Farm Advisory Service

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News in brief

July 2019

Out of the frying pan…..

The EU is currently planning to reform (reduce!) agricultural support under the CAP from 2021. The support reduction is partly in response to the UK's planned exit and loss of a large net contributor to the EU budget. The EU has also just agreed a trade deal with Mercosur to potentially open up EU markets to South American; beef, poultry, sugar and other products. There is still the small matter of obtaining unanimous approval across member states for this deal which may yet ensnare it. Nonetheless, EU farmers should expect greater global competition at some point.

Previously, these developments would be awaited with bated breath and strongly debated here in the UK and within Scotland. However, currently nobody really knows what to make of these developments since the UK should not even still be in the EU based on the EU referendum result.

Assuming the UK does exit the EU in some shape or form soon then there may be some comfort to be gained that these changes may not directly affect farmers here. However, as most will appreciate, whatever path the EU takes is very likely to have a strong influence over the UK's market and policy environment. Much will depend on what if any exit and long term trade deal the UK finally agrees with the EU. Which UK prime minister will lead us to this point and when remains to be seen.

The UK government already has a stated policy of seeking to piggy back on existing EU trade deals such as those with Canada and Korea (successfully) or Japan (not yet). Therefore, if the EU forge a path to increased South American beef imports expect a newly independent UK to follow close behind or even potentially ahead. This makes it all the more important that UK and Scottish beef and other affected sectors focus on maximising their competitiveness and defending their higher standards where they can deliver on welfare, the environment and food safety.

See Policy Briefs on pages 9 & 10 for more details.

Next month …..

- Forage and protein feeds update

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Julian Bell

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

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Continued political Brexit turmoil

It is now over three years since the UK voted to leave the EU and it is fair to say the UK is still in political turmoil with many unanswered questions. Who will be the UK's next Prime Minister - Boris Johnson or Jeremy Hunt? Will the new Prime Minister be able to find a proposal that is acceptable to Europe and that parliament agrees on? Will there be a request for a second Brexit extension? Would a second extension be granted? Will the UK end up leaving with no-deal? The list could go on!

At least we will not have to wait too long to find out who the next Prime Minster will be, with this to be announced on 23rd July. As for answers to the other questions we will just have to keep waiting.

Post Brexit subsidies

Last year the four UK Governments published consultations on how they propose agricultural policy to change after Brexit, see *Policy article, October edition of ABN.*

Regarding Direct Payments, for 2020, it will pretty much be status quo but changes after this are afoot, with further information having recently been announced by some of the devolved administrations.

Wales

The Welsh Government has confirmed that the Basic Payment scheme will end in 2021, with farmers, thereafter, to be supported through a new farming scheme that has sustainable land management at its heart. The proposed new scheme will pay farmers in return for the environmental outcomes delivered on their farm i.e. reversing biodiversity decline, meeting carbon budgets and hitting clean air targets.

The recently announced policy changes are to be explored in detail in a consultation, which will be published in advance of the Royal Welsh Show.

England

A new environmental land management scheme (ELMs) will be phased in between 2021-2027, replacing the Basic Payment. Core to the new model is the idea of "natural capital", which regards the natural world as a set of assets that can be priced. The new scheme will therefore pay farmers for environmental initiatives, such as sequestering carbon in the soil or growing hedges as habitats, as well as respecting certain welfare standards for livestock.

DEFRA is currently in the middle of creating a three-year pilot scheme which will begin in 2021. The pilot was originally to be run on 5,000 farming businesses in its first year but this has been scaled back to 1,250. Farmers will be given details and payment rates in 2020.

Scotland

Further to what was published in their consultation, the Scottish Government have not provided any additional information about their proposals. We are therefore still expecting that prior to 2024 there will be a transition period with only small tweaks to Basic Payments during this period.

To help develop a future policy on farming and food production i.e. beyond 2024, a working group consisting of producers, consumer and environmental organisations has recently been formed. This Food and Farming Production Group has been tasked with deciding how best to use Scotland's natural assets to produce food and mitigate the impact of climate change and are expected to make recommendations in 2020.

Northern Ireland

DAERA are still intending to maintain a status quo until 2022 and are engaging with stakeholders on a future agricultural policy for Northern Ireland. After 2020 funding is expected to progressively reduce from area based payments to other options that meets their aims of boosting competitiveness, ensuring long-term viability and sustainability of agriculture and protecting the environment.

Key dates reminder

SMR 2 – conservation of wild birds

Removing/burning scrub and gorse in the bird breeding and rearing season (1st March to 31st August is not permitted. This rule formed part of cross compliance last year.

Greening

EFA fallow period ends at midnight on 15th July.

Beef Efficiency Scheme

The deadline to data capture all 2019 spring born animals i.e. animals born between 1st January and 1st June, is 15th July.

The deadline to data capture culling or death reasons of cows or calves that were disposed of, or died, between 1st January and 1st June 2019, is also 15th July.

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Cereals and Oilseeds

US leaves markets guessing

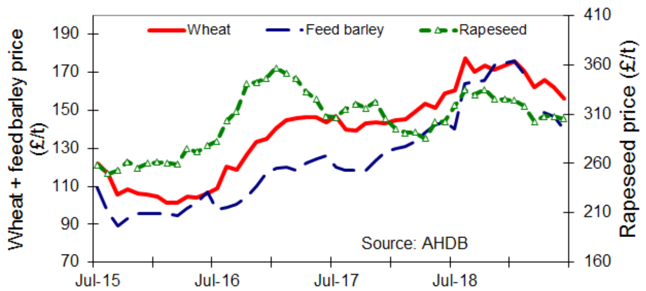
Conditions in the US remain wetter and cooler than usual and much uncertainty remains around the area of crops that farmers have managed to plant.

The USDA acreage report on 28th June reported a fall in US farmer planting intentions of just 1.1 m acres in US maize sowings from previous estimates to 91.7m acres. This would represent a 3% rise from last season's 89.1m acres. This took the market by surprise as trade consensus pegged sowings at 86.7m acres; not surprising prices fell as a result. However, farmers were surveyed in early June, since when planting conditions have not improved in several key states. Yield potential remains unknown but expected down on trend. Plantings also do not equal harvested area as poor crops are often cut for forage or abandoned. As a result trade confidence in these reports is low and clarity on these numbers will not come until the next USDA acreage report due in August. The crop area and yield of US maize will continue to be a wildcard overhanging world cereal markets until harvest gets well under way there in October.

On the other side; crop prospects across the EU, Russia and Ukraine remain positive. Currently the EU is forecast to see a 10% (19.3mt) rise in output. The recent extreme heat across Europe may have some impact on yields of later wheat, barley and maize crops but has probably come too late to severely affect crops in the southern half of Europe.

Dry weather is also affecting the Ukraine and Russia, but again crops in southern areas are largely made, limiting yield affects to later crops. Cereal output in both countries is seen up on 2018.

Scottish spot ex-farm grain and oilseed prices



EU 28 grain production forecasts

	2018	2019	Change '19 vs '18	
	(mt)	(mt)	(mt)	(%)
Wheat	86.74	97.67	10.93	13%
Barley	45.89	48.66	2.77	6%
Spring Barley	23.80	22.60	-1.2	-5%
Total Grain	184.39	203.71	19.32	10%

Source: Coceral, May'19

Bigger UK and Scottish wheat crops

Weather conditions continue to look favourable for UK cereal crops; the lack of winter and early spring rainfall has not generally been an issue given regular rainfall since. While a bit more sunshine would have been welcome in Scotland overall conditions remain good.

For the UK if wheat yields meet the 5 year average then output would rise 1.5mt on 2018 harvest to 15.5mt and likely to lead to an export requirement of around 2mt (the largest since the 2.8mt seen in 2015). A surplus of this size would need a steady export campaign to both EU and non-EU markets. Given the larger cereal crops forecast in both the EU and Ukraine and Russia 'local' export competition could be strong (not withstanding any impacts from the US crop problems). Added to this the UK's Brexit deadline of 31st October continues to overhang the market and prevents forward export deals beyond this time. This is due to the risk of incurring EU trade tariffs in event of a no-deal.

In Scotland, the expected 10% rise in wheat area to 110,000 ha and 5 year average yields would see a wheat crop of 945kt (+234kt) on 2018. This likely means a reduction in the strong Scottish wheat ex-farm premium over futures seen in 2018/19. Much will depend on distilling demand for wheat. This has weakened since early 2018 but has picked up in recent months.

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Indicative grain prices week ending 21 June 2019 (Source: SACC/AHDB/trade)
'* Before oil bonus, # Ex-farm England spring brewing max 1.85%N, ~ nominal

£ per tonne	Basis	Jul 2019	Hvst 2019	Nov 2019	Mar 2020
Wheat	Ex-farm Scotland	151.00	149.00	151.00	156.00
Feed barley	Ex-farm Scotland		130.00		
Malt. barley - distil	Ex-farm Scotland		170.00		
Malt. barley - brew	Ex-farm England#		142.00	155.00	158.00
Oilseed rape*~	Delivered Scotland		305.00	315.00	

Drop in cattle trade

Prime cattle prices in the first quarter of 2019 have taken a hit (back 15p/kg dwt on the year) but since the beginning of April it was moving upwards, hinting at better times to come and following recent trends. However, prices have dipped again with cattle finishers seeing a drop of 5p per kg deadweight each week for the past three consecutive weeks from the end of May.

The Scottish base price for week ending 15th June was around 340-346p/kg/dwt to gross £1,242 for a 360kg carcase. That is back 20p/kg/dwt since the same point only a month previous and 30p/kg/dwt on the year. Base price in Southern England is averaging around 335-340p/kg/dwt and is expected to drop another 5p to the end of June.

The cull trade has slipped back, reflecting the wider market, to average 270p/kg deadweight. At 272p/kg deadweight (@350kg R4L beef cow carcase) grosses £952/hd, £50 lower on the start of June and -£100/hd on the year; some 20p lower on the previous three-year average.

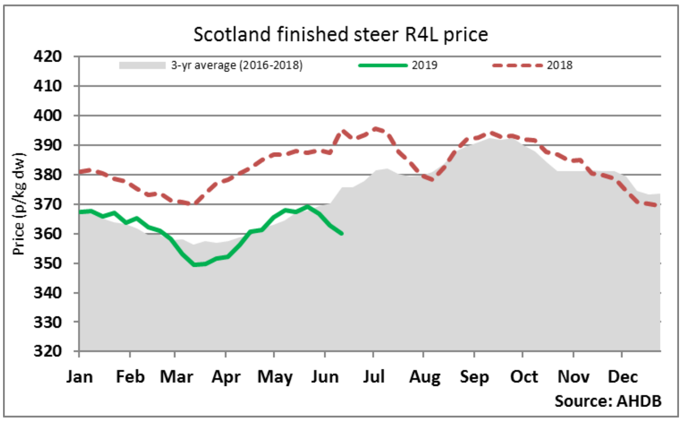
Store trade

The lack of movement in finished stock is holding up trade and creating a lull in the store market. Fortunately, plentiful grass availability is seeing producers happy to keep hold growing cattle in the meantime. Reports of good crops of first cut silage may help to encourage those considering buying in stores in the backend.

Consumer demand

The prime market has certainly been affected by high rolling stocks in chill but a soft consumer market continues to be a theme. Suggestions from retail market commentators are that the recent spate of negative press is perhaps taking its toll.

Precious few supermarket beef promotions have not helped with many pondering how to turn retail demand around. Retailers themselves are obviously not seeing the advantage; constantly gauging the competition and public sentiment and,



in the meantime, no doubt happy to accept the extra retail margin in the knowledge that the producer price will recover.

- *QMS's campaign launched on Father's Day combined with the launch of 'Meat with Integrity' at the end of July, will help bring redmeat back into focus. It will take a concerted effort of continued messaging though*

With the school holidays approaching, the prospect of summer weather and an increasing trend of staycations should indicate a rise in consumer demand. Due to supply in chill, there will still be a lag in any producer price rise but it all has to start somewhere.

New Opportunities in China

UK beef will reach Chinese dinner plates by the end of the year after over a 20-year export ban (post BSE). The UK-China Beef Protocol is the result of several years of negotiations and highlights exciting new opportunities in negotiating trade deals.

It also emphasises the hard realities of renegotiating after a ban (for whatever reason!) and the fragility or importance of maintaining good relations.

The deal was also motivated by Chinese demand for alternative protein sources after their domestic pork sector was massively hit by swine fever.

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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
01 Jun 19	**477.8**	-19.3	0.8	**5.2**	232.80	2.8	0.7	17.8	67.01	71.67
08 Jun 19	**472.7**	-5.1	0.6	**7.6**	214.30	-18.5	-6.6	6.4	64.76	63.56
15 Jun 19	**452.8**	-19.9	18.7	**9.7**	215.00	0.7	-4.2	4.4	68.64	67.64

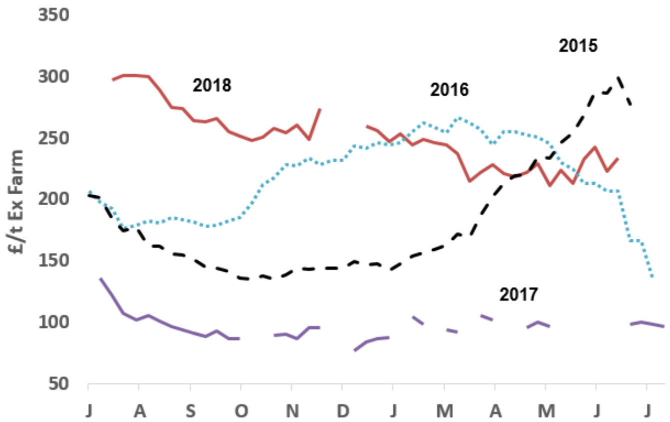
The finished cattle base price quoted by a buyer may be significantly different from the national average deadweight price presented above as these are averages of both commercial and premium cattle, reflect variation between processors and any bonus payment differences.

Market price update

- *The GB Weekly Average Prices for the week ending 15th June was £214.57/t for free-buy and contract purchases, and £233.54/t for free-buy purchases*
- *Compared to the previous reported figures on 8th June, contract and free-buy purchases were up by £4.46/t and free-buy purchases were up by £10.73/t*

Crop Year 2018/19	15 Jun	8 Jun	1 Jun
Average Price (£/t)	214.57	210.11	215.13
AVP change on week (£/t)	4.46	-5.02	1.61
Free-Buy Price (£/t)	233.54	222.82	242.18
FBP change on week(£/t)	10.73	-19.36	9.64

GB Weekly Average Free-Buy Price (2015-2018 crop years)



Trading Season July - July Source: AHDB

Market overview

On the whole, free-buy prices remain strong with the weekly average free-buy price w/e 15th June at £233.54/t ex farm, up by £10.73/t ex farm the previous week. There is steady demand for good quality supplies and the peeling market has seen an uplift in orders and demand due to processors looking to increase stocks, ensuring continuity of supply ahead of the switch to new crop.

Old Crop – free buy trade in the packing market was limited over the past week except for good quality stocks or those with a high baker fraction. Stocks with high baker content continue to command a premium price and are reported to be moving steadily off-farm to a variety of customers. In Scotland, grade 1 whites are trading around £210/t ex farm with some stocks with a high baker content reaching £280/t ex farm. There are reports of some growers grading whites, with baker stocks graded 65mm up trading around £350/t ex farm. Grade 1 Maris Piper is trading around £280/t ex farm (figures reported 14th June). In England, grade 1 whites are trading around £330/t ex farm with high-end stocks reaching £375/t ex farm. Similar to the Scottish packing market, stocks with a high baker fraction continue to command a premium. Grade 1 Maris Piper is trading around £260/t ex farm with a high of £305/t ex farm for top quality material. Secondary Piper is trading around £175/t ex farm. Activity in the peeling market increased this week due to increased demand from processors to forward-purchase stocks. Peeling Piper is trading around £185/t ex farm, up by around £30/t on last week. Whites are trading around £110/t ex farm with a high of £130/t ex farm reported for better quality material. Exports to Belgium and the Netherlands have slowed down in recent weeks with EU countries now looking to source new crop material.

2019 New Crop – reports suggest that new crop in England is looking good with no widespread issues reported. Lifting continues in some areas with a larger quantity of chipping supplies beginning to enter the market. Movement is mainly small volumes to meet wholesale demand and for local shops. Maris Peer in Suffolk and Cornwall is trading around £500/t ex farm. Maris Bard in Cheshire is trading around £480/t ex farm with stocks of Accord in Pembrokeshire also trading around £480/t ex farm.

GB Planting Predictions Revealed

According to AHDB, the first estimate of total GB potato planted area for the 2019 crop year is 118 Kha (based on a sample covering 67% of producers by area). This is on par with the 2018 planting figures, estimated at 118,099ha. Statistical 95% confidence limits for the 2019 crop estimate are +/- 3.4%, which means that the final figure for 2019 could lie anywhere in the range from 113,745ha to 121,685ha. These initial predictions don't appear to follow typical industry trends. Usually a high priced season will trigger an increase in planted area the following spring. 2019 planting for many went well, considerably better than the challenges growers faced last year. A milder winter followed by a dry and warm spring led to good ground conditions with many growers finishing ahead of schedule. It is also sometimes the case that earlier planting can result in an increase in planted area, but this doesn't appear to be the case. Reports suggest that tighter seed availability influenced growers' crop planning and ability to increase planted area.

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Hitting peak

This year is showing firm performance. Last year's phenomenal peak prices benefited very few producers but at least more lambs forward this year at good (up £5/hd on the 2015-2017 average), if not exceptional, prices results in greater cash benefit across the national flock. High cost early lambers' might not be so magnanimous but it will have especially benefited if the lambs reared percentage is also better than 2018.

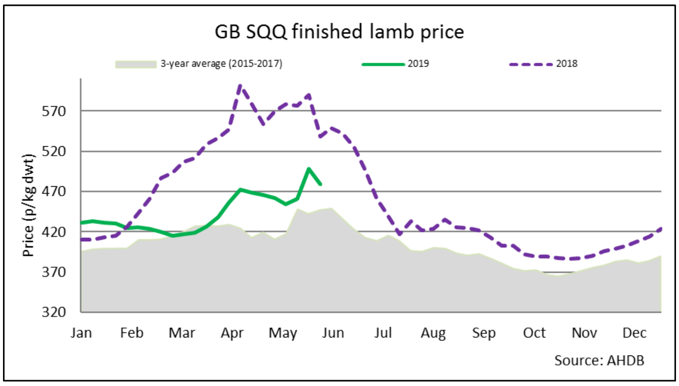
Despite the above, supply is actually slowing and is now more in line with last year. Does this hint at set-stocked grass having reached its seasonal peak in quality? An early abundance of grass now means more headed pasture. June has also been cool, slowing new growth in grazing and silage aftermaths. This will have a knock-on effect for lamb growth rates and supply over the next few weeks.

- *Producers are being asked not to be complacent and continue to weigh lambs regularly as there are a surprising number of 4L fat grade carcases*

At week ending 21st June, the price was around 440p/kg dwt across GB. With Eid al-Fitr – festival at the end of Ramadan – now behind us, the next major Islamic festival is Eid al-Adha on the 12 August. The lead up to this date would be worth considering especially if selling weaned cull ewes and early born lambs.

By this time last year price was in free fall, plummeting from its peak of nearly 600p to 415p/kg dwt within the space of 7 weeks to mid-July. Whilst there may be little sympathy for supermarkets, an exceptional market only reduced the appetite for retail promotions in main season.

Selling more lambs now, at good prices, will ease pressure on main season and hopefully keeps retailers on-side for retail promotions particularly from October, given the uncertainty of Brexit.



Also, both New Zealand and Australian lamb supply is lower this year but Chinese import demand is higher due to low pork availability resulting from a large outbreak of swine fever. This will help global prices.

Hard Brexit tariffs

As it stands, no deal results in trading at WTO levels. For sheepmeat, this would amount to around 40% reduction in the producer prime lamb price for exported lambs – deducting for effective tariffs – if it was to be landed at a similar price per kilo as currently purchased by continental customers. The impact is slightly less for mutton but increases significantly (circa -60%) for processed or boneless cuts. The rationale within the EU being that boning-out is a process that could be undertaken at home to support local jobs and tax revenues. Although, it could be incidental in the absence of skilled labour to undertake such tasks. Tariffs and quota systems could, of course, be reciprocated, if Westminster felt saw wider advantage.

Certainly in the short-term, a hard Brexit would completely change the type of lamb required. An R-grade lamb provides the ideal leg for the domestic market, with limited need for E and U grades. That demand is underpinned by exports to high value markets in Belgium, Luxemburg and (in part) Germany.

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Week ending	GB deadweight (p/kg) 16.5 – 21.5kg				Scottish auction (p/kg)				Ewes (£/hd)	
									Scottish	Eng & Wal
	R3L	Change on week	Diff over R2	Diff over R3H	Med.	Change on week	Diff over stan.	Diff over heavy	All	All
01 Jun19	477.8	-19.3	0.8	5.2	232.80	2.8	0.7	17.8	67.01	71.67
08 Jun 19	472.7	-5.1	0.6	7.6	214.30	-18.5	-6.6	6.4	64.76	63.56
15 Jun 19	452.8	-19.9	18.7	9.7	215.00	0.7	-4.2	4.4	68.64	67.64

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

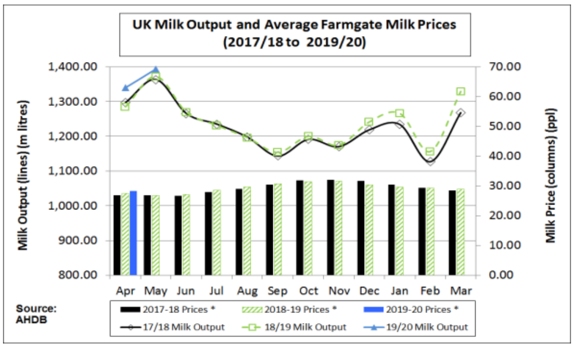
UK milk output increase - May '19

The latest figures from AHDB show that UK monthly milk output for May 2019 is estimated at 1,393.34m litres (before butterfat adjustment). This is 21.46m litres (+1.56%) above milk output for May 2018. UK milk output has increased on a year on year basis during every calendar month in 2019 with year on year percentage increases of 2.55%, 2.57%, 4.80%, 4.29%, and 1.56% during January – May 2019, respectively. As a result, cumulative UK production (April – May 2019) has increased by 76.60m litres above last year's output.

To date, 2019 conditions have been ideal for grass growth and grazing. Although changeable weather has presented challenges for making second cut silage, silage yields are promising and there should be little risk of any shortfall in forage production if current conditions prevail. Cast your mind back 12 months to the heatwave during June/July 2018 and you will recall how different last year was!

The UK average milk price for April 2019 is estimated at 28.23ppl. This represents a reduction of 0.69ppl between March and April 2019. On a year on year basis, the average milk price for April 2019 is up 0.83ppl against a price of 27.40ppl during April 2018.

- *UK milk production for May 2019 has increased to 1,393.34m litres (+1.56% on May 2018 output)*



Some prices reduce from 1st July '19

July 2019 brings mixed fortunes as far as farmgate milk prices are concerned, some milk buyers have managed to hold their June '19 prices whilst others have announced reductions. The main price changes for Scottish dairy farmers in July 2019 are summarised below:

- First Milk – FM has confirmed a hold on June prices going into July 2019 (see table below).
- Arla Foods amba – Arla has confirmed a hold on its conventional milk price for July 2019. Nonetheless, the Arla milk price will reduce by 0.01ppl due to an adjustment in the company's currency smoothing mechanism; a change which moves the liquid standard litre price down from 29.06ppl to 29.05ppl. Similarly, Arla's liquid standard litre for organic milk also moves down 0.01ppl from 40.34ppl to 40.33ppl.
- Arla Direct – 0.60ppl reduction from 1st July 2019. This will take the liquid standard litre price down to 26.40ppl.
- Sainsbury's – 0.50ppl reduction from 1st July 2019. This takes the price down to 30.15ppl for Müller suppliers, whilst Arla suppliers will see the price reduce to 30.30ppl.
- Müller & Lactalis (Fresh Milk Company) – No announcements for July 2019 at the time of writing this article. It is assumed these prices remain unchanged from June (see table below).

Annual Average milk price estimates for July 2019 (ppl)	
Milk Buyers – Scotland	**Standard Ltr***
Lactalis (No profile or seasonality) [1]	27.13
First Milk Liquid [1, 2]	27.45
First Milk Manufacturing *(4.2% Butterfat & 3.4% Protein)* [2]	28.37
Müller - Müller Direct [1, 3]	26.75

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 *FM prices include 0.25ppl Member Premium.*
3 *No monthly supplementary payment included in the price estimate. Includes 0.50ppl Müller Direct Premium.*

First Milk launches First4Milk

First Milk has recently launched '*First4Milk*', a new programme which has been designed to encourage responsible sourcing and to promote the importance of dairy farming in the delivery of environmental targets. By 2025, against base year 2008, the programme aims to achieve the following reductions across processing sites: 65% in CO_2e; 40% in energy use and 30% in water use.

UK wholesale prices remain stable

UK wholesale prices have remained stable despite the spring flush. SMP prices have risen on increased demand across the EU. The last GDT online auction saw a 3.8% fall in price to $3,208t.

UK dairy commodity prices (£/ tonne)	May 2019	Apr 2019	Dec 2018
Butter	3,440	3,460	3,680
SMP	1,730	1,650	1500
Bulk Cream	1,510	1,500	1,700
Mild Cheddar	2,830	2,830	2,850
UK milk price equivalents (ppl)	**May 2019**	**Apr 2019**	**Dec 2018**
AMPE (2014)	28.51	27.83	27.44
MCVE (2014)	30.44	30.56	31.04

Source: AHDB

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Management Matters: Autumn Cropping

Autumn cropping for harvest 2020

Forward profitability of cereals for harvest 2020 is currently lower than one year ago due to higher input costs (fertiliser, fuel and sprays) and lower forward prices. Oilseed rape forward margins in contrast are higher than one year ago. If current grain prices are maintained or fall, farmers could see a potential fall 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 £263/t compared to £230t this time a year ago. Cereal seed prices are expected around similar levels as last year, subject to harvest yields and conditions. Agchem costs on average have been rising in line with inflation though price rises have been higher for some specific products.

Grain price & margins for harvest 2020

Forward grain prices for harvest 2020 are down £10-£12/t on the same point a year ago, and similar to current (harvest 2019) values. LIFFE wheat futures for November 2020 are currently £151/t versus £162/t at the same time last year for November 2019 futures. With variable costs also higher than a year ago the net effect is a decline in estimated gross margins for cereals of between -£204/ha (1st winter wheat) and -£107/ha (winter barley). Oilseed rape is expected to see a rise in gross margin (+£97) due to the strengthening rapeseed markets. 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 and several new varieties have widened the field available.

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.

Oilseed rape – Margins improving on better prices.

Winter beans – Markets are small and erratic in Scotland. Pulse prices have been good in the last year. Some compounders use them otherwise they will trade farm-to-farm for cattle feed.

Whatever the crop, selling a safe proportion of the 2020 harvest before or as it is going in the ground helps pay for current seed, fuel and fertiliser costs. Grain sales can now be made beyond the planned UK Brexit date currently 31st October 2019 and given the uncertainties selling some now to cover this period makes even more sense than usual to provide some security.

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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)**	150	150	153	135	163	330	210
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	**1630**	**1330**	**1316**	**1181**	**1267**	**1320**	**1050**
Seed	92	92	87	87	80	50	113
Fertiliser	239	239	223	223	169	205	47
Sprays	147	147	114	114	82	130	109
Other	13	13	14	14	16	28	40
Drying	78	62	39	39	50	16	39
Variable costs	**568**	**553**	**478**	**478**	**396**	**427**	**348**
2019 Gross Margin	**1062**	**777**	**838**	**703**	**871**	**893**	**702**
2018 Gross Margin	*1267*	*951*	*945*	*772*	*929*	*796*	*725*
Change	*-205*	*-174*	*-107*	*-69*	*-59*	*97*	*-23*

EU CAP Reform and Mercosur trade deal

New CAP from 2021

EU member states are currently engaged in preparing and consulting on plans for the new CAP due to be implemented from 1st January 2021. Assuming the UK finally leaves the EU before this date then these changes will not directly apply to UK and Scottish farmers. However, as a major agricultural producer and trading partner to our doorstep how the EU support its farmers in the future will remain extremely important to the markets and possibly support regimes deployed within the UK.

Aims of the new CAP

Following an EU-wide consultation with agriculture stakeholders and the public, proposals for the CAP going forward include:

- Member states have more flexibility in how they allocate funding, to be able to tailor programmes in their country's interests
- Fairer distribution of funding – e.g. priority to small and medium farms (€100k BPS cap), as well as support to young farmers (min. 2% budget contribution)
- Modernising, simplifying and streamlining CAP (e.g. countries shall submit only one strategic plan covering direct payments, rural development and sectorial strategies)
- Furthering climate change and environmental action, and enhanced preservations of landscapes and biodiversity

The 2021-2027 budget

The current CAP budget for 2014-2020 is €408.31 bn, with €308.73 bn for direct payments and market measures (Pillar 1) and €99.58 billion for Rural Development (Pillar 2). The new proposed overall budget of €365 billion, a reduction of around 10%; while this may, in part, reflect the estimated direct and indirect impacts of Brexit on the CAP budget (the UK net contribution is around per year to the CAP). Over the seven years 2021-27 this accounts for around half (€21 bn) of the €43 bn reduction in budget from the previous CAP phase.

EU CAP budgets, 2014-2020 → 2021-2027

	2014-2020	2021-2027
TOTAL	€408.31 bn	€365.00 bn
Pillar 1	€308.73 bn	≈€295 bn
Pillar 2	€99.58 bn	≈€70 bn

The distribution of Pillar 1 and 2 is also to be altered, with proportionally less allocation to Pillar 2 (Rural Development). However, member states will be able to transfer up to 15% of Pillar 1 funding to Pillar 2.

Environmental priorities

Cross compliance of basic payments with environmental measures will continue, but with increased attention on soil carbon and nutrient management; voluntary schemes will be implemented to reward farmers exceeding mandatory requirements, and penalties imposed on those falling short.

In addition to the option to transfer up to 15% of Pillar 1 budget to Pillar 2, a further 15% will be possible if used specifically for interventions to address environmental and climate objectives (without national co-financing). A reduction of 10% in the EU co-financing rate will mean, however, that Member States will be expected to contribute additional national resources to fund rural development programmes, reducing total RD spending of €21.3 bn (-14%) from 2014-2020.

Decoupling, to an extent

Current proposals suggest that the current system of decoupled basic payments (i.e. payments based on land area, rather than productive output of land as per the CAP prior to 2003) will continue in a similar way. The EU states that small and medium sized farms will receive more support per hectare, though whether this is a result of basic payment capping or further area-based rates is as yet unclear.

Voluntary coupling – subsidy payments linked to production - will continue for certain sectors in EU member states within WTO limits. The EU also intends to extent the eligible sectors to include non-food biofuel crops. The aim is to incentivise and support production in sectors that are important for 'economic, social or environmental reasons'.

In Scotland, EU coupled support currently includes the Scottish Upland Support Scheme (SUSS) and Scottish Suckler Beef Support Scheme (SSBSS), together worth €46.5 m per year. The Scottish Government has been alone amongst the UK devolved administrations to support coupled payments, currently it is not known whether coupled support will continue in Scotland post-Brexit.

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What would this mean for the UK?

One of the main proposals to EU reforms is a cap of €100,000 on payments to individual farms, with the aim to distribute decoupled direct payments more towards small and medium farms, with studies showing that 20% of the largest farms have received around 80% of direct payments under the current CAP. In the UK 4,200 farms received more than €100,000 in direct payments in 2015, according to European Commission figures, 1.9% of all UK agricultural holdings.

Another key change is the increased autonomy given to EU countries to develop their own national agricultural strategies and priorities, which are then required to be approved and monitored by the EU. While this can be seen as a progressive response to concerns highlighted by Brexit, it may also risk the erosion of EU-wide standards and strategies in food and farming.

Whether or not the UK was still to leave the EU, there would be important changes to the overall CAP budget, as well as allocation for rural development and environmental compliance. The new phase will see less support for EU farmers overall, even if it is distributed more equally. This may have important consequences for the level of agricultural production and competition that UK farmers face in trading with the EU post-Brexit.

EU Mercosur trade deal

In addition to CAP reform the EU is currently in the midst of a significant liberalisation of trade.

The EU has just reached agreement on free trade deal with the South American Mercosur trading bloc including Argentina, Brazil, Paraguay and Uruguay. This trade deal is concerning to EU farmers particularly beef producers but also other sectors such as poultry and sugar.

Due in part to widespread resistance from the EU's farmers it has taken 20 years for the EU and South American trade bloc to reach a trade deal. The aim is to cut or remove tariffs, reduce the costs of imported food and boost exports of industrial goods for both blocs.

For the EU this will mean a reduction or removal of tariffs on 91% of exports to Mercosur, and a cut on 93% of exports from Mercosur to the EU (estimated as around a €4bn reduction in tariffs a year).

A series of tariff rate quotas at reduced tariff levels is intended to limit the effects on sensitive EU sectors. The agreement includes quotas for: beef (additional 99,000t at 7.5% tariff), poultry (new 100,000t) and sugar (new 180,000t). For beef the new quota would represent 1.5% of EU beef consumption and would be phased in over 5 years.

For the farming community, the deal raises concerns about competing with enlarged beef quotas from cheaper producers in South America, as well as the need to incorporate guarantees to protect the high quality standards that the EU has developed for its products.

The deal must now be ratified by member countries of both trade blocs, as well as the EU Parliament and EU Council. Given the delays that followed initial attempts to ratify the much less controversial EU-Canada trade agreement, the passage of this deal and its ratification are by no means guaranteed. Equally if it does finally pass, EU farmers, UK or no, will be set on a path of greater trade competition.

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Key economic data

General Indicators	
Base interest rate	0.75% (0.50% Aug '18)
ECB interest rate	0.00% (0.05% Mar '16)
UK (CPI) inflation rate	2.0% (target 2%)
UK GDP growth rate	0.5% (Q1 '19)
FTSE 100	7,520 (1 July '19)

Price indices for April 2019 (Defra 2015 = 100)			
Output Prices		Input Prices	
Wheat	140.72	Seeds (all)	107.2
Barley	132.95	Energy	125.2
Oats	164.68	Fertiliser	104.4
Potatoes	143.16	Agro-chemicals (all)	106.3
Cattle and Calves	102.03	Feedstuffs	118.8
Pigs	106.58	Machinery R&M	108.5
Sheep and Lambs	121.28	Building R&M	113.1
Milk	115.25	Veterinary services	115.4

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