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# News in brief

## Seeking opportunity amidst uncertainty

With Covid, Brexit and markets more volatile than ever, 2021 has been a challenging year for everyone. It was inevitable that Brexit would highlight vulnerabilities in food supply chains, and the unfortunate coincidence of the pandemic has largely served to exacerbate these challenges.

In spite of this, for many farmers 2021 has proven a profitable year, with beef and sheep reaching record prices, a welcome breath of relief after the significant fall in Farm Business Income in 2020 (see Policy Brief). Other sectors have not fared so well in this year's economy, with increasing input costs particularly at the tail end of the year. For some (such as milk producers) price increases to reflect increasing input costs have not yet been put in place and margins are already tight. The price pinch may not have fully reached beef and sheep farmers yet following the autumn's record prices, all the more reason to keep an eye on input use and costs over the winter, which will start eating into margins.

Supply chains have learned some hard lessons over 2021 and going forward must begin restructuring to build supply chains in a way that are more resilient. Until new and more secure sources of workers can be found, from pickers, through processing to logistics, the industry will have to adapt to minimise instability as much as possible.

Farming must stand and work together to prevent that being at their detriment, to ensure domestic food supply is the most <u>sensible</u> option, since cheaper imports may not make us the cheapest option. Anything that can be done to make UK supply chains as frictionless and reliable as possible versus factors in a volatile world market will work in our favour.

British agriculture is also entering the early stages of other types of restructuring, with new priorities for the role of farming in rural land management as much as food production. We may look back on this period in years to come as a hugely formative time in how not only agriculture operates, but how it integrates and is perceived by those outside of it.

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## This month's editors:

Anna Sellars

**Merry Christmas**
**& Happy New Year *from the Agribusiness News Team!***

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

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## Round up of 2021…

Going into 2021, the expectation was that following the introduction of new legislation to maintain farm support approaches until 2024; Scottish Government would be able to make significant steps forward with regards 'Transition' in terms of seeking to making improvements, simplifying requirements and processes and piloting new schemes.

While over the course of 2021 progress has been made with the farmer led groups (ABN, June 2021) and developing future policy options, the physical and economic impact of ongoing Covid pandemic, the continuing fall out from Brexit in terms of logistics and labour shortages, together with waiting to see what COP26 would bring in terms of global agreements with regards climate change mitigation has meant that for all involved, the rate of progress has been slower than had been hoped.

Although a Brexit deal was finally concluded at the 11th hour; there are definite 'winners' and' losers' within the agricultural industry. On a positive note, the EU granted third country equivalent status to the UK, thereby approving tariff-free exports of meat, dairy and almost all food and plant exports. However, on a negative note, Scottish seed potato producers were dealt a significant blow, with seed potatoes being excluded from the Brexit deal on the grounds that "there is no agreement for GB to be dynamically aligned with EU rules".

March saw the stark financial impact of the initial Covid pandemic lockdowns on Scottish agriculture with the announcement that the average Scottish Farm Business Income (FBI) for the 2019-2020 year had dropped 36% from an eight year high in 2018-2019 to an average of £25,800 across all farming types, with the loss on farms from agricultural activity alone more than doubling from -£12,400 to -£25,500 in the 2019 crop year.

June saw a politically and symbolically defining moment for the UK Government with the first post Brexit free trade deal with Australia. While 'Sealing the deal' with Australia was be regarded as an important stepping stone to joining a wider Asia Pacific free trade agreement - the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP); significant concerns were raised in the farming community with regards the financial impact on livestock farms.

August saw the launch of the Agricultural Transition – first steps towards our National Policy consultation which provided an overview of the key themes and recommendations emerging from the Farmer Led Groups as well as setting out a number of key questions with regards baselining good practice, carbon emissions, sequestration, productivity, biodiversity scoring and monitoring, knowledge & skills, research & development, capital funding and supply chains. The responses to the consultation will help to inform the wider ongoing work on the development of agricultural policy and in particular, the replacement for CAP beyond 2024.

September saw the announcement that while largely due to an increase in the value of vegetables (+27%), pigs (+26%) and eggs (+17%) compared to 2019, the Total Output from Farming in 2020 was up by £0.22 billion to £3.45 billion; linked to Brexit/Covid effects, the total input costs were up by £0.31 billion in 2020 to £3.14 billion, leaving a marginal reduction in Net Income for the year of £0.09 billion. Part of this shortfall is attributable to total support payments to farming in 2020 falling by 2% to £452 million.

At the start of November, COP26 was **the** major event on the calendar, with Scotland taking centre stage as the host country. However, while Antonio Gueterres, Secretary-General of the United Nations described the COP26 outcomes as "building blocks for progress", there was a general sense of post-event deflation given that some of the key emitting nations did not sign the Global Methane Pledge to reduce methane emissions at least 30% by 2030 (from 2020 levels), resulting in 50% of global emissions not being accounted for.

## Looking into 2022…

**Key Dates**

- The 2022 Agri-Environmental Climate Scheme (AECS) application round will be open from Monday 24th January to Friday 29th April 2022.
- The Controlled Activities Regulations (CAR) around slurry, silage and digestate storage and application have been revised and updated. The amendments come into force on January 1st 2022. For further details are available on the Farming and Water Scotland Website.

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## 2021 UK harvest & world prices up

The world saw a record cereal harvest in 2021 but this was less than expected. Drought lowered output in parts of the US, Canada, Russia and S. America. Soyabeans and palm oil crops were particularly hard-hit raising oilseed prices sharply. World economic growth picked up boosting cereal demand. Cereal stocks-to-use ratios fell further. According to USDA world grain output rose 70.9mt to 2,279mt; wheat output +2mt (+0.25%) to 777.9mt, coarse grains output +68.9mt (+3.2%) to 1,501.7mt. World grain demand rose 53mt. World grain stocks fell 3.1mt and stocks to use ratio fell to an 8 yr low.

COCERAL estimates the EU+UK 2021 harvested grain crop at 312.6mt, up 5.2% from the 297.2mt produced in 2020 and in its first forecast for the 2022 crop a fall of 2.6% to 304.5mt.

For the 2021 UK harvest, winter cereal sowings rose and wheat output lifted 45% to 14.02mt from the disastrous 9.63mt crop in 2020. This rise in UK output was not enough to greatly move the relative pricing of UK wheat given low UK wheat opening stocks. This left the UK a net importer for a 2nd year with high import costs supporting UK grain prices.

UK barley output fell 12% to 7.1mt on the back of lower spring barley sowings. This helped reduce the exportable surplus and prices rose with global markets. This reduced barley's price discount to wheat from £50/t in 2020 to just £15/t in 2021.

In Scotland 2021 cereal output was down 8% at 2.9mt on lower yields. Wheat output rose 11% and spring barley output fell 18%. Whisky grain demand has risen while the high price of imported maize has led distillers to switch to Scottish wheat. Malting barley premiums of £10-£15/t at harvest were £5-£10/t higher than 2020 but were quickly overtaken by rising feed prices later in the autumn.

**Historic and future grain price summary**

| Sale period | Hvst '20 | Hvst '21 | | | Hvst '22 |
|---|---|---|---|---|---|
| Date priced | Dec-20 | Dec-21 | *Change* | | Nov-22 |
| | *(£/t)* | *(£/t)* | *(£/t)* | *(%)* | *(£/t)* |
| Wheat | 185 | 215 | *+30* | + | 200 |
| Feed barley | 136 | 200 | *+64* | + | 170 |
| Malt. barley* | 156 | 280 | *+124* | + | 225 |
| OSR # | 370 | 570 | *+200* | + | 430 |

Source: AHDB/SACC, Ex-farm Scot, * season av. Assuming 50% sold £20/futures pre harvest. #del. 

## 2022 - protecting margins in the future

With global grain stocks-to-use tightening to their lowest level in 8 years by the end of 2021/22, the market will continue to closely monitor weather around the world. There are some concerns about a lack of winter cereal hardiness in parts of southern Russia and Ukraine. However, in other regions Australia is expected to see a bumper harvest and grain crops look favourable in Argentina. Soyabean output in S. America is expected to rise substantially which may temper currently high oilseed prices – if achieved!

Within the UK, the initial AHDB early-bird survey sees 2021 winter cereal sowings stable; wheat +1%, winter barley +4%, oilseed rape + 17%, fallow +15%, but lower spring barley -8% and oats -6%. The picture is more stable in Scotland with crop areas almost unchanged for the main cereal crops. Winter crop conditions are good across the UK.

Input costs rise – **-£** massive rise in fertiliser prices * 3 threatens crop margins. Will also impact on grain prices but in a volatile manner. Buy fertiliser + sell grain = to lock in margin.

Global cereal S&D; **+£** Output > demand, Stocks to use falls for 5th year in a row, forward grain prices are not high enough to compensate for high input costs. **+£** Economic growth rebounds post/mid Covid boosting energy/biofuel/fert/grain values. The market remains vulnerable to weather conditions.

UK cereal S&D; **+£** UK a net wheat and cereal importer in 2021, likely to continue in 2022 unless yields are exceptional.

**+£** UK 2022 early-bird area estimates – wheat stable, spring barley area to decline 8%, fallow to increase. Unless yields high, UK could remain net importer for another year.

Whisky; **+£** lifting of US tariffs on Scotch malt whisky exports boosts demand. **-£** high yielding spr. barley varieties **+£** Strong future growth potential for whisky sales IF world economic growth continues, new Scottish malting capacity on-line.

- Buying today's inputs especially fertiliser by selling grain today helps cover high costs.
- UK could remain a net wheat importer in 2022, barley output to fall
- Malting barley plantings and supply in Scotland under threat from weak malting premiums in recent years

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## High prices for all?

This last year has seen beef prices rise from a starting point of 382p/kg to peak at 432p/kg by May, and returning to nearer 400p/kg by the end of the year. This increased price level has been welcomed by beef finishers, who for many years have asked for the magic 400p/kg. More often than not, the knock-on effect of an increase in the finished price is an increase in the store price, and this year was no exception. Store cattle sales across the country had averages well ahead of previous years, with some weaned calf sales averaging over 300p/kg, whilst this has provided the suckler producers with a boosted income for the year, it has just maintained the margins finishers are used to.

There has been some unwelcome price rises this year in the form of feed costs and fertilizer values. Whist the full effects of these increases are yet to be seen they will have a considerable impact on the bottom line of many farms, even with the higher sales prices for livestock.

Retailers continued to support British beef this year, reducing the amount of imported beef on their shelves, with Asda committing to 100% British from October 2021. Whilst it is great to see the retailers support homegrown produce it wasn't without it challenges as cattle availability was predicted to be less in 2021 than in 2020. This move put more pressure on supply and so impacted the price, with the Scotch price being eclipsed by the North of England prices by around 5p as processors were under pressure to meet their retailer orders.

A high beef price is welcomed by producers but we have to be mindful of what happens when that price is passed on to consumers. As retailers increased beef prices in the autumn there was a noted drop in demand as there is a price point at which the consumer will start to switch over to cheaper protein sources.

With the English price being strong this year more cattle were sold south of the border than usual and the live ring continued to dominate headlines with prime cattle achieving over £2,000/hd for handy weight butchers type cattle.

## Carbon concerns continue on….

2021 continued the debate around climate change and with COP26 held in Glasgow there was even more media discussion around where responsibilities lie. For many it seems that a reduction in livestock numbers is the solution to the problem. Those in the livestock industry will be well aware that it is not as simple as that and yes, efficiency improvements will help to reduce emissions, we cannot forget the other vital roles livestock play in our ecosystems.

The UK Government's two trade agreements (in principle) with Australia and New Zealand have shown that they are not against outsourcing this country's food production but it would also seem that they are open to the idea of 'outsourcing' their carbon emissions too, in order to meet their own green targets. This is not sustainable in the long term and as the last 18 months have shown us our current food supply chain has struggled with the labour and transport challenges from Covid, and to further lengthen that supply chain would bring about food security issues in the long term. A much more sustainable route would be to look at shortening the supply chain, shopping local and buying in season.

## Covid deja-vu

This year has finished in a similar fashion to how it started, reduced hospitality activity, rising COVID cases and advice to stay at home. If the last 18 months are anything to go by this will be good news for the sector as retail demand for beef was strong in those times of limited social activity as consumers spent more time cooking at home. Butchers' businesses increased in Covid and it is hoped that the level of activity seen will remain.

One of the biggest challenges Covid brought to the beef industry was the impact outbreaks had on processing labour availability and the knock-on effect on throughputs at abattoirs.

Whilst 2021 has had its challenges, the prolonged period of higher cattle price has made it seem more manageable, let's hope 2022 gives us some positivity.

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| '000 tonnes | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|---|
| Production | 912 | 895 | 890 | 906 | 923 | 885 | **895** |
| Imports | 426 | 443 | 451 | 382 | 377 | 376 | **376** |
| Exports | 143 | 140 | 147 | 174 | 153 | 141 | **162** |
| Consumption | 1,150 | 1,198 | 1,193 | 1,114 | 1,148 | 1,119 | **1,108** |
| UK suckler cows ('000 hd) | 1,596 | 1,589 | 1,558 | 1,527 | 1,512 | 1,485 | |
| Scottish suckler herd ('000 hd) | 437 | 432 | 428 | 417 | 414 | 413 | |
| UK dairy cows ('000 hd) | 1,897 | 1,891 | 1,883 | 1,871 | 1,851 | 1,850 | |
| Scottish dairy females +2yrs ('000 hd) | 217 | 216 | 214 | 210 | 204 | 174 | |

Source :Defra, SG (revised to BCMS data), AHDB, Estimates and forecasts in bold. All figures subject to revision.

# Why is China important for trade?

## #1 in the world soon

China's influence over global agri-trade has grown exponentially this century. With it forecast to become the richest country in the world by the middle of the decade, China's impact will become even more profound. What does that mean for Scottish food, drink and production industries?

## A big population with a growing appetite

China's influence comes from its size but also its limitations. With 1.43 billion people and a growing affluent middle class its food and drink demand is huge and becoming more sophisticated. But China's land and water reserves are limited, so satisfying the demand for an increasingly westernised diet is putting pressure on domesticate production capacity and sucking in evermore imports despite being the world's largest meat producer.

The Chinese consume around 28% of global meat supply, including half of its pork. Of per capita meat consumption, pork accounts for 40%, followed by fish at 34% then poultry with beef and sheepmeat providing a relatively small share. However, major outbreaks of African Swine Fever (ASF) in 2018/19 dramatically affected global meat markets.

ASF killed around 60% of the Chinese pig herd and, by implication, a quarter of the global pig population. Consequently, in 2019 China's imports of pork doubled, poultry jumped by 77%, beef by 72% and sheepmeat by 42%. Scottish pig farmers benefitted until ASF outbreaks in Europe cut trade and diverted EU pork onto the UK market hitting farmgate prices. Brazil benefitted from the jump in beef demand. UK sheep prices also improved sharply as more New Zealand lamb was diverted to fill Chinese demand.

## China's response to rising food demand

While ASF turbocharged China's impact on the global meat market, its influence was already profound. In the 20 years to 2018, Chinese meat consumption rose by 72%, which accounted for just over a third of global meat consumption growth.

To improve its food supply chains, Chinese companies have invested heavily overseas. Notably buying the US's biggest pig processor Smithfield Foods in 2013, and investing in several Australian and New Zealand sheep, beef and dairy companies. Though most of Chinese foreign investment is in neighbouring south-east Asian countries, Russia's far east and Africa.

Since 2018, the Chinese have modernised their own pig industry and set ambitious targets to grow domestic poultry supply. Both industries depend on concentrated feeds, with surging demand driving global feed prices. Rabobank predict Chinese imports of 100m tonnes of soya for 2021.

Boosting domestic production also requires vast tonnages of fertiliser. Hence, one of the main reasons for the current spike in global fertiliser prices is the Chinese government's decision to stop exporting fertiliser to protect domestic production. China accounts for 30% of global fertiliser trade.

## Sino-Scottish trade significant

Scotland's food and drink exports to China are already sizeable. Scottish salmon is Scotland's biggest food export with China its third largest destination in 2019 at £59m. Scotch whisky exports to China were around £89m in 2019. But China is a very small market for Scottish red meat exports.

Growth in exports of Scottish fish, seafood and whisky have been achieved despite no preferential trade agreement. The quality, taste and (food) safety of Scottish fish are key to strong Chinese demand, while Scotch whisky, particularly single malts, play to the growing importance of exclusivity and status products in China. The Scotch whisky industry also benefits from the massive market development expertise and resource of British drinks companies like Diageo.

For Scottish red meat exporters, however, no preferential trade deal with China is a handicap. By comparison, New Zealand's free trade agreement has underpinned trade growth. China took half of the Kiwi's sheepmeat exports in 2019/20 and 36% of their beef exports. The Kiwis, like the Australians, also have far greater experience and resource invested in building presence in the Chinese market.

Nevertheless, as the Australians have found, the Chinese are sensitive to criticism and will withdraw market access instantly to make a point. That is why the Australians were pleased to sign a trade agreement with the UK to reduce their dependence on the Chinese market.

So, while the Americans predict that the Chinese middle class will grow by 189m households by 2030, helping demand for premium products like Scotch whisky, increasing exports of Scotch beef, lamb and pork to China will be difficult. Yet that will not stop China impacting the price of Scottish livestock, crops and inputs thanks to its influence over global agri-trade and the UK government's willingness to sign trade deals that expose agriculture here to the ebb and flow of that trade.

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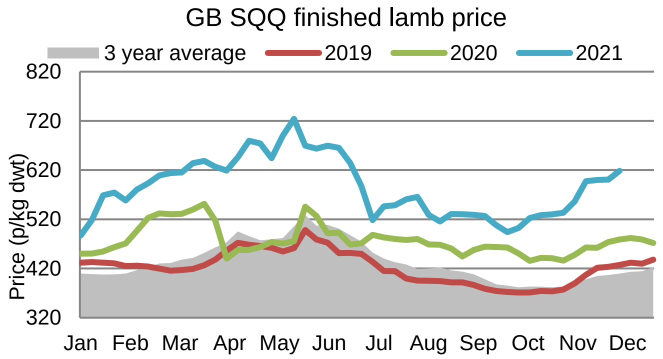
# Sheep

## Looking back over 2021

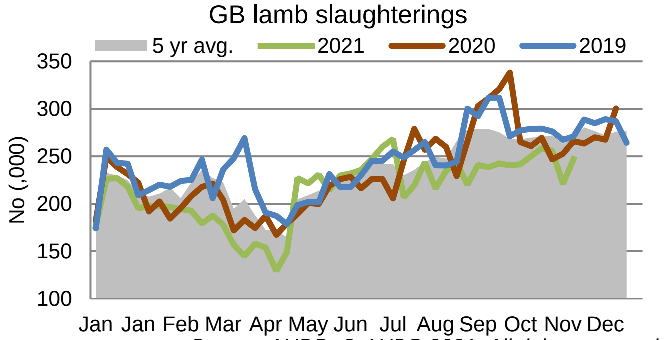
What a year 2021 has been for the sheep industry. We started the year with great uncertainty of how export markets and ports would operate post Brexit. It was a very fast learning curve and there were certainly some barriers to cross, especially that of additional paperwork at ports. Both our internal and global supply chains have faced challenge, after challenge as the year has progressed, between Brexit initially, the ongoing pandemic, labour shortages, HGV driver shortage and even the Suez canal being blocked for almost a week. The resilience that has been shown in the agricultural industry through these challenges has been hugely inspiring. Even when unbelievable snow hit most of the country during lambing time.

Coupled with these barriers, we have seen sheep meat be in constant high demand, both domestically and globally. Throughout the whole year the finished lamb price has exceeded the last three years (2021 blue line below). The first week of the year opened up with a SQQ of 487p/kg which grew almost week on week to a peak SQQ in May (week ending 17th May) of 724.2p/kg. This level was not sustained, and dropped back as the supply increased.




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

The strong price is largely driven by reduced lamb supplies in both New Zealand and Australia, who are both still rebuilding flocks following drought, as well as channelling more product to their closer Chinese market, which has grown considerably, due to African Swine Fever. The availability and cost of shipping containers and transit has also been a driver for the reduced level of product from these major sheep exporting countries. In addition, there has been a strong export demand for carcases, as well as a strong domestic demand for lamb within the UK. Further to this the UK lamb kill has been lower than the five year average this year (2021 green in the below graph), meaning that demand is higher than supply, which has inevitably aided the end price.




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

## What does 2022 bring?

At the time of writing the Australian trade deal is verging on being finalised, and the New Zealand deal is following closely behind. Resulting in both countries transitioning to increase their exports to the UK year on year. Due to their current supply chain issues e.g. shipping and their proximity to closer markets, I can't see this having a large effect to our market in the coming year.

Environmental policy and agendas will grow in 2022, with a drive to reduce greenhouse gases, especially methane in livestock systems. I see this as a major opportunity for the Scottish sheep sector, to promote the sustainable sheep products we have on offer including meat, wool and milk as well as the positive impact to rural economies and communities.

There is no doubt further challenges will come our way e.g. animal transport regulations, increasing input prices in fertiliser and imported feed, but sheep are in a really positive position at the moment and I firmly believe the ability to react and adjust to change in a real strength in the Scottish sheep industry, a strength that will be required as we progress into changing environmental policies.

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**UK market situation and outlook**

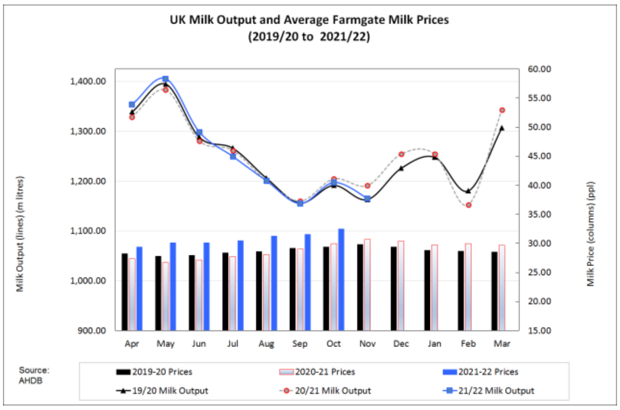
| '000 tonnes | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|
| Production | 302 | 287 | 302 | 289 | 308 | 287 | 280 |
| Imports | 109 | 109 | 91 | 92 | 74 | 62 | 60 |
| Exports | 95 | 82 | 93 | 87 | 98 | 83 | 76 |
| Consumption | 316 | 314 | 301 | 293 | 284 | 266 | 264 |
| UK breeding flock ('000 hd) | 16,024 | 16,304 | 16,669 | 16,286 | 16,035 | 15,784 | |
| UK ewes for first time breeding | na | na | 2,907 | 2,714 | 2,595 | 2,578 | |
| Scottish ewe flock ('000 hd) | 2,588 | 2,618 | 2,661 | 2,552 | 2,568 | 2,544 | 2,565 |
| Scottish sheep 1 yr for breeding | 697 | 698 | 671 | 632 | 589 | 612 | 590 |

Source: Defra, SG, AHDB. Estimates and forecasts in bold. All figures subject to revision. © *AHDB 2021. All rights reserved.*

## Prices rising as production falls back

- *UK production dropped further back during November 2021.*
- *Milk production is also scaling back across the EU as other nations contend with rising input costs and further disruption caused by COVID.*

Output for November 2021 has been estimated at 1,165.49m litres (before butterfat adjustment) – a reduction of 25.64m litres compared against November 2020. These latest production figures mean that UK cumulative production to the end of November is estimated at 10,027.00m litres (16.51m litres up on the same period last year).The UK average milk price increased by 0.98ppl between September and October 2021. The UK average milk price for October is estimated at 32.55ppl (up 2.56ppl on a year-on-year basis). Milk prices look set on an upward trajectory for at least Q1 in 2022.




## Positive outlook for 2022 as prices rise

Price announcements confirmed by UK milk buyers for January 2022 are listed below:

- Lactalis – 2.83ppl increase confirmed and split as follows: 0.50ppl increase backdated from 1st December and a further 2.33ppl increase from 1st January 2022. This takes the liquid standard litre price up to 33.83ppl for January 2022 (see table).
- Sainsburys – 0.23ppl increase from 1st January 2022. This takes the liquid standard litre price up to 33.10ppl for Müller Milk Group members of SDDG. Arla suppliers will see their prices move up 32.98ppl.
- Müller - Müller Direct suppliers will receive a 3.00ppl increase from 1st January 2022. This is a revised offering from Müller, having initially announced a 2.00ppl increase from 1st January 2022. See table.
- Müller organic – Müller will increase its organic milk price by 1.00ppl from 1st January 2022. This takes the organic liquid standard litre up to 42.50ppl.
- Müller – direct suppliers who signed up to a three year fixed price of 29ppl with Lidl (commencing May 2021) have received welcome news that the fixed price offering will be increased by 4.00ppl from 1st January 2022 taking the liquid standard litre price up to 33.00ppl. The 4.00ppl price increase is to be reviewed again in spring 2022.
- First Milk – 2.00ppl price increase from 1st January 2022. See Milk Price table.
- Yew Tree Dairies – 3ppl price increase confirmed from 1st January 2022. This takes the liquid standard litre price up to 33.50ppl.
- Graham's Dairies – Suppliers will receive a 2.00ppl increase from 1st January 2022. This takes the liquid standard litre up to 32.00ppl.

| Annual Average milk price estimates for January 2022 (ppl) | |
|---|---|
| **Milk Buyers – Scotland** | **Standard Ltr*** |
| Lactalis (No profile or seasonality) [1] | 33.83 |
| First Milk Liquid [1, 2] | 32.88 |
| First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2] | 34.00 |
| Müller - Müller Direct - Scotland [1, 3] | 32.75 |

*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.*

| UK dairy commodity prices (£/ tonne) | Nov 2021 | Oct 2021 | May 2021 |
|---|---|---|---|
| Butter | 4,380 | 3,780 | 3,350 |
| SMP | 2,600 | 2,330 | 2,210 |
| Bulk Cream | 2,139 | 1,855 | 1,348 |
| Mild Cheddar | 3,440 | 3,240 | 2,980 |
| **UK milk price equivalents (ppl)** | **Nov 2021** | **Oct 2021** | **May 2021** |
| AMPE (2020) * | 42.28 | 36.57 | 33.20 |
| MCVE (2020) * | 39.22 | 36.56 | 33.61 |

*Source: AHDB.* 

## Review & Outlook

2021 is unlikely to be remembered as a stand-out year by many dairy farmers. Although milk prices increased gradually throughout the year to reach their current high point, a spike in farm input costs, caused by a sharp rise to gas and energy prices in the latter part of the year, has left many farmers wondering how margins are going to be recovered. Even those farmers who are on fixed price options are not insulated from the volatility of rising input costs (as the Müller / Lidl case above highlights). In these pricing models, it is often 3-6 months before high input costs can be incorporated into the revised (higher) milk prices. In addition to the sharp rise in energy costs, 2021 will also be remembered as the year that Glasgow hosted the COP26 conference. As climate change gradually moved up the political agenda, several dairy businesses unveiled commitments to help combat climate change e.g. First Milk's First4Milk zero-carbon by 2040 pledge.

Looking forward to 2022, much will depend on the price of energy and the impact that energy prices have on fertiliser prices, but one would hope that (fertiliser) prices can only come down from their current levels. The on-going COVID pandemic remains a key factor in determining future demand for dairy product. Whilst economic lockdowns are not in any business's interests, they are unfortunately a feature of our lives at present. Happy New Year to all our readers.

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# Global trends for 2022

## Introduction

The global economy is still subject to significant risks due to the ongoing Covid-19 pandemic. Although the food and agricultural sectors have fared comparatively well in the face of Covid impacts and uncertainties, the coming year will be determined by pandemic outcomes to a greater degree than by other variables.

## Coronavirus

The Omicron variant has re-written Covid timelines. Uncertainties about its viral characteristics make the coming months unpredictable, but based on existing data, the next six months are projected to have a higher burden of disease and rate of hospitalisations than the previous six months. Full vaccination will continue to be crucial to maintain vaccine efficacy. Vaccine uptake has plateaued in the EU/EEA (78.6% of adults doubled vaccinated), but booster doses are increasing. The rollout of new oral therapeutics and renewed public health measures will also mitigate against the worst of future waves.

## GDP & Global Trading

Curtailment of restrictions has allowed demand to bounce back, driving rapid return to economic growth in many countries. This growth has been inconsistent across nations and industries, with travel and tourism lagging. EU real GDP is projected to have increased by 5% over 2021, however global GDP has suffered a loss relative to pre-pandemic projections which will not be recovered (see **Fig. 1**).

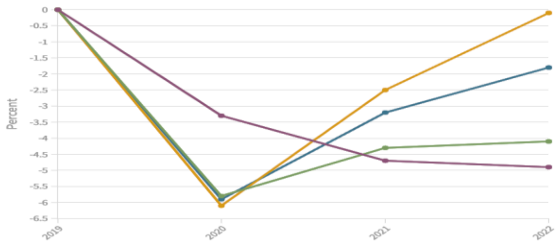


***Figure 1: Percent deviation between Jan 2020 and June 2021 GDP projections for 2019-2022. Yellow: advanced economies; Blue: world; Green: emerging market & developing economies; Purple: low-income countries. Source: World Bank.***

The agricultural and food sector has been resilient relative to other economic sectors, but inflation in consumer food prices have negatively affected diet and access to food for many people. This is especially true in low-income countries, where the pandemic will be of lasting detriment to poverty and food security. Spiking global freight rates are threatening continued economic recovery, as import price levels could increase by 11% globally (or higher in island nations and small economies). Demand for shipping peaked as consumers shifted their spending to goods over services during lockdowns. Compounded by labour shortages and other capacity constraints, global container freight rate index was 7.5 times higher in Sep 2021 than Dec 2019 and these prices have yet to stabilise.

The current commodity price surge has been driven by the recovery of the EU, US and Chinese economies. Global demand for agricultural commodities is set to decrease in the coming decade (from 2.2% to 1.2% pa) as China's population growth slows down. Continued growth in demand will result from continued population growth in other regions, notably Sub-Saharan Africa.

## Input Costs

Consistently high natural gas prices are a major inflationary pressure, the result of a squeeze on supply from economic rebound. Natural gas prices have driven up other agricultural input costs, such as electricity and fertiliser (+78% Dec 2019 - Sep 2021). Ammonia prices spiked due to increased demand from Europe and suspended production from U.S. Gulf nitrogen plants (see **Fig. 2**).

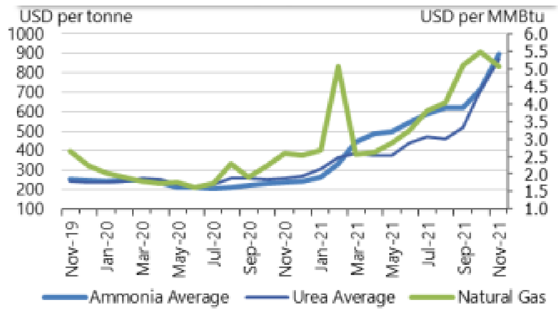


***Figure 2: Ammonia, urea and natural gas spot prices Nov 2019-Nov 2021. Source: AMIS Market Monitor. (N.B. Gas is a major input into N-based fertiliser production)***

## Agricultural Sector Spotlights

**Arable:** Boosted commodity prices (notably cereals and oilseeds) will help these arable farmers weather the consistently high input prices in the coming year. Over the next decade, increased global crop production will be driven by improved yields and farm management (87% of projected growth) rather than increased cropping intensity (7%) or expansion in cropland (6%).

**Wheat:** The EU wheat harvest was good this year, recovering from last year's low. Global production of wheat is forecast to fall by nearly 1% compared to 2020/21. Trade is set to increase by 2.2% due to demand from the Near East from predictions of reduced harvests in the region. Continued demand for wheat imports during the pandemic and tight supply has supported wheat export prices. Total availability estimated at 16.9Mt, 2.4Mt higher than 2020/21, but still the second lowest figure since 2013/14. UK wheat imports forecast at 1.45Mt, 40% below 2020/21 levels. The balance of total availability and domestic consumption is tight at 2.05Mt (the third lowest this century).

**Barley:** Production rebounded this year after an area decline. Total 2021/22 cereals demand for animal feed is estimated at 13.0Mt, 247Kt lower than 2020/21, due to a fall in production from compounders, itself result of labour and logistic shortages in the supply chain. Demand from brewing, malting and distilling sector is set to recover above previous two seasons, but still fall short of 2018/19 levels. Balance of barley supply and demand estimated at 2.09Mt, 220Kt smaller than 2020/21, leaving a total surplus of 1.09Mt to be exported Oct-Jun or carried over as free stock.

**Oilseeds & Protein Crops:** Strong demand in the latter half of 2020 from China for imported soybeans drove price spikes for oilseeds. Global soybean production is expected to overshadow other oilseed production in the coming decade, reaching 411Mt by 2030, more than twice the output of other oilseeds combined. Growth in protein meal use is set to increase over that of the last decade (3.8% pa vs. 1.2% pa) but will be constrained by improved feed efficiency, slowed growth in animal production and other protein sources are included in feed mixes.

**Dairy:** UK milk production is expected to increase 0.3% over 2020/21 levels to 12.56bn L. Increased yields should offset reductions in the milking herd, but this may be affected over winter if feed prices remain high. The herd is expected to continue its long-term shrinking this year, spurred on by record high deadweight cow prices. UK butter, cheese and milk powder production are ahead of last year's levels due to higher milk deliveries and a shift away from yogurt and liquid milk. The close of the Brexit transition at end 2020 caused a sharp fall in imports and exports of most dairy products. These have recovered over the course of 2021 but have not achieved 2020 levels.

**Meat:** The current situation will be a mixed bag for livestock enterprises this year—prices are strong, but increased feed and other input prices will affect the bottom line. Over the next decade, productivity improvements in the livestock sector are expected to be achieved by more intensive feeding methods, improved genetics and better herd management. Global meat consumption is set to increase by 14% over the same span but continue to shift towards poultry.

**Beef:** UK beef production (-4%) and exports (-8%) are expected to have fallen in 2021. This contributed to solid cattle prices over the year, along with increased retail demand for domestic beef. Prices will be affected by lockdown outcomes, as the foodservice market benefits imported beef. Consumers in high-income countries are expected to decrease red meat consumption in the coming decade, for environmental and health reasons, in favour of protein from poultry and dairy products.

**Sheep:** Lamb was the fastest-growing protein in the UK retail market in 2020/21, up 16% over the previous year. These retail gains and increased volumes sold through delivery services (+37%) that came with lockdowns compensated for the decreases from eating out (-56%). Growth in sheep meat production over the coming decade will be driven by China, Pakistan, India and Sub-Saharan Africa. Sheep and goats are well-suited to the extensive production systems in these countries.

**Pigs:** Pig production faces falling prices, limited domestic markets and reduced demand for exports to China. UK retail volumes were well-supported by domestic demand throughout the pandemic. Pork roast dinner and bacon/sausage sandwich occasions increased (+12% and +34%, respectively). This came at the expense of out-of-home eating, where sandwiches and full English breakfasts were impacted (-16% and -14%). As for other meat, pork will be affected by restrictions in the coming year, but prices should remain strong and producers will do well as demand shifts fluidly between these different markets.

## Climate & Environment

Between 2021-25, persistent warming is expected over land, especially in high northern latitudes. Annual global average temperature is very likely to be between 0.91°-1.61°C above pre-industrial levels (1850-1900) and we will likely see the warmest year on record in the next five years (current record set 2016, +1.16°C). In the coming decade, the carbon intensity (e.g., emissions per kg) of agriculture is set to decline as agricultural emissions grow more slowly than agricultural production. However, global emissions from agriculture are still set to increase by 4% over this timeframe, with 80% of this increase attributed to livestock. The direction of travel is clear—the agricultural sector will require necessary and achievable emission reductions and carbon efficiency will benefit yields and margins in the long run.

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## Focusing Web Search time

All businesses use the web for information, there's a blizzard of resources out there for your own particular farming interest, coming from academia, advisory and consultancy services, but also from machinery and agribusiness supply companies. Sifting the wheat from the chaff and deciding what's important for you and your business can be time consuming and frustrating.

As a basic start, searching on the web about how to improve web search technique will give some basic tips and save you time and focus your search results. And that's all before starting on social media, where following and engaging with other farming businesses and the people leading them can facilitate powerful knowledge sharing. Business connections can be built across sectors and farming practitioners out-with traditional neighbourly networks. Your neighbours and discussion groups can be across the UK and international, rather than in your local area.

The web search challenge is twofold, firstly for the user to find their way to content that is meaningful for your business, but also for content creators to present that information to their users in a digestible and meaningful manner. For digestible, read different content formats: YouTube videos, podcasts on Spotify or Audioboom, short articles hosted on advisory websites. For meaningful, it's about the speed of the journey through that content to get to a manageable number of digital resources as quickly as possible. Do you find the information that answers your question in the limited time you have to spare?

As a farming business you will have your favourite web resources and indeed, individual businesses or farmers whose work you follow. These become especially pertinent as we face further restrictions (20th Dec at time of writing) and are less able to meet with peers, but also as farming practices evolve fast in response to the climate and nature emergency.

## Short Term Fix OR Long-Term Plan?

Day to day, in all sizes of farming business, the day is often long, one or two things go wrong, and an emergency gets in the way of the plan. At the end of the day reflect and ask the question: was it possible to plan more effectively to prevent it OR could it have been managed differently to achieve a different outcome? Read or watch something online that may inform tomorrows set of decisions, or even start the planning process for that job next year that will lead to an improved outcome.

## QuickFAS

A new FAS.Scot web search tool has been developed with this thinking in mind. It narrows down the available content in FAS.Scot presented to the user by asking users to categorise their questions or problems on a short journey.

The tool is aimed at Livestock farmers who search for resources based on high level questions, followed by 2 further questions to narrow their focus. Choose from beef or sheep, then choose from a further 5 categories, and then select your area of interest. Areas of interest in each category reflect the most common subjects and topics within that category. Some categories e.g. Rearing Animals will have more Areas of Interest than others.

For example: you are a beef farmer looking for some resources to read or listen to about rotational grazing your cattle. Choose Beef, followed by the category "Feed & Forage", followed by "Grazing" as the Area of Interest. You arrive at 14 items, all of which are about grazing your cattle and many of which are about rotational grazing. If you wanted to know more about bedding cattle, you would have chosen Beef, Rearing Animals, followed by Bedding as your area of interest. Two resources will pop up, a podcast and a guide.

This does not aim to solve every farmer's problem but it does vastly reduce the amount of material to work through, and ensures that within those areas of interest the information you get to is all relevant to the task in hand.

*This is a pilot approach to lead beef and sheep farmers through FAS.Scot in a more targeted manner. It aims to support management decision making by saving time but also focusing content on the question of the day.*

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## Key economic data

| General Indicators | |
|---|---|
| Base interest rate | 0.25% (0.1% Jan '21) |
| ECB interest rate | 0.00% (0.00% Sep '18) |
| UK (CPI) inflation rate | 5.1% (target 2%) |
| UK GDP growth rate | 1.3% (Q3 '21) |
| FTSE 100 | 7,267 (21 Dec '21) |

| Price indices for December 2020 (Defra 2015 = 100) | | | |
|---|---|---|---|
| Output Prices | | Input Prices | |
| Wheat | 155.5 | Seeds (all) | 112.6 |
| Barley | 158.6 | Energy | 1301 |
| Oats | 133.1 | Fertiliser | 140.8 |
| Potatoes | 138.2 | Agro-chemicals (all) | 147.6 |
| Cattle and Calves | 123.5 | Feedstuffs | 133.1 |
| Pigs | 117.0 | Machinery R&M | 107.6 |
| Sheep and Lambs | 133.2 | Building R&M | 137.9 |
| Milk | 129.5 | Veterinary services | 116.2 |


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