Review of
AGRICULTURE

Laurence GOULD

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BREXIT:IN OR OUT, THE FACTS AND FIGURES

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A once in a lifetime opportunity is facing the British public. The process of ticking a box for the UK to make a decision is relatively quick and easy. The ramifications from a Brexit decision would be phenomenally complicated and extremely costly to implement. The level of uncertainty generated would impact on the political landscape, employment, exports, sterling and the economy. Uncertainty causes people to stop spending, businesses to stall on investments, trade to slow, economic growth to stall and sterling to fall. A Brexit vote because of the political and financial ramifications would most likely lead to the UK entering recession.

The Facts:

Annual Figures (2015)	£bn	£m per week
UK pays the EU	18	346
UK rebate*	(5)	(96)
Net annual membership fee	13	250
EU payments to the UK	(5)	(87)
Net direct cost	9	163
Private sector & foreign aid - est**	(2)	(46)
Net Cost	6	117

• **Direct Benefit to UK Agriculture:** The UK exports £9.3bn (2014) of products to the EU and imports nearly twice as much.

Of the £4.5bn EU payments to the UK in 2015, agriculture received £3.1bn (Basic Payment Scheme). These payments have fallen in the past two years due to exchange rate fluctuations, scheme changes and Government modulation. In addition the UK will receive £5.2bn in rural development programme support (2015-2020), which is the lowest payment rate for all member states.

The contribution that CAP support payments make should not be underestimated. It formed 55% of Total UK Agricultural Income (DEFRA 2014). Current budgets show trading profits under pressure and cash flows being squeezed. The BPS is an important contributor, which if removed would result in many farmers who are producing a profit to trade at a loss.

• **Legislative Impact of Brexit:** EU legislation is loosely written which can result in a multitude of differing interpretations that have caused havoc, fines and mistrust between the European Commission, its auditors and Member States.

A Brexit decision would mean the UK government would have a democratic duty to leave the EU, which would trigger Article 50; an unprecedented process and the only lawful exit route. No one knows how it will work or be implemented. The UK would be at a disadvantage if there were disagreements. In essence the following would apply (without the UK involvement):

• The Commission would need a mandate from the Council and consent of the Parliament

• All decisions on the exit negotiations would be taken by the remaining 27 member states

• An extension to the initial two year deadline to leave would require ***all*** 27 remaining member states to agree

• If no extension was agreed, UK business would have no rights to preferentially trade with EU or for UK citizens to live and work in Europe and travelling restrictions would apply

• There would be restrictions on UK negotiating trade deals with countries outside the EU until exit negotiations were concluded

A decision to leave the EU would be the start and not the end of a protracted process that is uncertain both in outcome and time. We have been part of Europe for 40 years, our legislation has reams of EU law ingrained within it which would have to be redrafted. It is a massive undertaking that could take 5-10 years to sort. History tells us the EU are masters at operating to crisis management deadlines (eg. Greece funding). In this case the EU would not have to operate to crisis deadlines, which would be to our disdvantage. Any one member state could veto a decision requiring unanimity.

In summary for the country and the industry staying ***in*** provides certainty, Brexit is a whole new ball game.

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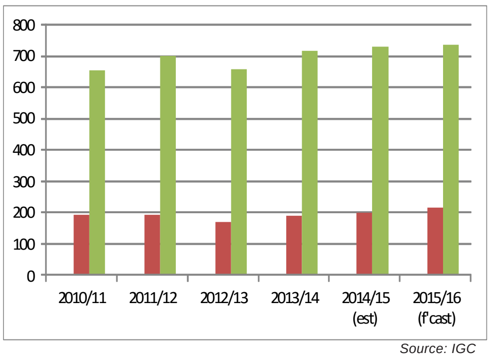
CROPS

Comment: Global commodity markets continue to remain under pressure with forecasts indicating a continuation of the trend seen over recent years with a further surplus expected as the world grain stocks look likely to rise again during 2016. The confidence in oilseed rape as a viable break crop has waned with a significant cut to the cropped area which has been replaced with increases to the area of pulse crops.

Cereals: UK exports for wheat and barley have risen as a result of currency movements in recent weeks as uncertainty remains in the lead up to June 23rd. February saw the highest monthly volume of UK exports for wheat and barley since November 2011. UK grains were particularly competitive into other EU countries with Spain the largest importer of both Wheat and Barley from the UK following their lower crop yields in 2015. Barley exports from July-March were at their highest levels at that point in the season since 1996/97 at 1.55Mt and the full season forecast was some 27% higher than last year, leaving an end season stock position 31% lower than the previous year.

The levels of world wheat production are expected to create a surplus during 2016. The UN Food & Agricultural Organisation (FAO) revised their forecasts up for June with indications pointing to a total wheat output standing at 724Mt, an increase of 7Mt from the previous month. This would mean a surplus is achieved and a fourth consecutive year of world surplus overall. This is shown in the graph below along with the continued rise in world stocks since 2012/13, which is forecast at 216.8Mt for 2015/16.



Source: IGC

The expected increase in output is an outcome of favourable conditions in Europe and Russia along with an increased area in Argentina. The outlook across Europe is of wheat yields to be above the five-year average by around 4-5% and close to 6t/ha. These levels predicted are however slightly down on the figures seen last year.

Looking towards the 2016 harvest, the development of the winter cereal crops appears in line with recent years if not marginally ahead. Delays to spring pesticide applications have though led to weed and disease pressure in particular high levels of septoria and yellow rust being noticed in winter wheat crops.

Oilseeds: The 2016 UK oilseed rape market is showing a continued trend from last year with acreage down by around 15% representing the lowest area since 2009. This drop equates to some 565,000 hectares. When combined with a more typical yield this could create a crop approximately 20% lower than last year. Global oilseed production however remains reasonably strong and so this lower UK crop is unlikely to create any significant price improvements.

Pest problems still remain significant, with large areas of the crop being written off at an early stage and at the end of April approximately a further 4% of the 2016 winter sown oilseed rape crop was considered to be of questionable viability, mostly in the Eastern region.

The increased resistance of cabbage stem flea beetle populations to pyrethoid chemicals remains a major concern for growers of oilseed rape crops, particularly in South-East England. The ban on neonicotoid seed treatments has led to increased pressure on the crop in some regions as growers struggle to contain the pest using the other chemical alternatives.

Looking ahead many growers will need to assess the role of oilseed rape in their rotations given the issues with pest control and with crop prices closer to the £275/t mark. For some as costs continue to rise it will be making the crop almost uneconomic to produce.

Pulses: The area of pulses has expanded considerably in 2016, with many growing instead of oilseed rape. Estimates place the total area at greater than 240,000 hectares, a 30,000 hectare rise or 15% on the 2015 area.

This is the largest area grown in the UK since 2004 with the contribution of pulses towards Ecological Focus Area (EFA) greening requirements still proving to be an important factor in cropping decisions for many farms. The economic prospects for pulses has though reduced significantly compared to 2015.

Potatoes: The average price at the end of May stood at £225/t with prices rising sharply to be at their highest level since towards the end of the 2012/13 season. This price increase is a result of tight supplies in the UK and the rest of the EU. Grower held stocks at the end of January were at 1.9Mt, down 0.4Mt on the previous year. There were suggestions that some growers were reluctant to sell and choosing to hold out for better prices.

Challenging planting conditions had meant progress was generally behind the previous year by two weeks for typical manicrop and was particularly slow on areas with heavier soil types.

Sugar Beet: The 2015/16 season saw an early conclusion to the campaign with factories closing in January/early February. Total production was significantly down at around 1Mt compared with 1.45Mt crop during the record breaking crop the previous year. This fall was due largely to a smaller contracted area following global and domestic sugar surplus.

Overall the crop yielded the third highest on record following the 2014/15 record and was similar to the five year average of 73t/ha. The average sugar contents worked out close to 17.1% which was slightly down on the 17.8% average from the previous campaign.

This coming year 2016/17 marks the end of sugar quotas with discussion still ongoing as to what the post-quota industry will look like and how it will operate. With the 2016/17 price set at £20.30/t it is at a level that is close to the cost of production.

Fruit & Veg: As final payments for apples and pears are received it is clear that top fruit returns for the 2015 season have been poor for many growers due to low average prices although a number of bramley growers have seen a rise on the previous year. As always, prices achieved depend on the customer supplied and the timing of sales. Most top fruit growers are expecting reasonable yields for 2016 at this stage but will need higher prices than the 2015 season.

The majority of strawberry and raspberry growers are hopeful of achieving good yields despite a late start due to adverse conditions which has created a gap in production between glasshouse and tunnel systems.

Growers need to continue to analyse labour costs and increase efficiency of labour use wherever possible in order to try and mitigate the increase in costs as a result of the National Living Wage. It is estimated that labour makes up 40-50% of total costs.

Water availability will continue to be an issue going forward. Growers continue to construct reservoirs to help guarantee future water supply.

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LIVESTOCK

Comment: Livestock businesses will continue to come under pressure as they face significant challenges ahead. Incomes for Dairy farmers continue to be squeezed with prices less than the cost of production for many in the industry with the focus very much on cost saving rather than expansion. Beef producers have also seen a similar pattern with prices dropping to a five-year low during the earlier part of the year before a partial uplift in recent weeks.

Dairy: The dairy industry is at an extremely low point at the moment with average pence per litre at 20p or less. The only saviour for some is the supermarket contracts that are paying a cost of production rate of 28p. This is the crucial point that if supermarket contracts deem the cost equates to 28p per litre or more then making money on 20p is almost impossible.

The cost of production has come down with concentrate prices at £160/t to £190/t, down from £230/t. Fuel costs have come down as has the cost of fertiliser.

There are some signs the bottom of the market has been reached with world prices increasing slightly for skimmed milk powder and butter. Milk output in the UK did not reach the peak expected in April, production in New Zealand is 3% down on the previous year which is not as much as was predicted whereas Irish production continues at 20% up on last year and poses a real threat for cheese producers.

With the overproduction has come the advent of new pricing contracts. These are based on the policy that the processor can utilise a base level of milk and any surplus is sold on the open market at AMPE or similar minus transport. Dairy Crest in the South West have an ‘A’ and ‘B’ litres schedule which currently pays approximately 21p on A litres and 15.3p on B litres. Most producers have 5%+ of production at the B litre rate.

So far a mass exodus out of dairy production hasn’t materialised, with farmers selling cull cows to raise cash, reducing fertiliser purchases and even aiming to make one big later silage cut rather than two smaller ones. The crunch may come this Autumn when cows are housed and concentrate may become more expensive on the back of soya and rape meal prices increasing recently.

The outlook is at present not at all rosy and the days of 32p per litre are now a distant memory with no forecast of prices recovering much above 23p for the foreseeable future.

Beef: The UK beef industry has seen some dramatic changes and further pressures over the last six months with a decrease of 20p/kg for prime cattle at the end of April from those seen in Autumn 2015. This reduction in price is the result of the oversupply of prime cattle, with an 11% increase in cull cow slaughterings compared to last year’s statistics. This is partly due to an an increase in culling as a result of the dairy crisis and an increase in calf registrations in 2015 by 3% compared to 2014.

The graph below shows the lower prices during the early part of 2016 with the low point coming during late April. The gap then narrowed in early June with the R4L deadweight average price of 319.1p/kg, a figure that is around 8p/kg less than the previous year.

There has been a noticeable increase in the weights of carcases over the last few years. The beginning of 2016 has seen meat processors focussing on tighter pricing penalties for carcases which do not meet their desired specification. Many beef producers must align their systems accordingly to avoid these penalties. This is set to be a major issue this year which will affect both producers and processors.

With the rise of prime cattle slaughterings and the uncertainty of the EU referendum, many beef producers will find it difficult to obtain a higher price for their produce this year. As profit margins become tighter, beef producers must focus on meeting carcase specifications and understanding their end market. Monitoring KPI’s of their systems and controlling the cost of production could help to maintain a sustainable business through a period of low prices.

Sheep: Favourable weather in the summer and autumn last year resulted in an improvement in scanning percentages with many ewes being in very reasonable condition prior to tupping. The wet winter and spring however meant losses have increased and impacted on lambing percentages.

Lamb slaughterings overall are set to decrease by 1% compared to last year due to a lower number of lambs carried over. A factor contributing to this decrease is an ageing sheep flock, with many ewe lambs retained for replacements.

Due to a wet start to the season, slaughterings are expected to increase towards the end of 2016 along with an improvement in carcase weight.

The export market looks promising throughout the remainder of 2016 as production levels increase and forecasts suggesting exports will increase into 2017. With the expectation of the pound remaining weaker than the euro compared to 2015, this will ensure UK produce is competitive and continues to grow. Imports are forecast to decline due to New Zealand experiencing their lowest lambing crop in 60 years. UK imports however, were slightly higher during the first quarter of the year; this is expected to decline throughout 2016 as New Zealand production declines.

The EU referendum and the exchange rate will determine the competitiveness of UK produce; however forecasts look promising for the near future providing the pound continues to weaken.

Pigs: Although the current SP-AP price of £1.17/kg is signficantly lower than the £1.70/kg seen in November 2013, when the reference was still the DAPP, the current differential over the spot feed wheat price is 115% compared with 106% in 2013. Margins over feed are a typical £0.45/kg which leaves just enough room for the most efficient producers to cover their overheads. Not an unprecedented downturn but more like business as usual.

Feed prices are likely to continue at low levels for the medium term, yet the SP-AP is on an upward trend into potentially profitable territory for some.

The weakness of Sterling against other currencies is the producers’ friend, with imports becoming less competitive and export opportunities developing for British product in the major world markets. The exchange rate is likely to become even more favourable if the UK leaves the EU which could potentially benefit British pig farmers who on the whole are not supported by direct aid. Anticipating such positive trends is crucial for planning the repayment of investment in plant and machinery that make units more efficient and able to achieve a profitable return.

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Grant Funding: Laurence Gould have assisted clients in grant applications on projects under the following schemes:

Growth Programme

This scheme has been successful in processing large projects, offering grant aid of up to 200,000 euros and is managed by the 37 Local Enterprise Partnerships. Under the Growth Programme we have been extremely successful in obtaining grant aid to help fund a number of different projects.

These projects have ranged from a large vegetable processing site to a farm diversifying and introducing a new wedding business. Other projects currently in progress include diversification into the tourism sector, with businesses introducing holiday homes such as log cabins or glamping huts.

The next round of calls for applications, which will be of interest to farmers and food processors, is due in Autumn 2016.

LEADER

The LEADER scheme can provide many opportunities for businesses either looking to expand or to establish a new enterprise. The scheme aims to provide funding for projects that meet the following priorities:

- Support for increasing farm productivity
- Support micro and small businesses and farm diversification: Developing or starting rural micro and small businesses
- Boost rural tourism: Holiday lets/farm shop/glamping/log cabins
- Increase forest productivity: Innovative forestry equipment
- Provide rural services: Community led projects
- Provide cultural and heritage activities: Promote, enhance and maintain cultural assets

Up to 40% of grant funding can be awarded towards the total project cost. Typically the scheme provides up to £40,000 of funding, however some LAG's are able to offer additional funding providing the project can achieve higher outputs eg. create jobs.

We have assisted with LEADER applications for start-up and existing businesses spread across many of the priorities. Projects under the increased farm productivity measure have included juice processing and equestrian arenas. The rural tourism priority has been successful for businesses converting old barns to holiday lets/B&B's and a bunkhouse for walkers.

Countryside Productivity Scheme

Laurence Gould have been involved with a number of Countryside Productivity Scheme applications. These projects have predominantly been controlled atmosphere storage facilities to help growers extend the UK marketing season. The scheme has helped growers to expand and create state of the art facilities which also retain quality of the crop.

These applications are currently at the appraisal stage, however some projects are due to commence in coming months. The scheme is currently closed for applications but it is expected there will be a similar type of funding opening again in 2017.

Contact Jack Davies on 01223 813622 for more information or visit www.laurencegould.com to find out if you have a suitable project.

Renewables: Government cuts to the support of new renewable energy installations has led to a slow-down in the development of this sector. On top of the prospect of further cuts, additional uncertainty has been injected in the form of retrospective tariff-setting based on uptake in previous quarters. Therefore projects are undertaken with a significant degree of risk. This may pay off for some, so there are opportunities but only if government deadlines are met.

Generally now only large scale MW projects are viable in the wind and AD sectors and there is an urgency to be commissioned before Renewable Obligation Certificates are replaced by the less lucrative Contracts for Difference in March 2017. Nevertheless, smaller projects supported by Feed In Tariffs can still be viable where there is a readily high energy resource such as wind turbines in high wind areas, hydro schemes with significant fall/flows and AD plants that can import fatty/oily food wastes.

Despite the tariff cuts, small scale solar Photovoltaic (PV) installations still remain viable where they are offsetting own electricity consumption when irradiance is highest such as chilling down cold stores in the summer however the development of large scale solar PV sites exporting entirely to the grid seems to have come to an end.

The Renewable Heat Incentive (RHI) has also not been immune to government review, yet there is still the opportunity for AD plants to supplement income by drying digestate as long as it can be demonstrated that this is being done for logistical benefit and not for the sake of milking the tariff. Commercial biomass boilers are also still worth consideration where supplies of cheap, preferably home produced fuel can be sourced and handled with an economy of scale.

For more details please contact Charles Baines on 01223 813622

Upcoming Events: Laurence Gould will again be exhibiting at the Dairy Show, held at the Bath and West Showground on Wednesday October 5th.