Farm Advisory Service

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September 2021

News in brief

Supply chains under pressure

While the pingdemic madness has abated, the pandemic is well and truly riding the crest of the next wave causing significant pressure throughout the supply chains. The resultant shortages of goods, hauliers and staff are driving up prices, squeezing margins, and in some areas rationing has been introduced in an attempt to avoid panic buyers emptying shelves. With the weather oscillating between heatwaves and monsoon season, and no-one truly being able to say how harvest is going to turn out this year as concerns over grain quality rises.

With the modern world seemingly feeling as if it is against us at every turn, bizarrely, looking to the past could be the way forward. Covid aside, working with nature rather than against it, could provide the solution to many of our current problems. Regenerative and organic farming work on the holistic premise that ‘get the soil health right, and crops, livestock, farmers *et al* will benefit’. “Easier said than done!”, I hear you say – very true but with COP26 now firmly on the horizon, the focus going forward is very much on sustainability. However, the important aspect for everyone to bear in mind is that sustainability is linked to people and profit as well as the environment; a point very much at the heart of the farmer-led groups who set the stage for the new gender balanced Agriculture Reform Implementation Oversight Board (ARIOB) tasked with delivering a new future for Scotland.

On a positive note, and very much linked to people and profit, in the absence of most agricultural shows for a second year running, diversified faming businesses now have the opportunity to showcase their innovative talents by applying for the new Agriscot Diversified Farm of the Year award; application link on Page 7. Closing date for applications 20th September.

Next month:

- VAT changes
- Potato and cereal harvest updates

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Christine Beaton

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

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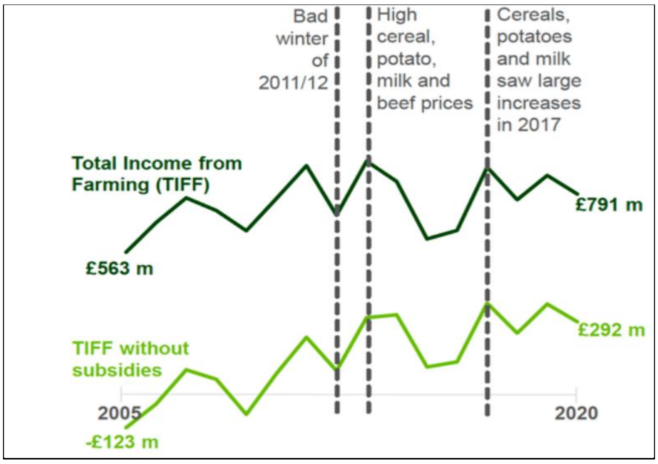
Total Income from Farming

Each year the Scottish Government publish Total Income from Farming (TIFF) figures, which is the official measure of the profit gained by the agricultural industry. A summary of initial estimates for 2020 are included below.

TIFF was estimated to be £791 million, down 10% compared to 2019; TIFF without support is estimated to be £292 million, see chart below.

While TIFF fluctuates year to year, since 2010 profitability of the sector has remained consistent, with a ten-year average of £793 million. Since 2010 the value of farming output has risen 23%, but this has been offset by a 15% rise in input costs.



Source: Scottish Government

Total output from farming in 2020 was estimated to be £3.45 billion compared to £3.23 billion in 2019. While there was a marginal increase in value across all livestock, the increase was mainly due to an increase in the value of vegetables (+27%), pigs (+26%) and eggs (+17%).

Total input costs increased from £2.83 billion in 2019 to £3.14 billion in 2020, mainly due to an increase in feed, labour, and consumption of fixed capital (depreciation), and to a lesser extend an increase in fertiliser and lime costs. Fuel and machinery costs decreased slightly.

Total support payments to farming in 2020 fell by 2% to £452 million; of this amount £275 million are Basic Payment Scheme payments and £177 million are indirect payments.

NBPSS21 loan scheme

Payments of up to 95% of 2021 CAP BPS and Greening payments should start to be paid later this month to farmers and crofters who requested receipt of the loan. As loan offer letters were sent to eligible applicants at the end of August, farmers and crofters who wish to accept their loan are advised to do accept the offer before the 17th of September to avoid payment delayed. The closing date for applications will be announced later in the year. Applications can either be done:

- Online by going to and entering the Business Reference Number (BRN) along with a unique access code (found on the loan letter) https://account.ruralpayments.org/loans
- Sending an email indicating the wish to accept the loan to NationalBPSScheme@gov.scot, or
- By completing and detaching the opt-in part of the loan letter.

Consultation on supporting local food

The Scottish Government have launched a consultation to obtain ideas on what more can be done to ensure more people can enjoy locally produced food and to seek views on the development of vertical, low carbon farms, to produce more Scottish fruit and vegetables.

Part A (Section 1-3) of the consultation presents the three pillars of the Scottish Government's local food strategy - connecting people with food; connecting Scottish producers with buyers; and harnessing public sector procurement. It aims to start a conversation about local food in Scotland, inviting contributions about how everyone involved in food in Scotland could work together to build a food system based around quality local production and short and circular supply chains, to make high quality Scottish produce available to all.

Part B (Section 4) provides an overview of vertical farming, a technology which may be able to help Scotland increase its local food production and bring food production closer to the consumer. The consultation contains questions on vertical farming which are primarily focused on people and businesses in the food supply chain, as well as inviting suggestions on other technologies which would help Scotland produce more of its own fruit and vegetables.

The consultation will close on the 26th of November, further information including details of how to respond can be found at: https://www.gov.scot/publications/local-food-everyone-discussion/pages/3/

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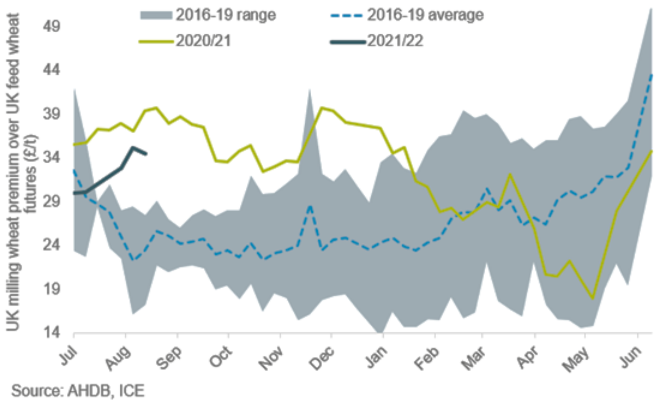
Wheat quality a concern

Quality and supply issues, both here in the UK and in Europe, are keeping markets underpinned, with strong demand for European wheat a key supporting factor. Consequently, Nov-21 feed wheat futures have firmed £10/t over the last month to trade at £195.75/t as the month of August closes out.

The UK wheat harvest continues to frustrate for many, with rain hampering progress and reports that wheat quality is slipping as time goes on. Results to date remain variable but suggest both protein content and bushel weights are lower than 2020. The more optimistic earlier projections of an overall 15Mt harvest for the UK may yet see a downward adjustment.

Poland, Germany, and France, the latter two both key import origins for UK wheat supply continue to report quality issues. Chances of an improving picture as the harvest moved north through Europe have not materialised indicating a higher-than-normal feed wheat supply and potentially the need for increased feed exports beyond the EU. The situation may well be compounded in view of Russia's move to reassure the market that there would be no shortage of grain for both domestic and export markets on the back of disappointing yields (3.07t/ha) and farmer retention issues.

UK Milling wheat premium over futures (Source: AHDB, ICE) © *AHDB [2021]. All rights reserved*



Milling wheat premiums over feed currently sit higher than the historical 5-year average although not as strong as last year considering the increased plantings in 2020 (Figure 1). All the aforementioned factors indicate a potential premium could be gained in holding quality varieties (distilling included) that come into store with good Hagberg and specific weight.

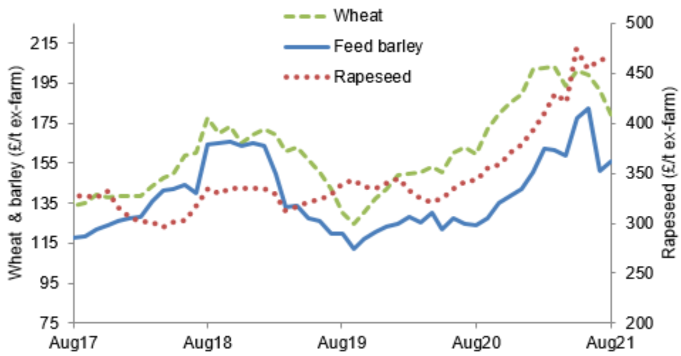
Increasing dependency on South American corn

Since the release of USDA's first 2021/22 forecast in May, the outlook for global wheat supplies has fallen 2% to 2283Mt with global end stocks being cut by 5% to 589Mt, the lowest level in 5 years. Canada, by example, has now downgraded its wheat crop to 22.9Mt (-34.8% y/y) as drought conditions continue in Western Canada. Markets are now relying on South American maize (and soyabean) crops to support global supplies; however, soils are already dry as planting begins in Brazil and there is an increasing expectation that another La Nina event will exacerbate the dry conditions which will affect Argentinian crops too.

Malting Barley

Malting barley prices remain firm off the strength of the grain complex generally and an eroding confidence in the quality and quantity of the European crop, especially in Germany. Reports from Denmark and Scandinavia are more favourable on quality.

UK grian and oilseed prices (£/t ex-farm) (Source: AHDB, ICE) © *AHDB [2021]. All rights reserved*



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Indicative grain prices week ending 31 August 2021 (Source: SACC/AHDB/trade)

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

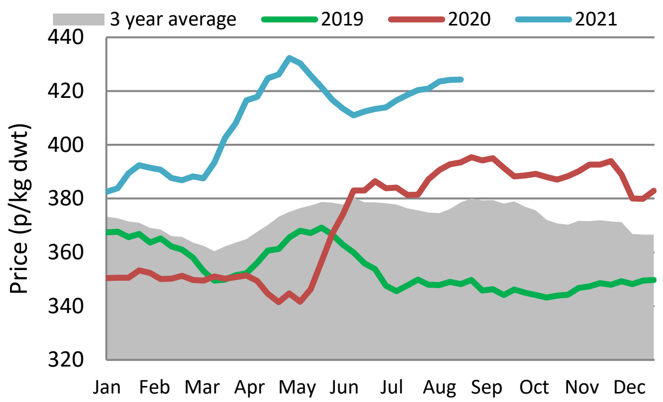
£ per tonne	Basis	Jul '21	Harvest '21	Nov '21	Mar '22	Nov '22
Wheat	Ex-farm Scotland	205	179	195	200	178
Feed barley	Ex-farm Scotland	155	156	161	180	158
Malt. barley- distil	Ex-farm Scotland	200		175		
Malt. barley- brew	Ex-farm England#			185	195	
Oilseed rape*~	Delivered Dundee		470	477	482	395

B e e f

Prime beef prices have been steady in August with the anticipated rise in price not materialising due to a combination of flat demand and processor throughput being limited by staffing issues.

This is now week 24 of the R4L price being over 400p, with prices being above 380p for more than a year now. Prices continue to be driven by reduced numbers and strong retail demand as retailers continue to support the British product.

Scotland finished steer R4L price



Cull cow trade remains solid with R4L cows being quoted over 345p. Whilst lack of numbers was a concern earlier in the year; challenging weather and lack of grass in certain areas has brought more cows onto the market and with weaning and scanning not far away; it is anticipated the price will ease in the autumn as more become available.

The **store cattle trade** remains strong even with increased numbers available, finishers are keen to restock whilst the beef price is high. Weather conditions in coming weeks will dictate the numbers of store cattle coming forward. Feed prices and straw availability look to be some of the main challenges facing finishers putting margins under pressure. Feed companies are advising farmers to plan and order ahead as supply chain issues may impact on the availability of supplies.

Exports – compared to the first six months of 2020, 2021 figures shows UK exports to the EU to be 30%, but UK exports to outside of the EU only fell by 9%. It is thought that the reduced production in the UK and high price and demand in the UK lead to the reduction in exports with Brexit border controls having an additional impact on UK exports to EU. **Imports** were down 11% for the first six months of the year, with the covid restrictions impacting the hospitality sector combined with the Irish kill being around 6% less than last year.

With **COP26** on the horizon, the noise around emissions from beef production continues to rumble on. Worryingly, with the current emissions targets not yet met Governments may look for a quick fix in order to hit these targets. KPMG's impact report for Northern Ireland on the effects of reducing cattle numbers to meet net zero targets highlighted that an 86% reduction in numbers was needed to hit the targets potentially causing a 98% reduction in the number of LFA farms and a 79% reduction in the number of lowland farms as they would be unviable. The knock-on effect on the local economy would be catastrophic with feed companies, machinery dealers and food processors all being hit hard too. It is understood that were this level of reductions to happen in Scotland the impact would be similar.

Ironically and worryingly, the Brazilian Beef Exporters Association announced that Brazil was looking to increase cattle numbers by 24 million head by 2030 to meet global demand as many western countries look to outsource beef production to meet climate change targets.

Surely, now is the time for all Governments to understand the value of sustainable beef production systems in terms of food security, welfare standards and environmental footprint to avoid this out of sight out of mind mentality regarding GHG emissions?

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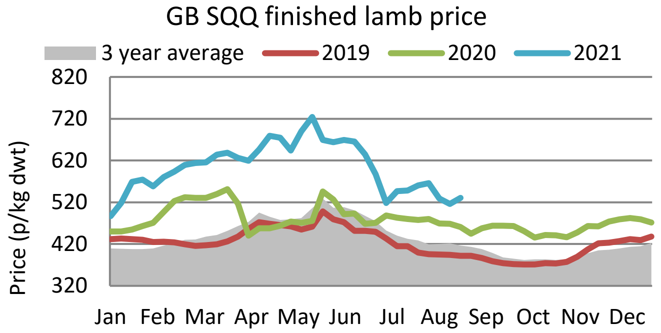
Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB and IAAS data)

Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bulls - U3L		Cull cows	
		Change on week	Diff over North Eng.		Change on week	Diff over North Eng.		Diff over North Eng.	R4L	-O3L
Aug-21	**423.6**	2.6	9.8	**422.1**	3.0	7.4	416.0		348.6	318.8
14-Aug-21	**424.1**	0.5	8.5	**421.0**	-1.1	4.8	415.4		348.1	318.9
21-Aug-21	**424.3**	0.2	7.6	**422.4**	1.4	9.0	418.8		345.1	317.6

Trade News

Sheep markets are still looking very favourable, with both live and dead markets showing a clear price rise over the 3 year average. The SQQ for deadweight for the week ended 21st August was 530.6p/kg (an increase of 14.8p/kg on the week) and the SQQ for live weight for the week ending 21st August was 238.67p/kg (an increase of 0.56p/kg on the week).



Source: *© AHDB [2021]. All rights reserved*

Cull ewe sales are holding up exceptionally well, with an average for the week ending 21st August of £77.27/head. Comparing this to the same week last year, the price is up ~£14 per head. There is a scarcity of ewes, with the kill being 15% back on last year which is driving this price This may be due to higher deaths in ewes through the hard winter, some selling draft instead of cull and/or keeping fresh old ewes to aid flock expansion.

The store lambs sales are progressing well, with many lambs at a £6-8/head premium compared to last year. The finishers had the majority of the margin last year, with the uplift in price, so many store producers welcome the increase in value for this crop of lambs.

Pedigree tup sales are well underway, with excellent levels of clearance and averages on the whole being up on the year. Many female breeding sales will commence in September, and it is forecast that there will also be a premium for these on the year.

Exports Reduced

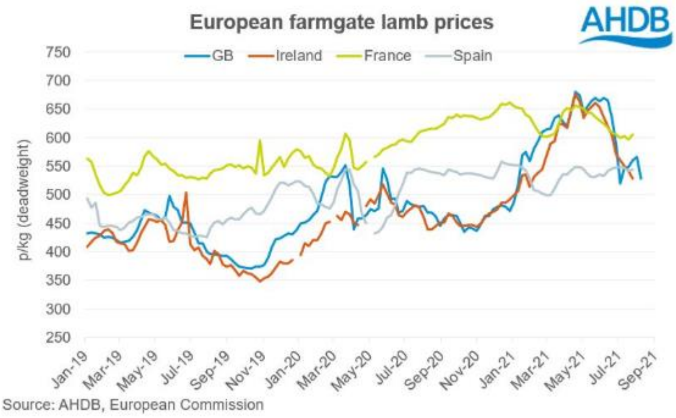
It has recently been reported by AHDB that lamb exports to Europe were 35% lower in June, compared to 2020. With reduced product going to France, Ireland, Germany, and Italy. There are various possible causes for this decrease, the first being the lack of availability of shipping containers and hauliers, the second being the premium price on our product and the third being the ongoing covid restrictions, which are reducing the demand from the service sector in Europe.

European Dead Weight Price Shift

July has been the first month this year, when our lamb deadweight price has dipped below the French, which may aid our exporting volumes. The table below shows an example of the price difference currently, and for the year to date, the currency used here is euros. Below this compares in graph form (expressed in p/kg).

	€ (w/e 14/08/21)	Average € 2021
GB	€6.08	€7.01
France	€7.07	€7.21
Spain	€6.35	€6.19
Ireland	€5.93	€6.79
Australia	€5.11	€4.88

Source: Irish Food Board



You will note in the above that the lowest price shown is Australia, compared to the European countries. This will be an interesting figure to follow, as the early season lamb has started hitting the market in Australia, and this week record breaking high prices have been reported in the Eastern side of the country, with an increase in 66c over the week to an average of 958c/kg.

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Wk 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
7-Aug-21	**527.1**	-37.2	-4.4	-1.0	**219.70**	-24.0	2.8	-0.9	83.47	83.08
14-Aug-21	**512.0**	-15.1	-10.8	-5.2	**235.00**	15.3	2.4	0.8	84.07	82.34
21-Aug-21	**526.1**	14.1	-10.6	-0.2	**234.40**	-0.6	4.7	1.9	77.27	76.79

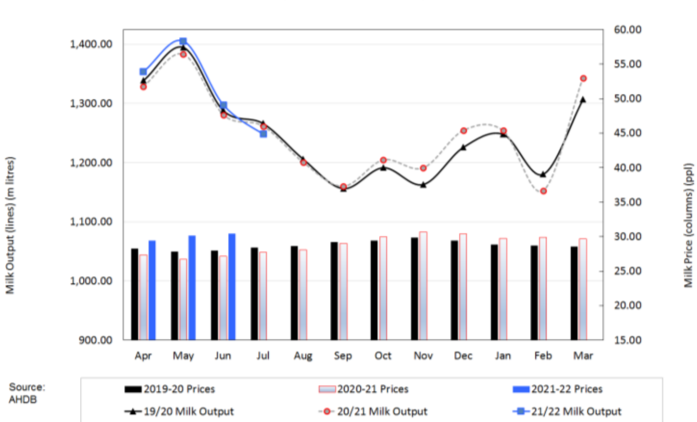
UK milk output contracts

Milk output has contracted during July, following a spell of dry weather. Supplies look set to tighten further during August according to daily milk production figures for the first half of the month.

AHDB estimates indicate that production for July dropped to 1,248.23m litres (before butterfat adjustment). This equates to a year on year drop of 13.31m litres compared against July 2020.

Cumulative UK milk output up until the end of July 2021 stands at 5,305.87m litres (51.63m litres up on the same period last year). According to AHDB, GB daily milk output for the middle of August is between 1-2% lower than last year. On this basis, the outlook is for supplies to tighten slightly.

UK Milk Output and Average Farmgate Milk Prices (2019/20 to 2021/22)



AHDB reports indicate that the UK average milk price increased between May and June 2021, with prices for June averaging 30.41ppl, compared with 30.11ppl for May 2021. Prices for dairy commodities have increased across the board as milk supplies tighten – both at GB and world level.

UK dairy commodity prices (£/ tonne)	Aug 2021	July 2021	Feb 2021
Butter	3,290	3,230	3,150
SMP	2,130	2,110	2,070
Bulk Cream	1,563	1,508	1,335
Mild Cheddar	3,000	2,980	2,940
UK milk price equivalents (ppl)	**Aug 2021**	**July 2021**	**Feb 2021**
AMPE (2020) *	32.10	31.59	30.85
MCVE (2020) *	33.46	33.43	32.47

Farmgate price update: Sept 2021

With GB milk supplies reducing, the expectation might be that farmgate prices will increase further but that is not the case. Price announcements confirmed by UK milk buyers for September 2021 are:

- First Milk – FM has confirmed a hold on farmgate prices up to 1st October. See milk price table.
- Arla Foods amba – Arla has confirmed a 1.00 euro cent price reduction from 1st September 2021. The manufacturing standard litre price reduces by 0.90ppl to 32.30ppl, whilst the liquid standard litre price reduces by 0.87ppl to 31.08ppl.
- Arla organic supplies – Arla's organic milk prices also reduce by the same level from 1st September 2021. The manufacturing price reduces by 0.90ppl to 40.66ppl whilst the organic liquid standard litre reduces to 39.12ppl.

Annual Average milk price estimates for September 2021 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	29.75
First Milk Liquid [1, 2]	29.99
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	31.00
Müller - Müller Direct - Scotland [1, 3]	28.75
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 2021.*	
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.*	

Rising input prices impact

Input prices have risen dramatically during the past few months, and this is now impacting at all levels of the dairy supply chain. At farm level, farmgate milk prices are on a relative high but input costs (esp. feed, fuel, and fertiliser) are rising much quicker and this is now impacting on margins – a fact that is demonstrated by the reduction in the milk to feed price ratio which has recently dropped below 1.2ppl.

Similarly, milk processor operating costs have rocketed for fuel, transport, energy, and for packaging. Indeed, it is reported that the recent reduction to the Arla member milk price for September has been triggered not by falling returns from the market but by growing inflationary costs.

Arla report on farm carbon audits

A new report from Arla Foods outlines some of the steps being taken by supplying farms as the company strives to achieve a 30% reduction to farm emissions by 2030. The report – titled *A Sustainable Future for British Dairy* – claims that Arla suppliers are producing milk with 1.13kg CO_2e per kg of milk. The carbon footprint for each member is produced through the Arla Climate Check programme which was launched last year. The results from year one of the programme identify six key areas where emissions are produced. These are:

- cow digestion (46%)
- cow feed (where and how it is produced) (37%)
- manure handling (9%)
- energy production and usage (5%)
- emissions from peat soils (1%)
- all other areas grouped together (2%).

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Diversification

What does it mean to farming businesses? How does the industry view it?

The appetite for diversification amongst farming businesses remains strong. Although support schemes that allowed for starting up new primary production enterprises or renewable micro-electricity generation closed a few years ago, the evidence suggests that farm diversification into Agri-Tourism is replacing a portion of those diversification activities.

In Scotland although Agritourism is already taking place in accessible scenic regions and in areas close to population centres; across the west coast and Inner Hebrides, a very high proportion of farmers plan to invest in agritourism related activity in the near future.

Economic Benefits

Beyond Agritourism, the evidence for the economic benefits of diversification on farm are compelling.

Results in Scotland over 5 years of data gathering in the Scottish Farm Business Survey shows that farm business income (net profit) is consistently 2 x higher in farms that operate diversified activities3 (see table 1). These activities are modest in scope, but their impact economically is significant. The consistency of income over 5 years is also clear.

Table 1: Diversified activity and incomes 2015-16 to 2019-20 (2019-20 prices)

	2015-16	2019-20
Number of farms	349	349
Percentage of farms engaged in diversified activity	52%	55%
Average diversified income of farms with diversified activity	£7,485	£9,144
Average diversified income of farms with diversified activity (% of FBI)	28%	22%
FBI diversified farms	£26,826	£40,740

Diversified activities often provide stability in cash flow and can bring in income at times of the year for farming businesses out-with the farming norms, leading to greater financial stability for that business.

However, what does diversification mean for your business? In this context, it is anything that uses existing farm resources, from land to product, to create a new income stream. It's a broad church, and can cover alternative livestock production, adding value to primary produce, right through to adding capital value e.g., a suite of luxury self-catering cottages. Many diversified activities have the capacity to generate a new way of doing business for farming operations.

Diversification activity on farms in Scotland continues to power a range of innovative farming businesses, delivering a margin that becomes available for the farm. The diversification relies on the farm for its existence, and critically it would not stand alone without that farming backdrop.

Agriscot Diversified Farm of the Year Award

To that end industry leadership recognises the innovation and creativity in these diversified businesses. What was originally a dairy event, Agriscot is now one of the leading agricultural industry events in the UK. It's stable of awards for primary production in dairy, arable, beef and sheep showcase innovation and industry leading farmers in their specialism and delivers fresh thinking and leadership into those sectors.

Diversification is now seen as a significant part of a modern farmer's skill set, and in recognition, this year Agriscot has launched its Diversified Farm of the Year Award, facilitated by SAC Consulting, and sponsored by the Royal Bank of Scotland.

Did you decide that instead of selling your milk wholesale, you wanted to add value, and turn it into yogurt for sale direct to the consumer? From rapeseed oil producers to on farm education centres, all are welcome to enter for this award.

Click here for more information/to apply.

Entries close on **Monday 20th September**.

For further information see:

- *https://www.hutton.ac.uk/sites/default/files/files/research/srp2016-21/rd242outputs/Hotspots_of_farm_business_diversification_in_Scotland_RD242_published.pdf*
- *https://www.salzburgglobal.org/fileadmin/user_upload/Documents/2010-2019/2014/534/Embacher__Hans._Farm_Holidays_in_Austria_-Strategy_and_Contributions_towards_Sustainability.pdf*
- *https://www.gov.scot/publications/scottish-farm-business-income-annual-estimates-2019-2020/*

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Regen ag has a growing fan base

Articles on regenerative agriculture (regen ag or RA) are filling the press. News that big companies like McCains (Pepsico) will be encouraging their farmer suppliers to use RA practices, underlines its growing popularity. But what exactly is regenerative agriculture? Is the call for more RA supported by the science, or is it simply green marketing?

Soil health is the cornerstone of RA

RA is ambitious in scope but ill-defined. Broadly, by getting soil health right, crops, livestock, farmers, and all else will benefit. Holistic is a wholesome word commonly linked with RA; while some people suggest that it is organic farming plus, elsewhere it is seen as a steppingstone to organic given it allows the use of some synthetic inputs prohibited by organic bodies.

A look at crop farming suggests that RA has much in common with current best practice. It is generally accepted that the soils of specialist crop farms (i.e., where no livestock are run) have low levels of organic matter and carbon. Ploughing, agrichemicals, fertiliser, tight rotations, and big fields may be the preferred way to seek a profitable return, but are generally negative for carbon, biodiversity, and water quality. So, in recent years crop farmers have been encouraged to: adopt minimum tillage, incorporate crop residues, plant cover crops, grow a greater range of crops and set-aside strips and poorer quality areas for growing wildflowers. Most proponents of RA would support these measures along with introducing livestock.

The good news is that no-till systems can compete with conventional plough-based systems on profitability. While yield is typically lower under no-till, lower machinery costs can offset the drop in output. Moreover, potentially greater labour productivity allows one person to crop a bigger area further boosting profitability.

The problem is the practicality of no-till (and min-till) for many Scottish crop farmers. Long term trials in the early 1970's concluded that direct-drilling was a good system for farms with the right soils (chalky loams) and weather (relatively dry). A late difficult harvest in Scotland can result in rutted areas that only a plough can reinstate for the following crop. Nowadays there is also less natural cracking from frosty winters and dry summers owing to climate change. Still, ongoing trial work aims to lower the riskiness of no and min-till systems here in Scotland.

RA livestock systems are tenuous

As with cropping, proponents of RA point to the benefits of soil health for livestock farming. Yet that presumes that conventional farming results in unhealthy soils. A sweeping generalisation unlikely to be supported by empirical data collected under British temperate conditions. Farmers using modern controlled grazing (and animal health) systems, will have healthy soils and livestock. Of course, conventional farmers that don't practice "good" conventional livestock farming may well have soil, pasture, animal, and profitability problems.

While the mob grazing approach advocated by RA fans has much in common with controlled grazing systems, there are some big differences.

- Pasture quality is critical to milk yield and livestock growth rates. Lax grazing of very high pasture covers reduces pasture quality.
- Not only will grazing all stock classes in one big mob overfeed some stock while underfeeding others, it makes feed planning difficult.
- Dung/compost cannot compensate for the targeted application of synthetic fertilisers (and there will be less available if the crop farmers are chopping all their straw!).
- Healthy conventional soils with high organic matter are full of soil organisms, humates and fulvates. Adding a few kg/ha of bio-stimulants will have little impact.
- Establishing pastures with highly diverse seed mixtures is difficult especially if direct drilling. Under lax grazing, the unpalatable "weed" grasses would be expected to quickly dominate further lowering feed quality.

The economics of RA grazing systems also look suspect. Unless a big per head price premium (e.g., organic) is available to compensate for the lower stocking rate; and/or, much bigger flocks or herds run per person, profitability will be lower than under well run conventional farms.

A curate's egg

Proponents of RA are right to highlight the negative impact of conventional farming on soil health. But with the important qualification that this is the outcome from poorly managed conventional systems. Many of the RA practices advocated for crop farms are already best practice in conventional systems, though encouraging livestock (the golden hoof) back into crop rotations may require a policy nudge. The science of RA measures in livestock farming, however, can be challenged. But so too the poor sustainability of many conventionally run farms.

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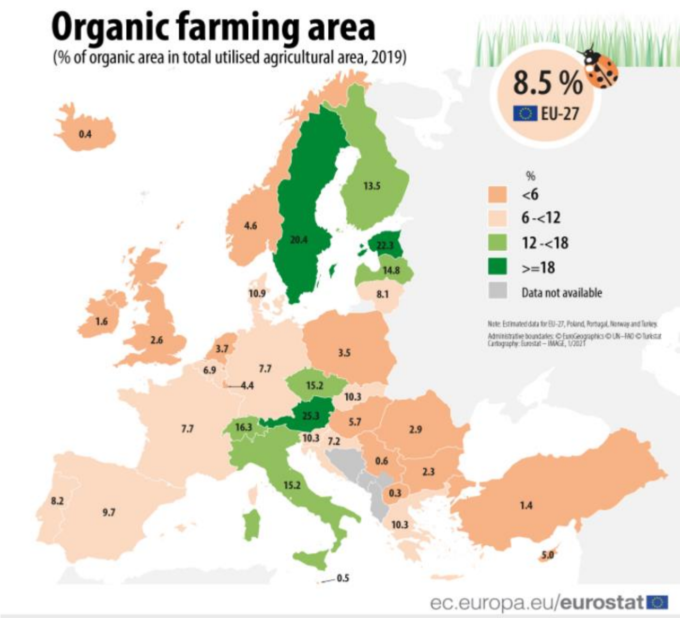
Organic farming increasing in Scotland

The latest figures from Defra's annual report on Organic Farming, suggest that the area of organically farmed land in Scotland is rising for the third year in a row, with a 3.9% increase in 2020 to 95,700ha. Although this only represents approximately 1.7% of Scottish farmland, this rise could be seen as the start of a recovery in organic farming, following the 230,000 ha (4.1%) high in 2008, most of which was rough grazing.

By contrast, to the relatively small organic acreages in Scotland, the EU's organic farmland area has increased by 46% since 2012, covering approximately 8.5% of the EU's farmland, with countries such as Sweden, Estonia, Austria having over 20% of their farmland designated as organic (see diagram below).



Demand vs production anomaly

There has long been an anomaly in the organic sector in the UK, with the farmland area decreasing against the market demand for organic produce increasing, as this is now the 10th consecutive year of growth for the organic market, following the associated financial crisis shrinkage in 2008.

During lockdown, organic Food & Drink sales have risen dramatically with growth reaching 12.6% (the highest year on year growth for 15 years) lifting the market worth to £2.79 billion. Online sales and home delivery have accounted for nearly 25% of these sales, according to the latest Soil Association Organic Market Report, highlighting the importance of direct marketing and box schemes for producers in this sector.

The wider benefits of organic farming

Organic farming is a form of agroecological farming based on sustainable management of natural resources and seeks to work with natural biological systems on farm, whether that be soils, crops, climate, animals, or people on the farm. It therefore excludes the use of agrochemical pesticides, synthetic fertilisers, and genetically modified organisms.

With multiple benefits listed for conversion to organic farming, (e.g.. lower greenhouse gas emissions, higher animal welfare standards, increased biodiversity, and certain foods with higher levels of omega-3 fatty acids and certain vitamins & minerals) the EU have also recently announced a target to achieve 25% of all EU farmland to be organic by 2030, as part of the Farm to Fork strategy within the EU's Green Deal.

Other forms of agro-ecological farming, such as conservation agriculture, regenerative agriculture and agroforestry can all help to focus farmers attention on sustainability, and soil management, but organic farming's certification process provides an assurance to the consumer that organic standards are met, enabling a price premium to be achieved.

Looking forward

The Scottish Organic Stakeholders Group which involves a wide range of organisations (SRUC, NFUS, Nourish Scotland, OMSCO etc) recently had a positive meeting with Mairi Gougeon (Cabinet Minister for Rural Affairs) to discuss their Nine-Point plan to boost the organic sector in Scotland and implement a Scottish Organic Action Plan, (building on the 2015 -2020 plan).

With both the SNP & the Scottish Green Party having proposals in their manifestos to at least double the organic farmland area in Scotland within this parliament, organic farming may become increasingly important to Scotland's farmers and crofters.

Denmark was highlighted as an example where organic sector growth increased above 10% within 15 years, with some food staples (such as carrots, oats & milk) having at least 30% of the market.

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Haulage challenges

Crisis in the haulage sector

At the start of July, the Government announced HGV drivers' hours would be extended (allowing drivers to work an additional hour) in an attempt to try and deal with the ongoing HGV driver shortages. However, this has done little to alleviate the ongoing problem with sectors right across the agricultural industry now feeling the effects, describing the situation as a crisis.

A shortage of HGV drivers was a concern prior to Brexit and the Covid-19 pandemic with working conditions, poor facilities, and better job prospects elsewhere all contributing. Brexit and Covid-19 have exacerbated the situation putting the transport sector under significant pressure.

Significant drivers shortages

The Road Haulage Association (RHA) estimate a shortage of 100,000 drivers with Covid-19 halting driver training and testing across a 12-month period, with only 27,569 people last year taking a Class 1 test in comparison to 70,000 people pre-Covid.

Driver shortages are now causing major concerns across the food supply chain, with processors warning of delays in cattle slaughterings with reduced haulier availability to transport stock off farm to abattoirs. The resultant longer waiting lists could potentially lead to empty supermarket shelves.

A number of supermarkets have warned that if the situation continues there is likely to be disruptions to Christmas with a struggle to keep shelves stocked.

The dairy industry is also feeling the pressure with the UK's milk supply being hit with driver shortages. Milk processor Arla reported earlier on in the month of disruptions to milk deliveries with reduced driver numbers, with weekend milk collections and deliveries being most affected.

Forward planning paramount

Farmers should monitor feed stocks and place orders in advance due to longer lead times and many companies having to try and manage distributions around a reduced number of drivers.

With a busy period of autumn livestock sales upon us, farmers are advised to book livestock hauliers well in advance of sales in order to ensure delivery to markets. For those farmers who sell annual consignments on specific dates, it would be advisable to book these dates with hauliers at one time in order to allow for planning during a period of logistical problems.

The situation doesn't look to improve anytime soon and is particularly worrying for the farming industry as with harvest now well underway, lorry loads of grain are waiting to be hauled. This, coupled with the seasonal livestock sales is causing a real headache for hauliers.

The situation isn't helped with drivers being tempted away from the livestock haulage sector with companies offering signing on bounces and 25% more in wages. This will impact on the cost of haulage going forward.

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Key Economic Data

General Indicators	
Base interest rate	0.1% (0.75% Mar '20)
ECB interest rate	0.00% (0.00% Sep '18)
UK (CPI) inflation rate	2.0% (target 2%)
UK GDP growth rate	4.8% (Q2 '21)
FTSE 100	7,165.42 (1 Sept '21)

Price indices for May 2021 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	168.9	Seeds (all)	114.8
Barley	152.2	Energy	126.0
Oats	128.8	Fertiliser	122.7
Potatoes	138.2	Agro-chemicals (all)	144.0
Cattle and Calves	121.0	Feedstuffs	132.9
Pigs	119.1	Machinery R&M	108.4
Sheep and Lambs	166.0	Building R&M	128.2
Milk	124.2	Veterinary services	115.9

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