SRDP Farm Advisory Service

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July 2018

News in brief

Supply chain disruption - a taste of the future?

The UK is running out of carbon dioxide, no not the atmospheric kind but the food-grade variety, so essential for a range of industries; especially food manufacture. The lack of carbon dioxide has forced the closure of Scotland's largest pig abattoir in Brechin producing a backlog of pigs, diversion to plants in England and supply disruption. The issue is also affecting other sectors such as poultry processing and brewing – a tragedy during the Football World Cup!

The situation has arisen from a combination of unforeseen circumstances; a prolonged shut down of EU nitrogen fertiliser plants which are the main source of carbon dioxide and increased demand for beer and other products due to the hot weather. No one appears to be at fault; allegedly!

This incident is a serious cause for concern for farmers caught up in it. However, it may turn out to be a timely reminder of how interlinked modern food supply chains are across the EU and how easily disrupted they are. It may also serve as a warning to politicians currently failing miserably to deliver a workable Brexit agreement with the EU. Companies in a range of business sectors including Airbus and BMW are also now making plain their concerns.

If the UK leaves the EU without an agreement on 29th March next year, the problems caused by the carbon dioxide shortfall would fade into insignificance. The risk of wide spread disruption and rising costs for industry and consumers would be high as a result. The only difference in this case is that everyone would know fine well who was responsible – those politicians putting their own egos ahead of the country's best interests. Let's hope this will spur everyone involved to start taking the risks seriously and provide the certainty and support that agriculture, other industries and the public themselves so desperately need.

Next month….

- Management matters – Irish rental tax incentives
- Input costs – Labour costs

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Julian Bell

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

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Proposals for future rural funding

With DEFRA and the Welsh government starting to indicate their direction of travel regarding future support payments, it was only a matter of time before the Scottish Government (SG) published their thoughts too. So what are the SG proposals?

Basically, the SG is proposing a 'transition period' of up to five years. During this period, support schemes for active farming, food production, environmental improvements, forestry and rural development will largely stay the same, with only small changes being proposed that they hope will streamline and simplify existing measures. By doing this they hope to provide stability and certainty for farmers following Brexit and free up resources to pilot and test activities to feature in a future farming and rural support policy from the financial year 2024-25.

To obtain views from the industry on its proposals, the SG has launched a consultation. The consultation runs until 15th August and is available at: http://www.gov.scot/Publications/2018/06/2012. A summary of some of the main areas covered in the consultation are provided below.

Improving farmer's experience - the SG have proposed to keep the Pillar 1 payments but make changes that will streamline the process of applying for and receiving them. For example developing a simplified approach to completing an annual SAF for those with no, or very small changes and changing the way they go about inspections. The consultation asks for comments about how these points could be achieved.

Greening - the SG are committed to ensuring that the greening rules are effective for the environment while also ensuring farming is economically sustainable and have sought views on suggestions for straightforward changes.

Capping direct payments - at present BPS payments are reduced by 5% over €150,000 and capped at €600,000, reducing the caps would potentially widen the range of recipients and support new entrants and small businesses. Although before a fair capping policy can be determined further analysis and consultation is needed as the SG has indicated they would want to adopt a simple system that reduces complexity. The consultation seeks views on how capping should work and what the maximum should be.

Mapping - whilst in the consultation the SG have highlighted the known issues and discrepancies that arise from mapping they also indicated that future schemes are likely to require a mapping system to underpin them so are seeking views on how the use of maps could be simplified.

Inspections and penalties - although Scotland will have to adhere to EU CAP rules for a few years yet, there is still scope to look at how the SG might change their inspection regimes and tailor them to local circumstances once EU rules no longer apply. In the consultation the use of regional pilots has been suggested as a way of seeing what will work and could steer future regimes.

Performance – a move towards public funding being linked towards improving performance rather than being based on compliance with scheme rules has been proposed. Using key performance indicators have been suggested as a way to achieve this with views being sought on this and the types of indicators that should be used.

Less Favoured Area Support Scheme (LFASS) - due to the UK/EU withdrawal negotiations EU rules could apply to Pillar 2 schemes until the end of 2020, meaning there is little scope to make changes to LFASS until 2021. An option proposed from 2021 is to streamline the total number of schemes that the SG operate and to use the direct payments to deliver what are currently classified as LFASS payments, for example as a top-up through the Basic Payment Scheme and/or Voluntary Coupled Support schemes. Views are sought on this and on how simplifications could be made to administration.

SRDP schemes - the SG intends to consultant in more details about the SRDP schemes later in the year but at present are seeking initial thoughts on how administration of the existing schemes can be made simpler for both the beneficiaries and the public agencies, e.g. in the application process, making payments and monitoring and reporting.

Other areas covered in the consultation where views are being sought include on the transition period length, the potential introduction of new schemes, climate change and expanding the number of Monitor farms.

Ensuring the SG develops the right support system for Scottish farmers is essential for the industry; make sure you have your say before the consultation closes.

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US takes on the world

As the trade war between the US and China escalates, US grain markets have taken a negative turn due to the potential threat to US maize and soya export from Chinese tariffs. Also in the US the condition of spring wheat, maize and soya crops is good and improving with more rain forecast in early July, again potentially negative for US grain prices.

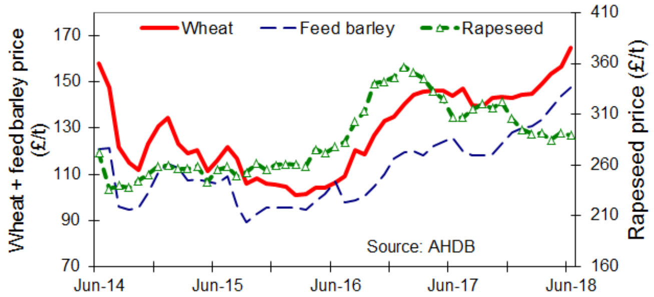
Elsewhere, however global weather and crop reports remain supportive to grain prices as adverse weather affects many other regions. Potentially the biggest effects could be seen in the Former Soviet Union where wheat output in 2018 is seen 13% or 18.5mt lower at 123.7mt and exports 9% or 6.3mt lower to 61mt. The FSU were the world's largest wheat exporter in 2017/18 and would remain comfortably so in 2018/19 however, the level of competition would likely be less, potentially buoying world wheat prices higher.

The European Commission have cut 2018 EU cereal harvest estimates below 2017 levels by: -2% for barley, -4% for wheat and -5% for rapeseed. These would be the smallest crops since 2013 for wheat and 2012 for barley and rapeseed.

	5yr av mt	2017	2018	Diff '18 vs 17 mt	%
Wheat	143.3	142.9	137.6	-5.3	-4%
Barley	60.6	59.3	58.4	-0.9	-2%
OSR	21.8	22.0	20.8	-1.2	-5%

Dry conditions continue in Eastern Australia, with wheat output expected to be trimmed by 2mt to 19mt in 2018. Drought is also seen in Brazil limiting maize and soya output.

Scottish spot ex-farm grain and oilseed prices



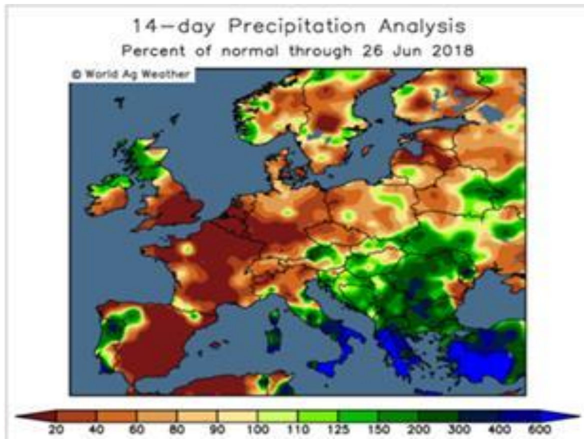
In the last month, Scottish ex-farm wheat prices rose: +£5.00/t for spot (£165.00/t) while new crop rose +£4/t to £164/t for Nov.'18. New crop rapeseed fell -£1/t to £289/t delivered harvest.

- World prices up on drought in key producers
- US July weather key to vital maize & soya crops

Drought in Scotland and EU

The dry weather in Scotland during May and June is now a significant cause for concern with the main arable areas receiving little more than 40-60mm.

So far, well established crops on moisture retentive soils appear to have fared reasonably well while crops on light land or late sown ones are struggling or heading early. Yields of all crops remain at risk from current forecasts which foresee no rain and high temperatures for the next 14 days.



The situation is similar across northern Europe. In Scandinavia yield losses of around 30% are forecast. Forward trading of physical wheat and malting barley in Scotland has almost dried up as farmers worry about yields and buyers sit back. Right now the price competitiveness of Scottish wheat is poor for new crop positions, with maize pricing into feed and distilling markets. Malting barley prices are edging up for harvest. If a shortfall of wheat or barley arises in Scotland then English or European grain imports will set the price ceiling. For both grains, future price direction in Scotland will be driven as much or more by the wider EU and world picture as local concerns.

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Indicative grain prices week ending 22 June 2018 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring max 1.85%N, ~ nominal

£ per tonne	Basis	Jun 18	Jul18	Hvst 2018	Nov 2018	May 2018	Nov 2019
Wheat	Ex-farm Scotland	165.00	169.50	160.00	164.00	170.00	162.00
Feed barley	Ex-farm Scotland	147.80	140.00	140.00	145.00	151.00	
Malt. barley - distil	Ex-farm Scotland			178.00			
Malt. barley - brew#	Ex-farm England				170.00		
Oilseed rape*~	Delivered Scotland			289.00			

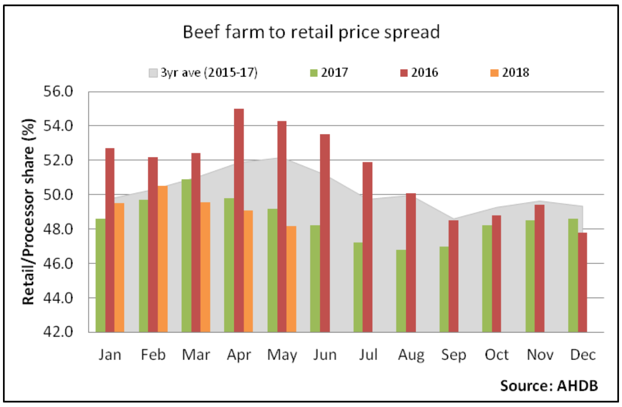
Tight supply but no further rise

The beef market remains in excellent form, with an average, late June, base price of 388p/kg dwt in Scotland and only 12p behind in Southern England. Branded Aberdeen Angus cattle are being offered upwards of 30p premium over base just now, providing another indication of good demand across the market.

Without wanting to pour cold water on the fire, there is, however, pressure to ease the commercial beef price due to the sustained high prices over the last 14 months. As a result, despite firm demand and limited supply, summer prices may have reached their glass ceiling – particularly if competitive proteins can sustain a steady and lower price.

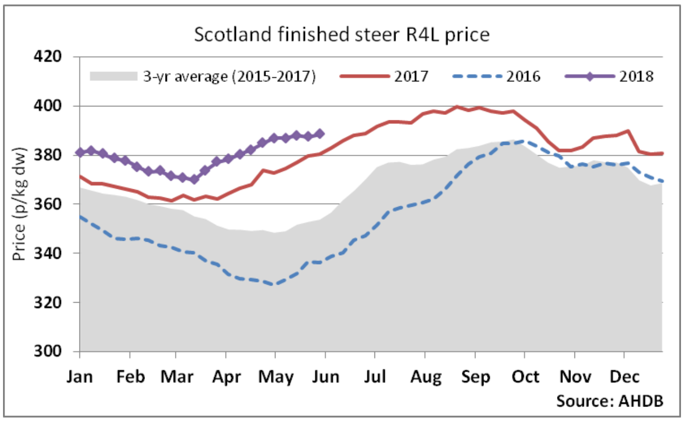
The below chart, based on AHDB information, is not a perfect approach, but it does provide a consistent method to roughly gauge the beef retail price share. As can be seen, retailer margins are under pressure; supermarkets are consequently leaning on processors to recoup margin.

- That is not in anticipation of any sudden drop in price. Retailer beef contracts are too big and ongoing supply tight enough to risk that.

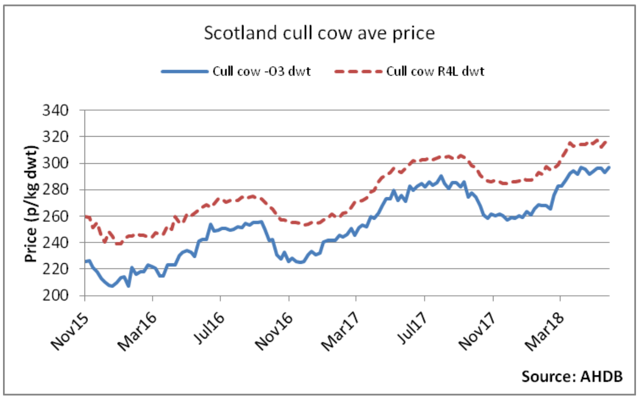


The likelihood is that cattle supplies will reduce into autumn and put upward pressure on price. This would be more manageable if chicken also increases in price because of rising cereal costs.

Nevertheless, in the here and now, the market retains a historically very good return for the time of year, at £1,400 for a 360kg carcase.



Pursuit of cheaper cuts for burgers, combined with strong export trade and falling supply of cull cows, means demand for cow beef is also at a record high, £1,100 for a 370kg carcase. Summer milk price reductions have been rescinded too, further limiting cull cow supply from the dairy sector. This means early weaning of cows earmarked for culling should be considered. This would not only ensure a strong price but also reduce pressure on autumn grass or winter feedstock demand – prices tend to weaken as supply increases in the approach to housing.



Beef imports are up 8% but that is only enough to offset additional exports for the first quarter of 2018. This suggests beef supply and demand remains well balanced and possibly explains why purebred dairy bull beef has not also jumped up in price to meet processing demand.

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Scotland prime cattle prices (p/kg dwt) (Source: drawn from AHDB data)

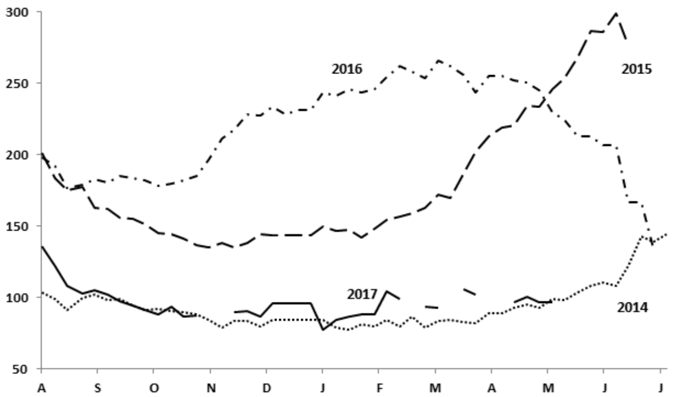
Week Ending	R4L Steers (p/kg dwt)			-U4L Steers			Young Bull-U3L		Cull cows	
		Change on week	Diff over N. Eng.		Change on week	Diff over N. Eng.		Diff over N. Eng.	R4L	-O3L
2-Jun	**388.4**	1.1	8.7	**385.9**	0.8	12.3	**379.9**	16.5	315.7	292.9
9-Jun	**387.5**	-0.9	6.1	**385.8**	-0.1	8.4	**383.0**	16.1	318.2	297.1
16-Jun	**395.2**	7.7	10.7	**386.0**	0.2	8.2	**383.3**	19.1	316.9	296.9

Market price update

- The GB Weekly Average prices for the week ending 2nd June were £175.76/t for free-buy and contract purchases, and £99.16/t for free-buy purchases.
- Compared to the previous reported figures on 19th May contract and free-buy purchases were up £10.13/t and free-buy purchases were up £2.48/t

Crop Year	2 June	19 May	5 May
Average Price (£/t)	175.76	165.63	162.22
AVP change on week (£/t)	10.13	3.41	2.59
Free-Buy Price (£/t)	99.16	96.68	96.31
FBP change on week(£/t)	2.48	0.37	-3.79

GB Weekly Average Free-buy Price
2014-2017 crop years



Trading Season August - July Source: AHDB

There has been little demand for free-buy stocks in the Scottish packing market due to a decrease in orders, influenced in part by the recent spell of warm weather. It is reported that contracted stocks, owned stocks, and forward-purchased stocks have largely been able to fulfil orders. Where there is some movement in the market, Grade 1 Maris Piper is trading around £210-260/t, Grade 1 Whites trading around £40-60, and Grade 1 King Edwards around £150/t.

Similarly, there is minimal demand for free-buy stocks in the English packing market as packers use contracted and owned stocks to fulfil orders. Grade 1 Maris Piper is trading around £185-300/t, Grade 1 Whites £50-100/t, and Grade 1 King Edwards trading around £180/t.

The bagging trade was described as being "very slow" with limited demand from fish and chip shops during the warm weather. In the East, Maris Piper is trading between £100-160/t, Markies £200-250/t and Agria £220-260/t. In the West, both Maris Piper and Sigatta are trading around £120/t. In the South, Agria is reportedly trading around £260/t and Sagitta £120/t.

English new crop harvest begins

New crop harvest in England is now underway with good lifting conditions, however, new season potatoes are entering the market with limited demand from packers due to a surplus of old crop and "owned stocks". Lifting in Cornwall, Lincolnshire, and East Anglia is going well but there is limited availability of free-buy movement. Maris Bard in Lincolnshire is trading around £340-360/t, Maris Peer in Suffolk trading around £480/t, and Arrow in Cornwall trading around £320/t.

Let it rain….!

Despite a prolonged spring with many Scottish ware crops being planted 2-3 weeks later than normal, potato crops have caught up and are looking well following a warm week. Early Marfona crops in Fife are reported to be around 45-50mm in size and Chitted Maris Piper crops in East Lothian are looking well with clean skins and good tuber numbers. Growers are now turning their attention to irrigation and maintaining their crop protection spray programmes. In some areas across Scotland fields are described as being "very dry" with not much sign of significant rainfall over the next 10 days. Where irrigation is possible, SAC Consulting recommend starting early to control common scab. In all crops, but specifically for seed and salad crops, foliar phosphate application around tuber initiation should be considered to sustain tuber numbers.

SPot Scotland Summer Open Day

The AHDB SPot Scotland Open Day is being held on **Tuesday 10th July** at Strathisla Farms, Moolies, Ruthven, Blairgowrie. The event will cover; cultivation demonstrations, nutrition, seed spacing and sourcing, and cover crops.

Click here to register for the event, or call Chloe Lane, on 01904 771211 for more details.

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Lamb holds strong

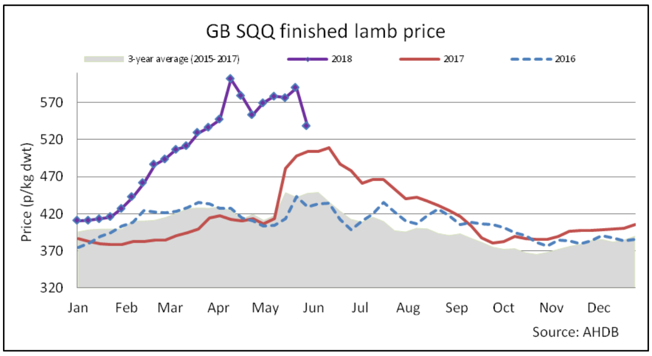
The end of Ramadan (14 June) has seen demand soften 5-10p/kg dwt on the week to 16 June. However, new season lamb (NSL) weighing upwards of 45kg lwt are still grossing over £100/hd. Those lambs will only be a small proportion of flock sales but they have flown through a short grazing period with little worm or overall health challenge. Even if they received a small amount of creep feeding, they must be one of the most economical animals on farm… albeit probably being the result of a single rather than a twin-bearing ewe. In gross terms, that transaction is worth over £5/hd more on the year, which was in itself an excellent year.

Despite market price now falling, with no major festivals until August, trade is likely to converge into a trend similar to last year. The message this time last year was to draw lambs as quickly as possible, not because autumn trade would collapse; but to capitalise on the market and free up fodder. The same message applies this year, although the latter point will be even more important for many.

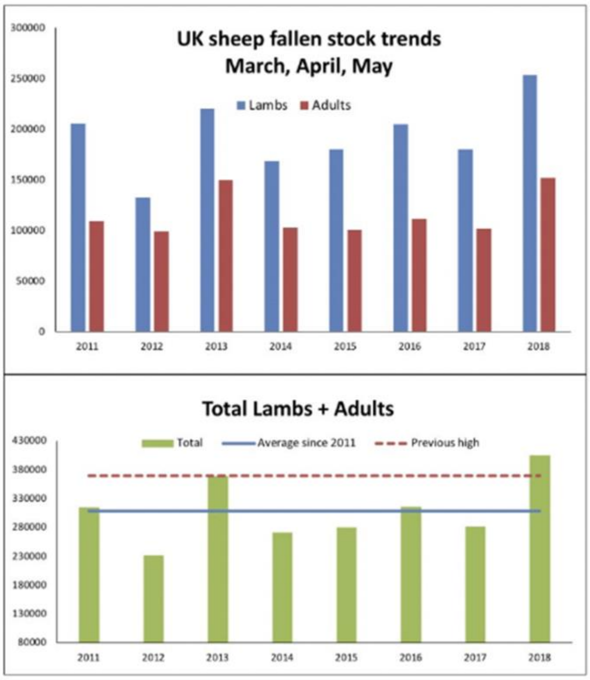
Slow throughput

Spring weather slowed overall throughput, which is also supporting price and over 85% of throughput in England and Wales was NSL by mid-June last year. It is nearer 70% this year. The effect is exacerbated in Scotland where NSL accounted for only 35% of throughput by mid-June, down 30% on the year.

Lambs will be sold at reduced weights and fat covers to capitalise on a higher price per kilo in early season, as was seen last year. This will bring forward supply and reduce the October surge. Of greater concern may be the lack of hill lambs to carryover into the 2019 market at a cost effective price - retailers will not be keen to put lamb on promotion with limited turnover and margin. The consensus is that snowstorms and poor weather has had a massive impact on Scottish lambs reared. Wales did not fair too well either but considering the weather improved markedly south of Cheshire and the probability that not all deadstock have even been captured in national figures means the marked increase in UK sheep uplifts during 2018 (to date) will be proportionately much higher in Scotland. There are some scarily low survival rates being reported. See below chart:



UK National Fallen Stock Scheme, 2018



UK National Fallen Stock Scheme, 2018

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd) Scottish	Ewes (£/hd) Eng&Wal
	R3L	Change on week	Diff over R2	Diff over R3H	**Med.**	Change on week	Diff over stan.	Diff over heavy	**All**	**All**
02-Jun-18	**535.4**	-52.1	-2.4	5.4	**254.30**	-5.6	9.8	4.9	71.64	77.01
09-Jun-18	**545.4**	10.0	-4.6	5.3	**257.90**	3.6	2.3	3.3	77.42	81.64
16-Jun-18	**539.7**	-5.7	0.0	7.3	**253.30**	-4.6	13.6	-3.1	71.70	67.7

Deadweight prices may be provisional. Auction price reporting week is slightly different to the deadweight week. **Source: AHDB**

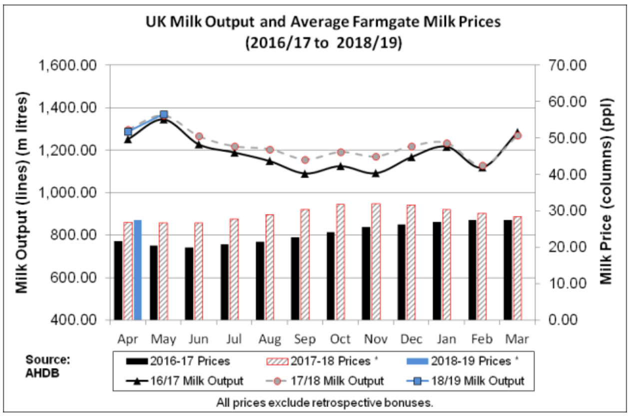
Standard weight 32.1 - 39.0kg; Medium weight 39.1 - 45.5kg; Heavy 45.6 - 52.0kg

Milk prices reduced during April '18

According to recent DEFRA statistics, the UK average milk price reduced to 27.43ppl during April 2018, making it the fifth month in succession that the UK average milk price has experienced a reduction. However, several milk buyers have increased their prices since the end of April and market prospects are continuing to show improvement (see section below –'*Milk prices rise during July '18*').

UK monthly milk output for May 2018 is estimated at 1,369.81m litres (before butterfat adjustment). This is around 6.37m litres higher output when compared against May 2017.

- *UK output for May 2018 estimated at 1,369.81m litres – approximately 6.37m litres up on May last year.*



Ash Amirahmadi takes reigns at Arla

Arla Foods amba has confirmed that Ash Amirahmadi will take on the role of UK Managing Director from 1st July 2018.

Amirahmadi has been with Arla since 2004 and has had experience of various leadership roles during that time. He replaces Tomas Pietrangeli who is returning to Denmark having assumed the role of CEO for a Danish retail group.

Milk prices rise during July '18

UK milk prices are continuing to show further improvement with the following price increases confirmed for July 2018:

- Graham's Dairies – the 1.25ppl price increase from 1st July 2018. This takes the standard litre price up to 28.00ppl.
- First Milk – See table below. 1.20ppl increase from 1st July 2018.
- Müller – 1.25ppl price increase from 1st July 2018 for Müller Direct suppliers. See table below.
- Müller – The retail supplement for May 2018 is confirmed at 0.22ppl.
- Arla Foods amba – 1.80ppl increase from 1st July 2018. This takes the liquid standard litre price to 29.31ppl.
- Arla direct suppliers – 2.00ppl increase from 1st July 2018. This takes the standard litre price to 27.30ppl.
- Yew Tree Dairy – 1.50ppl increase from 1st July 2018. This takes the standard litre price up to 28.00ppl.
- Sainsbury's – Sainsbury's Dairy Group members will see their standard litre price increase by 0.36ppl from 1st July 2018. This takes the standard litre price up to 28.48ppl for Müller suppliers and 28.36ppl for Arla suppliers.

Annual Average milk price estimates for July 2018 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) (3 month contract) [1]	26.50
First Milk Liquid [1]	27.20
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)*	28.12
Müller - Müller Direct [1, 2]	28.00

[1] *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] *No monthly supplementary payment included in the price estimate.*

GDT index plateau puts brakes on price increases

The latest Fonterra (GDT) online auction (19th June 2018) produced another check in prices with the average price across all products reported at US $3,481/t, down $6/t which represents a reduction of 1.20% from the previous GDT event.

- *World market product price levels have been checked by two recent reductions to the GDT price index*

Although the recent reduction to GDT prices has dampened the hopes of a strong recovery to milk prices, the prospects for recovery within the UK remains positive.

UK dairy commodity prices (£/ tonne)	May 2018	Apr 2018	Dec 2017
Butter	5,180	4,660	4,000
SMP	1,320	1,155	1,230
Bulk Cream	2,350	2,080	1,800
Mild Cheddar	2,970	2,920	3,000
UK milk price equivalents (ppl)	**May 2018**	**Apr 2018**	**Dec 2017**
AMPE (2014)	33.08	28.90	26.38
MCVE (2014)	32.33	31.38	31.87

Source: AHDB

Dates for the Diary

- **TotalDairy Seminar 2018**
  Wednesday 4th to Thursday 5th July 2018 at The Crowne Plaza Hotel, Stratford-upon-Avon, CV37 6YR. See website for more details: http://totaldairy.com/about/

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Management Matters: Autumn Cropping

Autumn cropping for harvest 2019

Cereal crops sown this autumn will be marketed after March 2019 when the UK is scheduled to have left the EU. Both forward grain prices for harvest 2019 and current input costs are higher than last year. If current grain prices are maintained or increased, farmers could see a potential rise in forward gross margins for autumn sown crops compared to a year ago. Crop prices can change quickly so longer term objectives such as lengthening rotations, improving soil health, minimising costs, retaining flexibility in marketing and CAP greening should be considered.

Input costs

Fertiliser prices are up significantly from levels seen this time last year for example; ammonium nitrate is at £230/t compared to £180/t this time a year ago. Cereal seed prices are expected around £20-30/t higher due to the higher base for cereals.

Grain price & margins for harvest 2019

Forward grain prices for harvest 2019 are the highest for five years, though slightly lower than current (harvest 2018) values. LIFFE wheat futures for November 2019 are currently £162/t versus £166/t for November 2018. Forward wheat prices for 2019 are £24/t higher than equivalent futures at the same time last year. While variable costs are also higher than a year ago the net effects is an increase in estimated gross margins for cereals of between +£74/ha (winter oats) and +£124/ha (winter barley). Oilseed rape is expected to see a fall in gross margin (-£88) due to the weakness in global oilseeds prices relative to grain. In most cases it is the increase in forward prices compared to a year ago that is boosting forward gross margins so much. Actual gross margins will be determined by weather, yield, quality and price.

Soft wheat – Choosing wheat varieties rated Good for distilling in the SRUC List will provide access to both feed & distilling markets.

Barley /rye – Winter malting barley remains a small market in Scotland so high yielding/low input feed varieties remain the main focus. Winter rye for AD at a contract price of around £25/t standing at yields of 40t/ha is an alternative in some areas the rotation.

Oilseed rape – Margins suffer on lower prices.

Winter beans – Markets are small and erratic in Scotland. Some compounders use them otherwise they will trade farm-to-farm for cattle feed.

Whatever the crop, selling a safe proportion of the 2019 harvest before or as it is going in the ground helps pay for seed, fuel and fertiliser. Grain sales can now be made beyond the planned Brexit date and given the uncertainties selling some now to cover this period makes even more sense than usual to provide some security.

Notes on CAP greening

Simplification since last year allows farmers with more than 75% of their eligible land in temporary or permanent grass, fallow, forage or leguminous crops to be exempt from EFA with no area limit. The weighting factor for EFA nitrogen fixing crops has increased from 0.7 to 1.0 as per EFA fallow. More details on Scottish Government's web site.

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	Winter wheat - 1st	Winter wheat - 2nd	Winter barley - malting	Winter barley - feed	Winter oats - milling	Winter rape	Winter beans
Grain price **(£/t)**	165	165	163	140	168	300	215
Yield **(t/ha)**	10.0	8.0	7.5	7.5	6.4	4.0	5.0
Straw	130	130	168	168	224	0	0
Output	**1780**	**1450**	**1391**	**1218**	**1299**	**1200**	**1075**
Seed	92	92	87	87	80	50	105
Fertiliser	197	197	185	185	141	166	43
Sprays	140	140	124	124	87	147	126
Other	13	13	14	14	16	28	40
Drying	72	58	36	36	46	14	36
Variable costs	**513**	**499**	**446**	**446**	**370**	**404**	**350**
2019 Gross Margin	**1267**	**951**	**945**	**772**	**929**	**796**	**725**
2018 Gross Margin	*1151*	*863*	*821*	*648*	*856*	*884*	*558*
Change	*116*	*88*	*124*	*124*	*74*	*-88*	*168*

Sector Focus: Europe's Proposed CAP

Europe's proposed CAP post 2020

Following the UK's planned departure from the EU, farm businesses in the UK will no longer receive subsidies through the Common Agricultural Policy (CAP). However it is still highly relevant to keep abreast of what is being proposed for the EU's farmers. The EU is a key trading partner and UK administrative bodies will need to fund and design their own support schemes so may look over the waters to see what is being done there!

Key headlines from the European Commission's recently published legislative proposals on Europe's CAP post 2020 include:

- Priority to be given to supporting small and medium-sized family farms and encouraging young farmers into the industry. Proposal to achieve this include:
  - Having a higher level of payment per ha for small and medium-sized farms.
  - A minimum of 2% of direct support being set aside for young farmers.
  - Ensuring that only genuine farmers receive support.
  - Capping direct payments after deducting labour costs at €100,000 but having an option for this to be reduced to €60,000.
- Guaranteeing higher ambition on environmental and climate action and supporting farmers who meet greater environmental and sustainability standards. Proposals include:
  - Obligations to preserve carbon-rich soils through protection of wetlands or peatlands; an obligatory nutrient management tool to improve water quality, reduce ammonia and nitrous oxide levels; crop rotation instead of crop diversification.
  - Eco-schemes to support and/or incentivise farmers to observe agricultural practices beneficial for the climate and the environment.
- Encouraging the development of vibrant rural societies and helping farmers meet public expectations on food quality and health. Proposals include:
  - Encouraging new generations of farmers by mentoring and improving knowledge transfer from one generation to the next or developing succession plans.
  - Encouraging EU countries to have more flexible rules on taxation and inheritance, to improve access to land for young farmers.
  - Tougher requirements for farmers to meet expectations on food and health i.e. linking financial support more closely to compliance with rules on reducing pesticide use, reducing use of antibiotics, etc.
- More flexibility and responsibilities to be given to Member States to design their policies, while also ensuring it meets nine general objectives. Proposals on how this will be done include:
  - Having an extensive toolbox of measures allowing each Member State the freedom to choose the measures it considers to be the most effective to meet its needs.
  - A common set of result indicators will be agreed at EU level to ensure a level playing field in assessing the effectiveness of the measures used.
  - Each EU member state will draw up a CAP strategic plan detailing how they will use CAP funding. The plan will require prior approval from the European Commission and each year, a performance report will be submitted showing their progress.

Overall it would appear that the European Commission is proposing a policy that moves away from being compliance-based to performance-based, with member states to decide how they meet the objectives and achieve their targets. By taking this approach it will allow local conditions and need to be taken into account more easily than previously. More information about the proposals be can be found at: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap_en

Future agricultural support in the UK…

In terms of future support payments, what is happening in the UK? At the start of the year the UK's Environment Secretary Michael Gove said the government would guarantee subsides at the current level until the 2022 election, which was welcome news. Gove also indicated that he wanted to develop a method of providing financial support for farmers that moves away from subsidies for inefficiency to public money for public goods and was evident in DEFRA's Green Brexit consultation for England published earlier this year.

In the shorter term, DEFRA, the Welsh Government and the Scottish Government have announced their intention to implement a transition period with regards to support payments, providing some stability to UK farmers. For more details on the proposals for Scotland, see this month's *Policy* section. *gillian.inman@sac.co.uk, 07803 222362*

Sector Focus:
Input Costs - Fertiliser

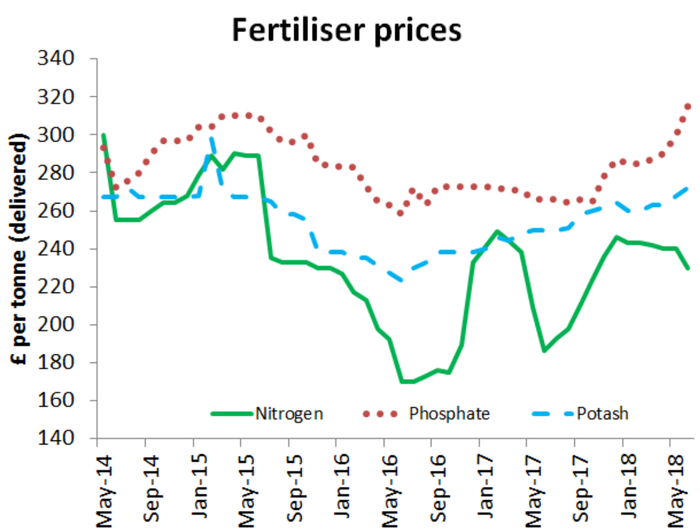
Input costs – fertiliser

Fertiliser	Price for bulk delivery (£/t) (Jun 18)	Price for bulk delivery (£/t) (Jun 17)	2018 change (£/t)	Current price per unit of nutrient (£/kg)
Nitrogen - AN (34.5%)	£230	£186	+£44	0.67
Nitrogen - Urea	£250	£156	+£94	0.85
Phosphate - TSP	£310	£266	+£44	0.68
Potash - MOP	£270	£250	+£20	0.45

Source: SAC Consulting and trade

Ammonium nitrate and urea

New season UK produced ammonium nitrate fertiliser prices were released in early June at around £220/t for June/July delivery. These early offers were quickly sold out and prices have moved up to around £230/t for delivery in August. Urea prices rose sharply in May and June after a stable spring to around £250/t currently. On a unit of available nitrogen basis, urea is not currently competitive with AN.



The recent strong rise in global oil and energy prices have contributed to higher AN and urea prices. With fertilisers traded globally in US dollars, the recent weakness of sterling against the US dollar has also hiked UK fertiliser prices in sterling terms.

Farmers who bought forward in summer 2017 and took delivery of ammonium nitrate in the £170-180/t range will be pleased with the savings they have achieved. It is expected that a similar pattern will continue this season as manufacturers seek to sell a share of production early to provide income stability for their manufacturing operations. Crop margins can be protected by covering the cost of buying fertiliser from selling an equivalent value of grain forward for 2019 harvest.

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Key economic data

General Indicators		Price indices for April 2018 (Defra 2015 = 100)			
		Output Prices		Input Prices	
Base interest rate	0.50% (0.25% Nov '17)	Wheat	119.46	Seeds (all)	105.5
ECB interest rate	0.00% (0.05% Mar '16)	Barley	125.34	Energy	112.4
UK (CPI) inflation rate	2.4% (target 2%)	Oats	114.63	Fertiliser	98.6
UK GDP growth rate	0.1% (Q1 '18)	Potatoes	110.30	Agro-chemicals (all)	103.7
FTSE 100	7,586 (3 July'18)	Cattle and Calves	106.82	Feedstuffs	102.5
		Pigs	110.53	Machinery R&M	106.0
		Sheep and Lambs	147.10	Building R&M	108.7
		Milk	111.96	Veterinary services	102.0

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