	30.03	30.37	31.42

Source: AHDB

Date for the Diary

UK Dairy Day - 11th September 2019, The International Centre, Telford, Shropshire TF3 4JH.

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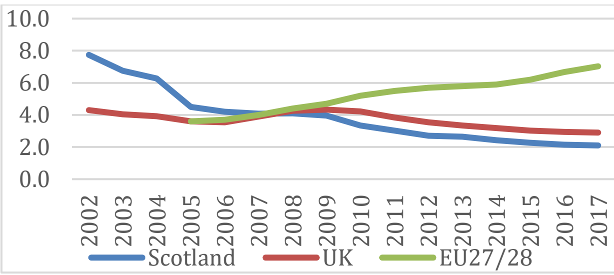
EU organic area grows, UK falls

While there has been much talk in policy in recent years and months of the concept of 'public money for public goods' delivering more agro-environmental farming practices, organic land area in both the UK and Scotland has dipped to its lowest point since before the millennium.

The early 2000's saw a peak UK organic area (4.3% in UK; 7.7% in Scotland). While the recession created some drive to expand and add value to production in the late 2000's, and 2017 saw an increase in area of 1.87%, this has failed to reverse the trend of decline for the sector.

On the contrary, overall EU figures have seen an increase in organic area from 3.6% of total agricultural land in 2005 to 6.7% in 2017, growing 25% over the 2012- 2017 period alone.

Organic as percentage of agricultural land area



Source: Defra, 2019

Not all organic sectors made equal

However, much of the drop in organic area is due to large reductions in the area of certified organic grassland, particularly in upland areas of Scotland, misrepresenting the overall picture. There has also been a large UK reduction of cereal area by 38% and fruit and veg by 48% since peak production in 2009. However, these together account for just 10% of total organic area. Numbers of cattle, pigs and poultry have also remained relatively stable over the last 15 years, with only sheep numbers in Scotland, Wales and N Ireland (combined) showing notable decline. Given the organic lamb premium of just 10p/kg, compared to 100p/kg for beef, this is not surprising.

Percentage organic farm area by type 2017

	Scotland	UK	EU
Pasture	93%	86%	45%
Cereals	4%	7%	16%
Other	4%	7%	39%

Scottish Government 2018

Organic producers & processors rise

Interestingly, while total organic area in the UK has decreased, the number of organic producers and processors have both increased (3,544, +2% since 2017). Although this might indicate a shift away from larger farms to smaller-scale producers, factoring in the reduction of grassland (particularly in Scotland) would suggest that the size of other remaining producers may have not changed significantly.

Sales in the organic food market

In contrast to trends of reducing UK organic production area, the UK organic market is currently worth £2.33 billion, its highest ever value, having seen seven years of growth (5.3% in 2018) (Soil Association, 2019).

Continued growth of consumer demand and interest for food with high welfare or environmental credentials is likely to be a part of this trend, and areas of growth, such as in organic convenience food, food service, and processing, offer opportunities to add value. Food and drink processing accounts for 30% of Scottish manufacturing turnover and 25% of jobs, and with 26% of Scottish primary produce used for this processing, Scotland is well placed to expand further.

Policy and market opportunities?

High welfare standards and food quality are a key selling point for the UK agri-food sector, and one the industry is keen to protect to support UK food products in post-Brexit trade. With welfare and quality being an integral part of organic certification, as well as policies outlined in the Agriculture Bill of payments to support agri-environment practices and schemes on-farm, there seems much opportunity for organics to provide markets and support farming businesses post-Brexit.

However, in the near future, the EU leaf logo cannot be used after 31st October unless equivalence is agreed, and until then certified products could not be exported to the EU (around 8% of the market). Whether this is achievable, for a limited time or long-term, and how soon after Brexit is yet unsure. The government has stated it will be developing a UK organic logo in consultation with industry after EU exit.

Ensuring export markets are maintained, particularly to the EU, will be a matter of priority in ensuring opportunities for organic sectors in the coming years.

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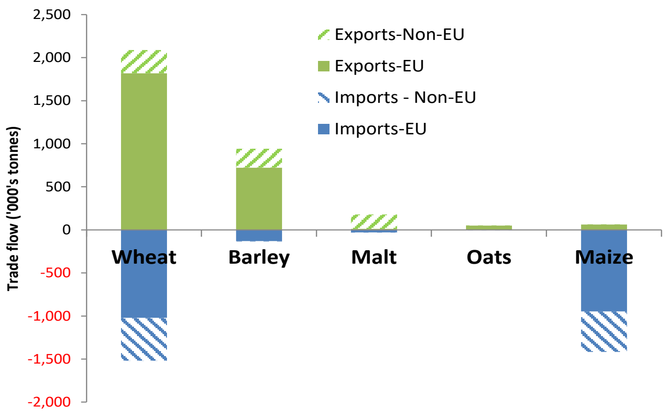
No Deal cereal market impacts

The UK cereal sector is facing a number of implications from a No Deal Brexit if it comes to pass on 31st October. Most critically, autumn and early winter are typically the peak times of year for cereal export trade and No Deal threatens to complicate or block trade with the EU. Over the last few years the UK has had a relatively reduced need to export grains but given the good yields and higher winter plantings this season the UK is expected to have a large export surplus.

UK cereal trade to EU and Non EU markets – annual average 2013-2017



Source: AHDB

In recent years Scotland has not been a significant exporter of cereals however our prices are closely linked to those in the south of England where cereal exports help drive the market. This year the UK is expecting a larger surplus of wheat and barley due to higher winter cereal sowings and good yield prospects so there will be more pressure to export than the previous couple of seasons. In Scotland it is mainly feed barley that is exported and only in years with a big crop. Given the good yields Scotland is seeing there may be a surplus of feed barley this year and exports are underway.

Grain tariffs in a No Deal

If the UK leaves the EU without an agreement on 31st October trade in grains will immediately be subject to WTO terms. The UK will be treated as a 3rd country supplier by the EU and will face the EU's external tariff barriers as a result. The UK on the other hand has agreed to drop all import tariffs for grains for the first 12 months upon departure. This means that while UK exporters would face barriers exporting to the EU, grain imports will be free to flow into the UK tariff free; a potentially very uneven playing field for UK farmers.

The main export barriers into EU markets are:

- Tariffs which are effectively a tax on imports on a € per tonne or % basis, and;
- Tariff Rate Quotas (TRQ). TRQ's allow imports of specific tonnages of product to enter a country at preferential or zero tariff levels.

The main tariffs and TRQ's that would apply to UK grain exports to the EU are detailed below.

Table 1 – EU import barriers for UK cereals

Grain	TRQ	Tariff in TRQ	Tariff outwith TRQ
Wheat*	2.5mt	€12/t	€95/t
Barley	0.3mt	€16/t	€93/t
Oats	N/A	N/A	€89/t

* common soft wheat, low quality milling/feed

Wheat - There are 2.5mt of tariff rate quotas available into the EU at €12/t tariff. Once used up there are third countries to export to such as N. Africa. Exports will be easier if the quality of wheat in England is good with decent Hagbergs so that the wheat can go into milling. If the surplus is feed quality then it may have to be cheaper still and travel further afield. The effect on UK wheat prices in a No Deal could be £10/t lower if supplying the EU and anything from; unchanged to £5, £10, £15/t+ lower into non EU markets.

Barley - In a No Deal, barley exports to the EU are more restricted than wheat as there is only a small TRQ of 307kt and none for malting barley. England typically export 300kt of malting barley to Belgium and Germany and will be racing to get this away by October. If they do not some may make 3rd country markets, or come back to haunt Scotland's own distilling markets.

Oats – There are no TRQ's for oats making EU exports a non-starter and with a larger crop this year, non-EU markets may be required, most likely into the US which is not straightforward to supply.

All grains - cheaper domestic grain could displace imported maize and other feed ingredients so a price floor could be set as a discount to imported maize.

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No Deal and the sheep sector (continued from page 6)

Talk of government paying support on breeding ewes will not address the oversupply problem in the short or long-term. Further, it would be difficult to target if, for instance, based on a previous Census figure (remember not everyone submits a Census!). In particular, despite the important role they play in balancing the market, store lamb finishers would get no help while producers that have sold all of their lambs by mid-autumn will have gained a handy windfall.

Keeping lamb exports flowing by compensating processors (who would be compelled to pass the benefit onto farmers via better farm gate prices) appears a better option. Yes, this could be challenged via the WTO but even the Kiwis (and EU) would probably accept the market calming benefits of such a policy if persuaded of its one-off, emergency nature.

However, the real problem is the 2020 lamb season. New export markets and more domestic consumption may help, but cannot maintain mid-season farm gate prices anywhere near levels of recent years. Producers in kinder parts of the UK can perhaps lamb a little earlier and feed hard to get more lambs away by mid-June. But the cost will likely outweigh the benefit for most producers.

No doubt some farmers will seek to cut production. An option perhaps where already farming at scale and have a clear opportunity to make a significant cut in fixed costs or do something different. But substituting sheep with an alternative enterprise will not be possible for most businesses. No one is rushing to lift suckler cow numbers at present!

Should government fund a ewe reduction scheme? Probably, yet if the 2020 lamb crop is to be reduced to a sustainable number the UK government will need to act quick to have any chance of influencing this autumn's mating plans. Tricky given that tups will be in for March lambing flocks by early October. If we do exit without a deal, the UK government will need some clarity of thought in mapping out a clear long term strategy for the sheep industry. No woolly promises!

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Key economic data

General Indicators		Price indices for June 2019 (Defra 2015 = 100)			
		Output Prices		**Input Prices**	
Base interest rate	0.75% (0.50% Aug '18)	Wheat	132.30	Seeds (all)	103.6
ECB interest rate	0.00% (0.05% Mar '16)	Barley	128.14	Energy	125.9
UK (CPI) inflation rate	2.1% (target 2%)	Oats	145.14	Fertiliser	103.9
UK GDP growth rate	-0.2% (Q2 '19)	Potatoes	150.45	Agro-chemicals (all)	119.2
FTSE 100	7,273 (6 Sep '19)	Cattle and Calves	98.19	Feedstuffs	117.2
		Pigs	115.19	Machinery R&M	109.2
		Sheep and Lambs	117.45	Building R&M	113.0
		Milk	114.68	Veterinary services	115.1

SAC Consulting 2019. SAC Consulting is a division of Scotland's Rural College (SRUC)
This publication is funded by the Scottish Government and EU as part of the SRDP Farm Advisory Service

SAC Consulting, Rural Business Unit publication
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