

# Farming Update | Autumn 2017

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.

Please contact a member of the farming team for further information on anything you read here.

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## Market Update

Arable crops (£ per tonne)	A year ago	August 2017	A year ahead
Beans	138	154	165
Oilseed Rape	295	325	315
Feed Barley	100	122	127
Milling Wheat	136	150	155
Feed Wheat	110	140	147
Livestock (£ per kilo dead weight)			
Beef cattle	£3.71/kg	£3.93/kg	Remain stable
Lambs	£4.23/kg	£4.31/kg	Remain stable
Milk (per litre)	19.85ppl (June 16)	26.75ppl (June 17)	Possible increase
<b>Sources</b>			
Arable crops:	AHDB. All prices are ex farm. Future prices are indicative bids from agricultural traders.		
Livestock:	FWi.co.uk. Beef R4L and lamb R3L specification. Future prices from outlook reports.		
Milk:	DEFRA.		

## Arable crops

### Global

Earlier USDA forecasts of reduced global wheat stocks at the end of the 2017/18 marketing year (June 18) were based on lower production forecasts in the US, EU, Australia, and the Former Soviet Union (FSU). The latter of those, however, has performed a turnaround and **the FSU is now harvesting a record wheat crop**, up 8.6 million T compared with last year, driven by increases in yield in Russia, Kazakhstan, and Ukraine. The drought conditions on the prairies of North America have **reduced the output for the US and Canada**, however this has been outweighed by the FSU's bounty. The USDA are, as a result, forecasting **another record global harvest of 743.2 million T** of wheat for the 2017/18 campaign which will lead to an increase in ending stocks.

In terms of **coarse grains (e.g. maize, barley, sorghum, millet)**, **USDA are forecasting reduced supplies** and thus a decline in ending stocks. Although Ukraine expects to produce near record amounts of maize due to an increased area of cropping, globally this is outweighed by a drop in production in the US and Canada.

Changeable conditions on the continent have made the **European grain harvest a stop-start affair**. Grain quality has become varied as **combines have been delayed by rain** and wheat being cut at higher moisture levels than usual. This has led to **higher than anticipated stocks of feed wheat in the EU**, which is likely to displace some imported maize, and drive down feed costs for the livestock industry.

**Global oilseed markets remain strong**, despite increases in harvest estimates for US soya, Russian sunflower seed, and EU oilseeds (i.e. OSR, sunflower, soya and linseed). The EU are forecasting a higher than average oilseed crop: increases in some countries including **Romania and France will more than outweigh the UK and Germany's fall in production**. The EU predicts the **UK's OSR crop to be 1.90 million T which is 20% lower than the 5 year average**. This is due to the lower planted area, rather than yields.

## UK

Harvest in the UK - as in the rest of Europe - has been hampered by showery, catchy conditions since mid July. However progress is still ahead of last year because crops have been ripening early, and so far quality has not been badly affected. Yields of winter barley and oilseed rape have been good although final tonnages are yet to be calculated. Second wheat yields are reported to be widely ranging, and at the time of writing most first wheats have yet to be cut. In terms of wheat yields, AHDB has forecast the **UK average at 8.0-8.2 t/ha** (a 5-10% increase on the long-term average). This is, however, within the context of a highly variable national yield, with reports ranging from 7.0 t/ha on poorer soils to 12.8 t/ha on deep soils. For malting barley, the grain nitrogens are up a bit on the year but not excessive.

**UK wheat prices for November have fallen sharply** since mid August and are (at the time of writing) now under £130/T. The fall is due largely to the sheer quantity of feed wheat now needing to be sold this autumn, much of which will need to be exported. Scottish prices (for the Lothians and Borders) are stronger at £140/T. Merchants are warning that further falls are likely in order to make UK wheat competitive on the export market. Egyptian state wheat buyer GASC's buying pattern supports the view that the Russian and Ukrainian grain exports are driving the market downwards, having largely bought grain from those two countries in its latest tender. **Farmers able to store grain long-term may be in a position to 'ride-out' the dip in prices** if the UK manages to export a sufficient amount over the winter.

The OSR harvest was a cause for optimism in the UK. Although there was a **markedly reduced area of land in England sown to OSR last year, yields are estimated at 3.5-3.7 t/ha (higher than the five-year average of 3.4 t/ha)**, with good oil contents reported, averaging at 45%, according to AHDB. **Prices have risen strongly to around £330/T** for autumn movement, as a result of the lower crop area, but further significant increases are likely to be limited in the short term, particularly if imports come in to satisfy crusher demand.

**OSR planting is now in full swing** with plenty of moisture providing good early establishment. However, the first signs of flea **beetle damage have also been spotted**. New slug pellet stewardship guidelines in 2017 restrict metaldehyde pellets within 10m of any field boundary. As such our agronomists advise the use of Ferric Phosphate pellets (Sluxx) for all field headlands.

## Livestock

### Beef and cattle

AHDB figures show that finished **cattle prices have improved over the summer due to lower supplies**. Deadweight prices in August were up over 20p/kg compared with August 2016. **Costs however remain stubbornly high, with the weaker pound keeping purchased feed prices up. Margins are therefore very slim and in many cases negative**, with few beef producers able to make profits even with the recent rise in prices. Unless beef cattle numbers fall significantly to reduce domestic supply and lift prices, it is difficult to see how profitability will improve in the short and medium term.

Beef and veal exports continue to attract good demand from Ireland and Germany, and **imports from Ireland have slowed** since the Brexit vote and weakening of the pound.

## Lambs and sheep

Despite a slight fall in liveweight values during August, **8p/kg above the same time last year.**

UK sheep meat production held steady in July at 23,000 tonnes compared to the previous month, according to latest data from DEFRA. This represents a 4% drop in production compared to July 2016, and is the first month in 2017 where production has been lower year-on-year.

**Imports in June declined, continuing the general downward trend seen over the last 12 months.** Sheep meat imported in June totalled 6,181 tonnes, a 25% decline year-on-year. This is largely due to the **continued decline in New Zealand exports to the UK. Exports from the UK however have increased in June compared with both last year and the previous month.** Both imports and exports have been affected heavily by the weaker pound.

Remember to claim your SUSS payments for ewe hogs by 16<sup>th</sup> October if you are eligible.

## Dairy

The DEFRA average farmgate milk price for the UK rose to **26.75p/l, which is 6.8p (34%) higher than this time last year.** As is customary, the quantity supplied during the summer has fallen. This year's seasonal fall is in line with last year's, but is significantly greater than normal at this time of year, which tends to be nearer 10%, after the 'spring flush'. This is likely to have been caused by farmers relying more on forage than on purchased feeds this year and last. High production levels during the spring flush mean that, **despite the fall afterwards, overall GB milk deliveries are currently running 0.8% above last year.**

Arla and Morrisons have re-invigorated their "For Farmers" milk range, requiring higher welfare standards, including a minimum of 120 days of grazing per year. The extra 10p per 4-pint bottle of milk will now be distributed among just their 300 British suppliers, a change from previous arrangements which saw the extra 10p distributed among all of Arla's European producers, and which attracted a degree of criticism for the brand. The "For Farmers" brand now also includes "Butter For Farmers", "Cheese For Farmers", "Cream For Farmers" and "Bacon For Farmers".

In terms of cow prices, AHDB figures show that the average cost in July of a **freshly calved heifer was £1416/head,** which was 3% up on the previous month, and 11% up on 12 months earlier. The average cost of a **freshly calved cow was £1198/head,** which was 9% up on the previous month and 15.6% up on 12 months earlier. The **increased price is due to a lack of supply: the numbers sold in July were around 50% lower than the same month last year,** which in turn is due to the fact that the rate of herd sales is slowing. In addition, fewer dairy heifers were bred last year: a result of poor market conditions last year.

Cull cow prices in June were on average £1.13/kg for a dairy sired cow, and £1.38/kg for a beef sired cow; both continuing an upward trend which began in late 2016.

## Pork and Pigs

**Pig prices have now been rising for nearly six months and prices now stand at a three year high.** Despite this increase in price overall consumption is down, especially in the roasting joint department. It is thought that lack of promotional material by retailers may have contributed to the decline in sales. Exports are also down by 5% on last year despite the weaker pound. The **reduction in exports is due in part to the decline in demand from China,** this is down 15% on June 2016. However it is hoped that exports will perk up following the recent announcement that seven UK businesses have been granted more access to Chinese markets.

## Fertiliser & fuel

Fertiliser prices have continued to increase over the summer, **prices having now risen nearly 15% since they were first released in June.** Prices for September delivery are now approximately as follows:

UK ammonium nitrate (AN) £198/T; Doubletop (Sulphur N) £213/T; Urea £220/T; TSP £258/T; MoP £250/T.

Limited purchases have been made in the last couple of months while farmers' attention has been on the harvest. AN prices continue to follow the global urea price, which has been firming due to strong global demand. **Farmers who**

**have not yet taken any cover for nitrogen grades are encouraged to do so.** This will protect against further price increases which are likely as the manufacturers set their pricing policy to discourage last minute buying in the spring which causes them logistical problems.

Red diesel price has fallen 3% over the last three months, to an average of 49.51p/litre plus VAT in July, according to DEFRA. This compares to a 1.5% fall in the price of road diesel and a 5% fall in the price of crude oil over the same period.

## Policy and regulation news

### Basic Payment Scheme - new Ecological Focus Area (EFA) rules

**New EFA rules will affect arable farmers from 1<sup>st</sup> January 2018**, after the European Parliament voted in favour of a ban on the use of plant protection products (PPPs) on EFAs, which include fallow, cover and catch crops, and nitrogen-fixing crops. **The largest effect will be on those who have in the past used nitrogen fixing crops** (peas and beans) to satisfy their EFA requirement, as this will no longer be a viable option for many farmers, so they will need to find other ways of providing EFAs.

The reason for the ban is to increase the environmental benefit from EFAs, due to concerns that they produce little benefit at present. **Peas and beans will be less popular** if they can't be treated with PPPs, and so the unintended consequence is likely to be a reduction in the area of these crops, which are important crops for pollinators.

On the plus side the Scottish Government recently announced the following simplifications and potentially beneficial amendments to greening rules:

- Hedges and agro-forestry will now be included as EFA features
- Changes to the management of EFA Fallow to allow for drainage work
- The merging of some EFA features such as buffer strips and field margins

### CLA Survey on Farm Support

A survey carried out for the CLA in England has found over **80% thought that the government should continue to spend money on preserving and managing the countryside** after Brexit. 61% of people think that the current annual spend of around £3bn is either 'the right amount' or 'too little'.

## Farm business news

### Farming: Post-Brexit UK agricultural policy in full force from 2025

As suspected, **the agricultural policy that will replace the CAP in the UK may not come into full effect until around 2025**, to give farmers a **transition period to adjust and**, importantly, for the government to design processes to administer it. The Government has also confirmed that it would **support payments at their current level until 2022**, which is an additional two years. It seems likely that the Scottish Government will ultimately follow suit.

### Farming: CAP post-2020: budget and policy details delayed, at least partially due to Brexit

The **CAP post-2020 is important as UK farmers will operate under it until at least 2022 and most likely 2025**. Publication of the policy details of what the EC would like in the CAP post-2020 is likely to be delayed until early 2018. As €10-13bn pa less will be in the EC's coffers, all European Commission departments have been asked to work out the impact of changes in the budget they are allocated. Although they have been asked to assess a 0% and +10% change, most **commentators think that the -15% or -30% scenarios are probably closer to what reality might be**. The main European farm lobby group has called for the budget to be maintained as farm incomes are under pressure and as farming is expected to do more to help deliver environmental and social goals.

### **Farming and environment: Michael Gove's major speech on delivering a green Brexit**

The Secretary of State chose a wildlife organisation as the setting to deliver his first major speech on farming, food and the environment. **Key themes were strengthening environmental protection post-Brexit and continuing to support farming for providing clear environmental benefits and producing healthy food.** The speech feels weighty and like a significant change from previous policy but we will know whether the rhetoric translates into action when the 25 year environment plan is published, probably in 2018. **He has also said that he supports current environmental rules but thinks their implementation could be improved** (which S&P would agree with).

The Scottish Government will have its own agenda to follow. Much is being made of the need for devolution of Agriculture, but there is little evidence of Westminster wanting to take it back. Messages from Holyrood are mixed, with some suggesting there could be a higher level of direct payment for Scotland post-Brexit, while others expect a bias towards environmental measures along the same lines as Michael Gove's proposals.

### **Farming: Reauthorisation of glyphosate for 10 years is a step closer but petition against hits 1m**

The European Chemicals Agency (ECHA) has published the official conclusions of its Risk Assessment Committee's independent scientific review. They are **that the weight of evidence shows the chemical should not be classified as carcinogenic nor as mutagenic when used correctly**; the results had been made public on 15 March but are now official. The ECHA review was published on the same day that **a petition to the EU to ban glyphosate reached one million signatures**. The EC now needs to decide how to react. A decision on the reauthorisation now has to be taken within six months or by the end of 2017 at the latest, when the current EU glyphosate license runs out. The process is that Member States must submit written statements on their positions by early September, with the EC warning that it will not reapprove the herbicide without the support of Member States (i.e., that this is a shared decision and countries should not abdicate the responsibility). Interestingly, in Germany, Angela Merkel's CDU party supports the re-approval while the Environment Minister from the SPD is against it. The French environment minister is also against. Separately, Professor Stephen Powles of the University of Western Australia, who is **one of the most highly cited plant scientists in the world, has said that glyphosate is a 1 in 100 year discovery – like penicillin – so we need to preserve it for the future.**

### **Farming: Three-year amnesty for tenants to claim compensation for 'uninformed' improvements**

Tenants who carried out improvements without informing their landlords will be able to apply for retrospective approval of eligible improvements in order to qualify for compensation at the end of a farm tenancy. It only covers the reporting of improvements and doesn't try to determine any levels of compensation payable, or entitle tenants to immediate payments. Please call Alex Jameson in our Perth office for further details.

### **Farming: AECS**

The Scottish Government have provided commitment to another AECS application round for spring 2018. In preparation for that we are already looking at carrying out farm surveys to scope out potential schemes and carry out some of the required mapping work. We are particularly keen to look at any potential moorland management type of scheme sooner rather than later (before vegetation starts to die back) so please get in touch if you are interested in looking at a potential application.

### **Farming: Agronomy**

There is spare capacity within our independent agronomy service. This is the time of year to plan programmes for 2018 harvest so please get in touch to discuss options. We also have an independent chemical buying service which allows for product sourcing at very competitive prices.

### **Forestry: Central Scotland Green Network Area – Extra funding available for agro-forestry schemes**

The Scottish Government has set ambitious targets for new forestry plantation in the Central Scotland area. There are two payment rates available at either £2,500/ha or £750/ha, depending on the location within the CSGN area, and funding is granted for plantations of up to 40ha. These payments are on top of standard forestry grant scheme payment rates applicable to the rest of the country. For further information and to discuss eligibility please get in contact with the Perth office.

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