Farming Update | Summer 2016

Welcome to this quarter's 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.

In this edition, arable crops face numerous challenges, Brexit is now a reality, and the RPA starts to sort out the 2015 back payments.

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

Andrew Atkinson, Editor

Market Update

Arable crops (£ per tonne)	A year ago	July 2016	A year ahead
Beans	155	138	140
Oilseed Rape	260	280	293
Feed Barley	105	97	107
Milling Wheat	138	136	146
Feed Wheat	119	110	121
Livestock (£ per kilo dead weight)			
Beef cattle	3.58	3.48	No increase expected
Lambs	3.41	4.23	Increase possible
Milk (per litre)	23.54	19.85 (June)	Increase possible

Sources
Arable crops: HGCA. All prices are ex farm. Future prices indicative bids from agricultural traders
Livestock: AHDB. Beef R4L and lamb R3L specification. Future prices from outlook reports.
Milk: DEFRA.

Arable crops

Global

Global wheat prices have been falling due to high production estimates from commentators such as the USDA. In their July report they raised wheat supply estimates by 9.2 million tonnes (mt) to 983 mt, due to good conditions in the US, Russia, Ukraine, Argentina, Australia and Canada. Prices are reacting to various weather stories but are now generally expected to at best stay level.

This increase more than outweighs a 1 mt reduction in the forecast for the EU harvest due to rain, and a reduction in Algeria due to drought. **European production was therefore forecast at a record 738.5 mt**, although this will be revised next month to take account of the poor French harvest; expected to be only 30-32mt i.e. 25% down on last year's record.

Farmers will be relieved to know that global consumption is expected to be higher, by 13.3 mt, due to higher feed use caused in part by high availability and competitiveness of wheat. The forecast of world stocks at the end of 2016 has been cut, to 253.7 mt, but this is still a record high. More recently, **Russia's wheat harvest has so far shown good yields and quality**, so much so that one merchant has predicted that they may lift export restrictions. Such a move would create **more competition for EU exporters**, and would put pressure on prices, at least in the short term.

The other main driver of cereal prices is maize (or corn as it is known in the US). Global maize production is expected by USDA to be slightly lower this year, partially due to the early end to the rainy season in Brazil. However, other commentators believe that good growing conditions elsewhere support a much higher production estimate than the USDA's figure. Global consumption is also expected to be lower due to substitution by feed wheat in the EU and Asia. The result is an increase in the estimate for year-end corn stocks of 3.3 mt, with many in the trade expecting this to rise as we go through the season.

UK

Although global prices have fallen, **prices in the UK have increased since the EU referendum vote on 23 June due to the weakening of the pound**.

Wet weather in Europe has severely hit French milling wheat quality as well as yields. Feed wheat growers will see the base price fall, as this French feed wheat competes for export markets, but milling premiums in the UK for have already increased to over £25/t as a result.

As harvest approaches in the UK, farmers are not expecting a repeat of last year's bumper crop yields, and most today would settle for their long-term average yield. **Sunshine has been in short supply**, with parts of the country experiencing the wettest June on record, something the organisers of Wimbledon also had to address by allowing play on 'Middle Sunday' for the first time since 2004. Since the start of July temperatures have improved which will have improved crop prospects somewhat and provided better conditions for good grain-fill. However this came too late for winter barley and oilseed rape crops. **Barley quality is poor**, with low bushel weights resulting in penalties applied to the base price. Merchants will blend these crops prior to export/delivery to achieve the required specification. Oilseed rape yields have been poor so far, and farmers wait anxiously to see how their wheat crops will fair.

Arable farmers in south east England are coming to terms with the decision by DEFRA to **reject an emergency authorisation for neonicotinoid** seed dressings on next year's oilseed rape, to control of cabbage stem flea beetle. The application, submitted by the NFU for authorisation to use the products on 33% of England's OSR area, was turned down following advice from the government's advisor, the UK Expert Committee on Pesticides. The NFU says this "**bitter blow**" could lead to a large area of oilseed rape being affected to flea beetle damage.

Another major talking point has been the prevalence of **blackgrass in crops** across the country. With only 4 or 5 active ingredients to rely upon, **chemical control has not been effective on its own** and so this is the time to use an appropriate mix of control methods. Chemicals need to be applied in the right conditions, and used in collaboration with robust **cultural control** methods – consider rotations, rotational ploughing, delayed drilling and spring cropping. Few farms seem to have escaped and each farm must decide their policy and communicate it to staff and agronomists. Many of our clients use contractors and must be involved in the decision making, so that cultivation method and timings can be at the heart of the control policy.

With the boost in prices caused by the weaker pound, farmers should be considering forward sales for 2016 and 2017 crops. Feed wheat prices could come under more pressure and milling premiums are currently very attractive. Malting barley prices are tempting for 2017; £150/T for November 2017 (compared with a feed barley price of £107/T) and with the spring crop area increasing to help with blackgrass control it is hard to see these premiums remaining this high for long.

Livestock

Beef and cattle

The beef industry **has recovered slightly** from its low point in mid-2015. Prices are rising but the **sector is so reliant on dairy farms selling calves** for beef production that until the dairy industry settles, the beef sector remains vulnerable. Prices could reduce this autumn as supplies of lower grade beef rise due as more dairy cows are slaughtered across Europe, to reduce milk output.

The weaker pound has made UK exports cheaper, which is less relevant to the beef sector compared with lamb, but should benefit our exporters. S**ince April, the UK's beef and veal exports have increased by** 18% compared with a year ago and total export value was 6% higher, despite the price per kg being lower (source: AHDB). The Chinese continue to increase their imports of beef, at present they do not import from the UK but it is hoped that future trade is on the horizon - particularly as China has been hit hard by flooding resulting in large livestock losses.

With the **potential reduction of imports** to the UK, it would be nice to think that our major retailers boost their product lines with UK produced beef.

The European Dairy Association and some meat processors have warned that the EU's (at present temporary) approval of French plans for national labels for some dairy and meat products will lead to a breakdown of the European single market in this type of product. This has obvious and interesting implications for the UK as we start to negotiate markets – which may rely on 'recognised equivalence' of standards outside the EU.

Lambs and sheep

Sheep meat production was 6% lower in the five months to the end of May compared with the same period in 2015. The number of lambs slaughtered has fallen each month while adult sheep slaughterings have risen.

Liveweight lamb trade continues to lacklustre. Prices are **20% higher than this time last year** despite falling by 10 p/kg in the last month or so.

Analysis published by AHDB reinforces the point that lamb prices are heavily linked to the pound: Euro exchange rate, as around **one third of all UK sheep meat is exported**, with the majority going to the Eurozone. The pound's recently weakness has made UK sheep meat relatively cheaper on the European market than say New Zealand lamb.

The UK has imported less since April, not due to Brexit, but New Zealand and Australia cutting their sales to the UK and increasing their exports to China - something that UK farmers will hope is maintained!

Dairy

The dairy market is slowly recovering. DEFRA's average farmgate milk price rose to 20.44 pence per litre (p/li) in May but this is **14% lower than a year ago**. Many farmers receive 18p/lt or less for their milk, whereas those on supermarket-aligned contracts receive around 26p/lt. DEFRA have received a rap on the knuckles from National Statistics for the way they presented milk prices in February 2016. By including the year's bonus payments in one month, the impression was given that prices rose over the period, when in reality they had fallen.

Prices have risen due to a slowdown in milk production combined with increased seasonal demand, both in the UK and on the continent. AHDB Dairy expects **global dairy demand to overtake supply in 2016** but whether this leads to a sustained and full price recovery will depend on how the world's significant build-up of dairy stocks is managed. Farmers Weekly reports that UK milk production is 10.2% lower than a year ago, while these figures show that UK farmers have responded to the EU milk price crisis, data from the rest of the EU shows this has not happened everywhere.

The latest Eurostat figures available show that between May 2015 and May 2016, 16 out of the 28 member states increased milk deliveries.

Cyprus saw the biggest percentage increase, along with Germany, Poland and the Netherlands. The EU announced plans last week to incentivise a reduction in milk production. The EU is also in discussions to possibly pay farmers 12p/litre to cut production for a period of three months.

Freshly calved heifer prices are 18% lower than a year ago, despite increasing by 4% between May and June to £1,145 per head. **Freshly calved cow prices** are 15% lower, again despite a 2% rise in May and June to £986. **Cull cow prices** have eased back to 90.76p/kg liveweight for a dairy-sired cow and 120.77p/kg for a beef-sired cow (July average.)

Pork and Pigs

EU specification Standard Pig Price (SPP) rose to 130.3p/kg in the second quarter of 2016, bringing prices up to levels last seen in late December 2015. Prices have been supported by stronger consumer demand due to improving weather in northern Europe and the start of the holiday season in the south of the continent.

UK exports of fresh and frozen pork have continued to grow significantly, by 18% in the year to June 2016 to 17.2 thousand tonnes, mainly due to almost doubling of orders from China but also rises to Germany, the United States, Philippines and Poland. The value of these exports increased by over 29%, to £19.3 million.

Fertiliser

CF Fertilisers, the new owner of Growhow, issued their **ammonium nitrate (AN) price at £165/T for June/July delivery** which was the lowest level since 2007. After the Brexit vote this price was withdrawn and prices have risen for August & September deliveries.

Sulphur products were priced at up to £30/T more than the AN price due to more limited supply, whereas **urea** is priced at around £185/T.

The lower prices have been welcomed by farmers, many of whom felt prices did not reflect the low grain prices, and switched to imported fertiliser, with imported AN '**Lithan' or 'Poulan'** around £10/t less than its UK equivalent.

Muriate of Potash for delivery in the autumn is currently priced at around £255/T and **Triple Super Phosphate** is around £290/T.

Red diesel rose to an average of 46.5p/lt excluding VAT in June, back to August 2015 levels, with the expectation of continuing gradual rises over the coming months.

Basic Payment Scheme

The Rural Payments Agency (RPA) announced in late June that it was beginning to deal with **incorrect 2015 payments**. Anyone waiting for a correction or further payment who has not received an email or letter by the 13th July 2016 is advised to contact the RPA urgently. The highest claim values will be deal with first.

Annoyingly, the RPA will not provide a written statement showing how the 'correction' payment has been recalculated but will send a revised Claim Statement once the correction payment has been made. This should be carefully checked against the initial claim, as should entitlement details on the online Rural Payments service. The RPA's current aim is to complete these corrections by the end of September 2016.

Hard copies of **BPS 2015 Entitlements Statements should start to be issued from early August 2016** as correction payments are completed. Note that any **land/entitlement transfers either on paper or online will have to wait until the end of this year** as the RPA will not process transfers until then.

Farming policy, and Rural Development Programme for England

BREXIT – the impact on UK agriculture

Some of the most significant impacts of the decision could be felt on farms, due to the high dependence of farmers' incomes on direct payments through the Common Agricultural Policy (CAP). The decision will delight significant numbers of farmers, as polls had consistently shown strong farmer support for the leave campaign.

In brief:

- Basic Payment Scheme payments will continue to be paid in the UK until there are new arrangements.
- In the short-term, as the value of the pound falls, the **UK's exports will be become more attractive to buyers** which will support demand for them, which is positive. We are seeing this already in grain and livestock markets, as reported above.
- The decision will **end UK farmers' inclusion in the CAP** and raises a large number of questions about the future direction of agricultural policy and the impact on farm profitability.
- We expect that a **British agricultural policy** will replace the CAP, with very different policies in England, Scotland, Wales and Northern Ireland.
- Farmers across the UK would welcome a clear, concise, jargon-free farming, food and environmental policy that makes their role clear.
- The policy should also include measures to help farmers manage risk and price volatility better, which is one of the most damaging things affecting UK farmers' businesses at present.
- The level of support that UK farmers will receive and the terms of any trade deals struck with the EU and the rest of the world are the two most important factors affecting farm profitability. **Profitability will be maintained, or could even improve, if the level of support is continued at current levels**, something the Leave campaign suggested during the referendum campaign and, if trade deals do not liberalise trade significantly, which would expose UK farmers to competition with imports from low cost producers around the world.
- There is also an opportunity to review the way the farming sector is regulated, with many farmers feeling that the sector has been over-regulated and burdened with red tape.
- Furthermore, it creates a significant **opportunity to reform the way farmers are paid.** The payment systems, in England and Scotland in particular, are complicated, bureaucratic and have led to delays in payments to farmers in recent years.
- We would expect the new agricultural policies of the four countries' policies to continue diverging. For example, we expect the English agricultural policy to be much more supportive of the growing of genetically-modified crops than policies in Wales and Scotland.
- There is also the issue of how to deal with global issues such as climate change and environmental protection, areas previously regulated by the European Union.

Farmland market and prices (from Michael Fiddes, Head of Estates and Farm Agency)

- **Markets like certainty and the agricultural industry is now facing uncertainty** as to the general direction of a UK-only agricultural policy and more specifically the future level of subsidies.
- There had been warnings that a vote to leave the EU could result in significant drops in land values, but we always felt these risks were overstated. The value of farmland has not directly related to its earning capacity for years and there are many reasons why land remains an attractive purchase for a range of buyers.
- Since the result was announced, **we have not seen a farm or land deal fall through due to the Brexit vote** and indeed we continue to see interest for the farms and farmland on the market.
- However, until we have greater clarity about the future of farm support some farmer buyers will lack the confidence to invest, which is likely to lead to price adjustments. Inevitably, there will be people who want to take stock of what Brexit will mean for them and their business and pause before committing to a purchase.
- Our expectation is that the amount of land entering the market for the remainder of 2016 is also likely to be restricted as farm businesses decide what is right for them.
- Early indications are that the weakening of sterling and wider economic concerns could also see non-farmers looking at land as a safe haven, compared with other investments.

- In the short term, the market is likely to become even more polarised with values likely to be extremely variable, dependent on location and the number of buyers in the local market. We do not envisage any huge drops in values, although it is likely that farms in areas less desirable to lifestyle and rollover buyers could become harder to sell and will need to be well-priced.

Future of the Rural Development Programme for England (RDPE) post-Brexit and the DEFRA ministerial reshuffle

DEFRA is treating schemes under the RDPE as 'business as usual' and is continuing to process applications. However, **it will not issue new agreements until it has a decision from the Treasury on funding** for schemes this year and in the future.

The new ministerial team of Andrea Leadsom, George Eustice and Thérèse Coffey is expected to **carry on with the RDPE's existing themes, at least until 2019 / 2020**. They would like to reduce administrative burden on farmers where possible. They are starting to plan now for policy post-2019. They would like to reduce the EU-imposed silos / barriers between sectors and funding streams.

DEFRA could not advise on whether to apply for new agreements but they do not expect the programme will change radically. Our reading of this is **get applications in now**, make their funding periods shorter (for schemes other than agri-environment) and avoid them running beyond 2018/19 ideally.

LEADER spending will focus on business development, tourism and food processing, probably until 2020, with the next call for applications likely in Q3 2016. The application process will be made simpler.

For further advice on this please call your S&P contact or speak to your Natural England advisor.

Other news

Changes to simplify greening could be in place by autumn 2016

A set of 16 proposals to simplify greening rules have been tabled, with the intention of making changes to the rules this autumn. The proposals include stopping the use of pesticides on productive Ecological Focus Areas (EFAs) and allowing a mixture of seeds for nitrogen fixing crops. The proposals are really evolution and removing burden (ho ho!) rather than a radical change.

Glyphosate: EU extends glyphosate license for 18 months

The European Commission has agreed to extend the license for 18 months to allow time for a European Chemicals Agency (ECHA) risk assessment to report in mid-late 2017. This brings a long running saga to a temporary solution – for 18 months – with neither the agro-chemical industry nor the environmental lobby happy.

European legislation on emissions from farming backed by MEPs

MEPs have supported a proposal from the European Commission to **limit emissions** such as ammonia (from manure and fertiliser) and from farm machinery that would **introduce binding national targets**. The EU has agreed to **cut ammonia emissions by 18% by 2030**. Fears are that it would cause job losses and require significant investment in new animal housing. We will monitor this as, despite leaving the EU, similar legislation could be applied in the UK.

British Food & Tourism initiatives

The **Great British Food campaign** http://www.greatbritishfoodcampaign.com/ is currently running focussing on: trade and productivity; culture and tourism; and working with other existing activities.

The **Great British Food Summer Trip** is currently showcasing a different region each week, with late July's region being Yorkshire, then East Midlands, Northern Ireland, North West, Wales, Scotland and finally the North East.

A **small Great British Food Tourism Grant Scheme** was announced in mid-July to fund food-related activities within tourism, with grants of up to £25,000 and £150,000 available.

Farming Departments

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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
Shrewsbury	01743 284134
Stamford	01780 484040

Health & Safety

See our latest update on farm Health & Safety matters as well as other publications on our website:
S&P Health & Safety Update

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