

Farming Update | Spring 2018

Welcome to this quarter's Scottish Farming Update, which is produced by our Farming Research Group and reports on market and administrative issues that affect farmers' business decisions and on which they may need to act.

The most significant development this spring has been the launch of the much anticipated consultation document on the future of farming policy from DEFRA. This followed two speeches from the Secretary of State, Michael Gove, at the Oxford Farming Conference and then the NFU Conference, in which he gave hints as to the direction of travel. We can now be certain that direct payments **in England** will be capped heavily in the short term and then phased out in the years after Brexit. Scotland may yet continue to support production directly, but there is less certainty. Although it is stated that farmers will be rewarded for providing 'public goods' we remain very short of any detail about how these goods will be valued and how farmers will be able to secure the funding. Meanwhile, out in the field the widespread cold weather and snow in early March has held up spring drilling but, in general, winter crops have come out of the winter looking well and full of potential.

Please contact me or our team for further information on anything you read here.

Stephen Whiteford, Editor

Market Update

Arable crops (£ per tonne)	A year ago	February 2018	A year ahead
Beans	157	152	150
Oilseed Rape	350	293	300
Feed Barley	122	133	130
Milling Wheat	149	149	155
Feed Wheat	142	140	145
Livestock (£ per kilo dead weight)			
Prime Cattle	3.56	3.66	Remain stable
Lambs	3.82	4.94	Possible decrease
Milk (per litre)	25.62	30.6 (Jan 18)	Likely decrease
Sources			
Arable crops:	AHDB & FW. Prices are ex farm. Future prices are indicative bids from agricultural traders.		
Livestock:	QMS. Beef R4L and lamb R3L specification. Future prices from outlook reports.		
Milk:	AHDB		

Arable crops

Global

Markets received renewed reassurance as to the world's stock levels with the publication in early February of the **UN's FAO (Food and Agriculture Organisation)** latest Supply and Demand briefing. "**Global markets of all major cereals remain well balanced, supported by record inventory levels,**" according to the report. It reports that the

world's stocks-to-use ratio is likely this season to reach its highest level since 2001/2. Of some comfort to UK cereal growers will be the fact that **much of the increased estimates for grain production are due to increases in coarse grains (as opposed to wheat)**, with higher maize production in China, & Mexico. Nevertheless expectations of big wheat harvests in Canada & Russia have increased the wheat production estimates to 757.6 million tonnes (2.8mt higher than the previous estimate). The **outlook for global prices in the short term is therefore relatively bearish**, because even with the increase in expected cereal usage for 2017/2018, which is now 2.6 billion tonnes (up 35.7 million tonnes from 2016/17) the stocks-to-use ratio of cereals will rise to a "comfortable 27.7%, the highest level since 2001/02".

UK

Against the global backdrop of surplus, the **UK has a much tighter supply and demand profile**: at the end of 2017 **DEFRA cut its 2017 wheat harvest estimate** by 320,000T to 14.84 million tonnes. This has helped to support the domestic feed grain market as it substantially **reduces the amount of wheat that the UK has available to export** this season. Prices of cereals have not moved a great deal since harvest, and only feed barley has shown any real increase since September: £118/T in September compared with over £130/T in early March.

The physical markets are only part of the story however, and **fluctuations are also driven by currency**. As the Prime Minister embarks on further rounds of Brexit negotiations with the EU the value of Sterling will follow her fortunes: **farmers may be hoping for it to weaken in order to support domestic values**.

Oilseed rape prices tumbled in the last three months to around £290/T ex farm, before recovering slightly, but remaining stubbornly below £300/T. According to AHDB much of this is currency driven, as the Euro strengthened against the US dollar (which caused prices to fall on the Paris rapeseed futures market, resulting in falls in the UK price) and in turn sterling strengthened against the Euro. UK prices are also being heavily influenced by world events, and recent rain in Argentina – easing fears of drought issues on the soya bean crop – have also sent prices lower. **Farmers are not selling at current prices, and so crushers are using up their stocks**. It would seem that currency will need to work in farmers' favour again, if prices are to recover before farm stores need to be cleared out in June.

2018 Crops

The New Year started with concerns that the mild wet weather was affecting the residual herbicide activity in the rape but **by the end of January sprays had begun to take effect**. Charlock is slowly dying following treatment, and only the most stubborn areas require a possible follow up treatment.

In rape crops, now is the time to continue patrols to scare pigeons away so that there is some top growth to help keep the growing point away from cabbage stem flea beetle larvae damage; our agronomists' assessments indicate that the number of larvae is generally not as high as previously seen which we hope will result in fewer losses. The spring Light Leaf Spot spray can be planned for stem extension when the crop is welly boot-height.

In **general crops look well, although poor drainage and insufficient rooting is affecting some rape crops**, giving the plants a purple-blue appearance. **Wheat and winter barley appear to be thriving** –and disease levels are low thanks to prolonged cold weather. However, disease resistance is increasing and growers need to maintain robust rates of product, particularly if the T0 is omitted.

Late planted winter crops and spring crops are less tolerant of weather extremes. **Doing everything you can to ensure a good root base** – be that early nutrition or in cultivations – will add to a crop's robustness, and will reduce yield variability.

On farm, spring seed should by now have been dressed. **Soils are currently lying wet in most areas**, so patience may be tested for those with a large area of spring crops to drill. This waiting time may provide a window to sit down with the team to appraise last year's harvest in detail. Analysing the yield maps is a good start, and cultivations, seed rates, drilling date, agronomy and harvesting can all be discussed to see where potential improvements can be made.

Most clients now have some 2018 crop sales on their books, as the recent wheat prices have tempted commitment of a proportion of the crop. Feed/distilling wheat sales have been booked in the region of £150/T.

Livestock

Beef and cattle

Overall **beef production in 2017 was very similar to 2016** according to AHDB figures, and **increased domestic demand** meant that there was little scope to grow exports, despite the opportunities presented by the weak pound. Despite static production, **prices for prime cattle were on average 25p/kg (deadweight) higher in 2017** than in 2016 according to AHDB.

Good demand has held up at the start of 2018, with prices for prime beef cattle meeting the right specifications well supported. The expectation is for this to continue as the year progresses.

The data is supported by consumer data from Kantar Worldpanel, which shows that **shoppers in the UK spent £1bn more on groceries for Christmas 2017** than at Christmas 2016, contributing to a 5.8% increase in the value of fresh and frozen beef sales in the four weeks to 31st December.

Based on cattle population data, **AHDB expects slightly higher (1.9%) prime cattle slaughterings in 2018** compared with 2017, but until carcase weights can be checked it is too early to tell how that will translate into beef production. If demand remains relatively constant, **prices will also be expected to remain at their current levels**.

Lambs and sheep

AHDB's review of 2017 reports that it was a **"year of strong production"**, with a large carry over of lambs from 2016 followed by the largest UK lamb crop for 11 years. Overall sheep meat production in 2017 was 297,000 tonnes (4% above 2016), according to DEFRA figures, and the large carry over held prices back early in the season. From May, **prices rose strongly and they spent the rest of the year above the five year average**.

Production for 2018 is now forecast at 317,000 tonnes, 6% higher than the 2017 bumper crop to give what would be the **highest production for several years**. This indicates that a large number of lambs have been carried over from 2017, which may impact on prices as we head through the season. However, for the time being – until those lambs come onto the market – prices remain strong and well above the same time last year.

Further concerns about prices come from consumption figures, which show that domestic demand fell during 2017 – Kantar Worldpanel report that overall spend on fresh/frozen lamb declined 5% compared with the previous year. If this trend continues then prices may come under pressure. However, **UK prices were protected in 2017 by a reduction in imports, partly due to the weak pound, and partly due to strong demand from China**, which consequently absorbed much of the New Zealand crop.

Against this background, prices have started the year on a strong footing, with AHDB figures showing that average prices are 18p/kg (liveweight) i.e. 9% higher than the same week in 2016.

Dairy

The **DEFRA average milk price for December fell 0.9% from the previous month to 31.66ppl**. The five-year average price has now reached 28.09ppl, almost identical to the same time last year.

UK milk production continues to grow compared with the year earlier and this is a position echoed elsewhere in Europe, because the EU has taken steps to stop intervention buying of skimmed milk powder (SMP), and to sell off

much of its stock. The AHDB reports that this is an attempt to signal to the market that the EU is moving towards an oversupply situation, and the industry should consider reducing production levels.

In terms of cow prices, AHDB figures show that the average cost in January of **freshly calved heifers was £1,354/head**, which was the same as the previous month, and 2.4% down on 12 months earlier. The average cost of a **freshly calved cow was £1,174/head**, which was 5% up on the previous month and the same as 12 months earlier.

Cull cow prices in January were on average 103.53p/kg for a dairy sired cow, and 128.78p/kg for a beef sired cow; both up almost 10% compared with the same month in 2016, and also up 10% on autumn 2017 values.

Fertiliser & fuel

Nitrogen fertiliser prices remain at around **£245/T for ammonium nitrate (AN) and sulphur grades**. Farmers fortunate enough to have storage and cash flow available to buy earlier have benefited from much lower prices. Prices of P and K grades remain at around £260/T for MoP and £285/T for TSP.

According to DEFRA figures, the **price of red diesel has continued to rise**, increasing over 5% between October and January to **57.01p/litre** (plus VAT). This compares with a 3% increase in road diesel and a 10% increase in crude oil over the same period.

Policy and regulation news

DEFRA Consultation: “Health and Harmony: the future for food, farming and the environment in a Green Brexit” February 2018

DEFRA, under Michael Gove, has launched a **consultation document, which sets out proposals for the future farming policy in the UK**. The document is **mainly focussed on England** and acknowledges that Scotland, Wales and Northern Ireland may want to use different approaches to suit their conditions. Never-the-less, the document provides a strong indication for us north of the border as to the general direction of travel for future payment systems.

The foreword says that the Government plans to change the way land is used, to promote health and harmony, given the opportunity that leaving the European Union provides.

It notes that the **proposals set out a range of possible paths, which are the start of a conversation, not a conclusion**. It contains a number of policy suggestions which it asks for responses to, and also examples of farms and projects that demonstrate elements of the new proposed approach.

The most important points from the consultation document – in our opinion - are:

1. **Direct Payments in England will be completely phased out by the end of the ‘agricultural transition’ period**, which is of unspecified length, either gradually or in steps. However, there will be some support for some sectors, for example those in the most remote, wild and beautiful parts of England.
2. **A new environmental land management system (NELMS) will be the cornerstone of the new policy, from 2022**. It is likely to include wildlife diversity and landscape protection but it is not clear what other public goods it might cover.
3. The new policy will be underpinned by payment of **‘public money for the provision of public goods’**, with the principal public good being environmental protection and enhancement. The document mentions a long list of public goods that the Government could play a role in supporting farmers and land managers in the future. However, how many of these public goods will be delivered and paid for is unclear.

4. There will be some Government support but there is a strong feeling of land managers helping themselves, through **training, benchmarking, risk management**.
5. A review of the inspection regime, including cross-compliance, but **no lowering of British animal and plant health standards**. Again, the Government has not been as definitive about whether it will allow imports produced to lower standards. It is unclear how it will deliver both cheaper food and higher environmental standards, with lower inspections and compliance.
6. The Government continues to view technology, better use of data and more effective knowledge transfer as key to achieving its aims for the industry.

The consultation document can be found here <https://www.gov.uk/government/consultations/the-future-for-food-farming-and-the-environment> and it is a 'must-read' for all of those currently earning a living from agriculture and related industries.

Farm business news

European market for organic food grew by 11% in 2016 to €33.5bn

Almost all of the major organic markets reported 10% or more growth and the value of European organic markets has more than doubled since 2007. The area of land growing organic products also increased by 7%, and the rate of growth is increasing.

New measures to help farmers compete in the food supply chain

The Government has proposed a range of measures, as part of its response to the consultation on the remit of the Groceries Code Adjudicator. They include:

- A £10m collaboration fund for dairy farmers and growers, to be designed with the farming industry.
- Compulsory milk contracts that set out the main terms between producers and purchasers.
- A standard grid for the classification of sheep carcasses so grading and pricing is clearer.
- Improving transparency and access to information on prices throughout the supply chain.

European Commission to produce protein plan by the end of the year

The aim of the plan will be to reduce Europe's dependence on imported protein – also a key issue for the UK post-Brexit. A consultation on the plan is likely to include how protein production could be supported by policy, research initiatives and market information.

BPS Claims

The 2018 SAFs are available on line now and SGRPID is encouraging everyone to submit on line rather than on paper. The forms are virtually unchanged but there are numerous changes to the Greening Rules, so be sure these have been taken into account before submitting your SAF. We are willing and able to assist with these forms if required, so please contact us in Perth if you want help.

National Contacts

Farm Research Group Chairman

George Chichester MA FRICS FAAV
01635 576914
george.chichester@struttandparker.com

Land Research Group Chairman

Charlotte Kershaw MRICS ACI Arb
01273 407019
Charlotte.kershaw@struttandparker.com

Farming Department

Will Gemmill BSc FAAV MBPR
01223 459471
will.gemmill@struttandparker.com

Land Management

James Farrell BSc MRICS FAAV
01423 706770
james.farrell@struttandparker.com

Development & Planning

Simon Kibblewhite BSc (Hons), BA, FRICS MCI Arb
020 7318 5177
simon.kibblewhite@struttandparker.com

Research

Jason Beedell MRICS PhD BSc(Hons)
07795 651493
jason.beedell@struttandparker.com

Accounting & Taxation Services

Alex Heffer FCCA
01245 254656
alex.heffer@struttandparker.com

Energy

Alexander Creed BSc (Hons), MRICS FAAV
020 7318 5022
alexander.creed@struttandparker.com

Building Surveying and Architecture

Tony Saffery BSc (Hons) MRICS
01483 383098
tony.saffery@struttandparker.com

National Estate Agency

Guy Robinson BSc (Hons) MRICS
020 7318 5175
guy.robinson@struttandparker.com

Estate & Farm Agency

Michael Fiddes
01223 459500
michael.fiddes@struttandparker.com

Farming Departments

Cambridge 01223 459500

Chelmsford 01245 258201

Morpeth 01670 516123

Newbury 01635 576914

Northallerton 01609 780306

Norwich 01603 617431

Oxford 01865 366700

Perth 01738 567892

St Albans 01727 840285

Salisbury 01722 328741

Stamford 01780 484040



Mary Munro
Head of Farming (Scotland)
01738 783354
mary.munro@struttandparker.com



Stephen Whiteford
Farming Consultant
01738 783355
stephen.whiteford@struttandparker.com

Every effort has been made to ensure the information provided within this document is fully accurate. However Strutt & Parker accept no responsibility if recipients should act upon any of the information without seeking the appropriate professional advice.