

Scottish Farming Update | Spring 2020

Welcome to this quarter's Farming Update, which is produced by our Farming Research Group and reports on market and administrative issues that affect farmers' business decisions and on which they may need to act.

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

Harriet Ross, Editor

MARKET UPDATE

Arable crops (£ per tonne)	A year ago	February 20	A year ahead
Beans	220	195	196
Oilseed Rape	293	327	330
Feed Barley	168	124	123
Milling Wheat	166	173	150
Feed Wheat	162	152	138
Livestock (£ per kilo dead weight)			
Beef cattle	3.63	3.47	Possible decrease
Lambs	4.33	4.57	Possible decrease
Milk (pence per litre)	30.69 (Dec 18)	30.20	Remain stable

Sources

Arable crops: Graindex & FW. Prices are ex farm. Future prices are indicative bids from agricultural traders.

Livestock: FW. Beef R4L steers and lamb R3L specification. Future prices from outlook reports.

Milk: DEFRA.

ARABLE CROPS

Global: Grain Production Report

According to the UN's Food and Agriculture Organisation (FAO) **the world saw a record year for cereal production in 2019** (all combinable cereals) at 2,714 million Tonnes. Global wheat production was up by 34.8 million Tonnes on 2018 mostly due to an excellent harvest in the EU more than out-balancing the effect of a drop in the USA's wheat area and poor conditions in Australia. Global cereal stocks are marginally down from last year, but still at the third highest global stocks on record underpinning a comfortable ratio of global stock-to-use of 31% (FAO.org).

Planting of 2020 winter wheat crops around the Northern-Hemisphere has not all been affected by the same poor weather as the UK. The USA's winter wheat area was planted up in good time this autumn, while the picture is more mixed for Europe with some areas benefitting from higher than normal moisture and others suffering from water stress such as in Ukraine where dryer and hotter conditions delayed planting, meanwhile Russia had very good conditions for winter wheat establishment (Russian wheat has been supported by government intervention).

UK Markets

After plummeting throughout the summer, **grain prices in the UK began to recover in September, and have continued to do so with wheat having gained around £20/T between early September and mid-January.**



The deal reached between the USA and China last week was expected to bring positive news for farmers and the grain trade, but there was a general feeling of disappointment within the agricultural industry when the details emerged (BBC.com), which put a bit of a dampener on the global grain markets (CRM Agri Commodities) pulling wheat prices down by around £2/T. **The fact that the Chinese have only bound themselves to buy American Ag-Commodities depending on “market conditions” was a devastating caveat within the deal for some traders** (Reuters.com).

Wheat

The **UK has had a very poor winter wheat planting season to date**, with some calling it the worst autumn in memory. Farmers have had few, if any, chances to drill crops since the late autumn which was itself, at best, very patchy. Reports from the AHDB showed that by the end of November **just under 60% of the intended winter wheat area had been drilled**, and much of this will have been established poorly. The situation in Scotland is much better than down south, and most of the planned wheat was drilled and established. The challenge will be to catch up with weed control, but the crops themselves are looking fairly good with only a very few that are of questionable viability. With very few farmers able or willing to drill crops in December and early January, it is possible, if unlikely, that there will be a short “last-chance-saloon” to put winter wheats in the ground, with reports of a short dry spell. This relies on the ground having a chance to dry out, which won't happen quickly especially with the hard frosts accompanying the dry weather.

The predicted **low domestic supply of wheat from the 2020 harvest is supporting the wheat futures prices**, meaning that those lucky enough to have established some winter wheat should expect to sell at a good price at or after harvest, with futures prices for November delivery at £164/T at the end of January. Those waiting to empty the shed of the 2019 crop before harvest are also now able to take advantage of rising prices, as **the 2019 crop values are being pulled up by the 2020 prices**.

Barley

The **winter barley planted area at the end of October was just under 65% of the planned area** (AHDB), but with the dearth of winter cereals planted there is most-likely to be a very significant increase in the area of spring barley this summer. The markets have pre-empted this and **the gap between feed wheat and feed barley is already around £25/T**, this gap has grown from £8T in August 2019. Very large stocks of feed barley on the continent and around the Black Sea are likely to keep the price suppressed for the foreseeable future. **A large area of spring barley will also severely limit the value of any malting premium**, because maltsters will be spoilt for choice and should have no trouble in securing barley of the right quality. However, the malting market is relatively small (840,000T) and there may be pressure on the trade if these extra crops actually meet the spec. If not, **the premium for malting over feed may reach £40/T** – as a result of low feed prices.

Oilseed Rape

Cabbage stem flea beetle (CSFB) infestations and their larvae appear to be continuing to reap their dreadful effect on the OSR production of the UK, with **only 1.75 Million Tonnes being produced by the UK in 2019, the lowest since 2004** according to the AHDB. The planted area for 2020 has fallen from 2019 levels significantly by 23%, which will lead to an even smaller national production of OSR for 2020. **The drop in Scotland is estimated at 9%**.

Despite a reduction in our domestic supply of OSR, the price has fallen to £344/T from a high of £360/t earlier in the month (for old crop). The price is governed by external factors such as an enlarged area of OSR being planted in Ukraine, and global vegetable oil being supported by Russia's enormous sunflower harvests and South America's expanding soya production. This large soya area seems to be suppressing the forward prices for 2020 harvest OSR too, *which were as low as £314.50/T in December*.

Many English farmers are facing difficult decisions about OSR, and those being forced to abandon crops sown in August and September (the AHDB suggests about 7% of the OSR area may be abandoned this spring) coupled with a declining value may see this as the final straw. Options for alternative, less risky break crops are available, and many farmers will be looking for support and advice from the industry and government as to where else to turn. Interest in novel crops may increase depending on Brexit deals.



UK 2020 CROP ESTABLISHMENT – SPRING

Many farmers were able to cultivate land in September, with the aim of planting winter cereals in October and November. Those seed beds have unfortunately had to bear the brunt of the rainfall experienced over the course of the winter. The condition they are in now depends on the amount of rainfall, soil type, type of cultivation performed and the amount of green cover established. **The real challenge now is deciding on the appropriate cultivations to rectify the seed bed** in order to establish the spring crops. **This will have to be done on a field-by-field basis**, and it is difficult to predict when farmers will be able to start spring drilling in earnest, with further rainfall events at the end of January pushing field work back again.

Those fields left as stubble appear to be in a better condition, and are likely to be workable sooner than their cultivated contemporaries. We must also consider the wider environmental impact of those fields cultivated in the autumn, it is a shame to see some water courses turning into chocolate coloured rivers. The top soil washed into those water courses will have taken hundreds of years to accumulate, and can be washed away in an instant. In many cases the erosion could not be avoided, but perhaps farmers need to really target their cultivations and land use strategy to avoid this happening again in the near future. **We can't afford to keep washing our most valuable resource down the drain.**

Growers are soon set to start making applications of nitrogen to crops drilled in the autumn, when conditions allow. Again it must be emphasised that this year is completely different to last year, and **many crops are not in a state where they can take up large applications of nitrogen**. It will pay to tailor the nitrogen application according to crop growth stage, and not rush to apply to much too soon. Any nitrogen not used will be leached from the soil and into water courses, which must be avoided at all costs.

It will also be interesting to see how agronomic advice will vary in the 2020 season. **Crops enjoyed a low disease year in 2019**, and chemical manufacturers and distributors will have suffered lower fungicide sales as a result. We are now entering a year with a dramatic reduction in winter cropping (usually warranting the higher chemical expenditure) and facing an increase in lower input spring crops. **The distributors will be keen to generate sales of new chemistry** (such as BASF's Revystar), **but the market will undoubtedly be smaller**. This being said, the winter wheat crops that were established are at a higher risk of septoria this year – and wet weather exacerbates spread through rain-splash. The main risk period isn't until later in the spring though, so now is not the time to panic. It looks like **the season ahead could be very challenging and impartial, independent advice will be crucial to navigating these key decisions.**

LIVESTOCK

Beef and cattle

Prime beef is being sold at £3.47/kg, 20p below the 5-year average. **The declining value of beef was the story of the year in 2019, and this trend has hardly changed course**, while prices have recovered slightly in the new year they remain near the bottom of the range of prices achieved in the last 5 years. There has been little change to the market after the deal was struck to allow British Beef access to the Chinese export market.

Despite the gloom **UK beef production was 2% high in 2019 than 2018**, this was driven mostly by higher carcass weights, which is not a surprise if you consider the scarcity of feed during the drought in 2018. There also seems to be a trend in higher heifer slaughtering which will inevitably have a long term impact on the breeding herd of the UK.

Beef seems to be suffering from a deluge of bad public relations, with yet another appearance from Mr Monbiot on Channel 4's "Apocalypse Cow" which aired before the Oxford Farming Conference, which points an accusatory finger squarely at agriculture and the beef industry as a major cause of ecological degradation and climate change. The Secretary of State for the Environment, Theresa Villiers, was asked at the Oxford Farming Conference to show support for the UK Beef Industry and her response was notably measured as she declared that well managed livestock can be good for the environment. **Theresa Villiers' refrain about policy being "guided by the Science", and that "this is a Government which will always back Britain's farmers". failed to reassure the room-full of farmers she was speaking to.**

Lambs and sheep

Lamb prices (at around £4.50/kg) have been supported throughout 2019 and into 2020 by a lower than normal New Zealand Lamb supply and greater UK exports of Lamb. Since November production in the UK has also increased due to the heavier carcasses coming out of the abattoirs, the result of good Lamb finishing conditions in the autumn.



With the re-introduction of the Agriculture Bill to parliament the Chief Executive of the National Sheep Association – Phil Stoker - has welcomed the aspiration of a fairer supply chain included in the current text of the bill, and called for the reintroduction of sheep grazing into arable rotations to help improve soil health as soils too had been mentioned in the Bill.

The Agriculture Bill does not apply in Scotland and we have yet to see what the Scottish Government proposes for Agricultural support. So far there is a slight indication that some degree of direct support will remain but there is a resounding silence on matters of Agricultural policy.

Dairy

January has seen little movement in the farm gate prices for milk. The latest average provided by DEFRA is given for November 2019, which put liquid milk at 29.69 pence per litre. **Milk markets stayed remarkably stable last year, despite the political uncertainty.** The market performance has been very mixed as we have seen declines in sales of yoghurts and fresh milk but increases in cheese sales. With 98% of UK households still regularly buying dairy products, it seems to be fresh milk and yoghurt taking the biggest hit in terms of changing diets, while cheese appears to be a more tempting staple and harder to move away from.

The success of British cheese in the last year reflects a longer trend which has seen it become one of the UK's more important exports, valued in total at £675m per annum (FarmingUK.com). Stilton, Caerphilly, and Wensleydale still have not toppled Cheddar from its throne as the favourite. The USA imports £50 Million of British cheese while Chinese demand for British cheese has been growing at 20% per year.

January saw the announcement of a £1m study to combat Johne's disease funded by the UK government's Biotechnology and Biological Science Research Council. This bacterial disease can cause deadly gut infections, and has a significant and growing impact on cattle and Sheep in the UK and around the world, and brings a serious welfare issue as well as a £9.8 million cost to the UK dairy industry. **Meanwhile a £60,000 dairy project into alternative "Cow-with-calf" dairy farming has been announced by the Scottish government's Knowledge Transfer and Innovation Fund (KTIF),** and aims to introduce higher welfare standards for cows and calves in the dairy industry by keeping them together for up to 5 months as opposed to the usual 24 hours. With the news that a paper was published in December 2019 in *Scientific Reports* that cattle use different tones to convey different situations it is evident that the subject of animal welfare in dairy farming is set to become even more complicated.

FERTILISER & FUEL

Due to the reduced winter crop acreage the fertiliser manufacturers had piled up large inventories of fertilisers by the turn of the year, and have recently reduced prices significantly to try and shift stock before the potential rush of demand in the spring. Now would certainly be a good time to call up farmers' fertiliser suppliers for a conversation.

UK ammonium nitrate is currently priced at around £225/T, and urea is approx. £242/T Guide values for phosphate and potash are: Muriate of Potash (MOP) £257/T, Diammonium Phosphate (DAP) £297/T and Triple Super Phosphate (TSP) £250/T.

AHDB data reports **red diesel priced at an average of 61.35ppl for December 2019**, while diesel at the pump was at 129.79.

Some farmers have been reporting problems with fuel filters on their equipment, getting clogged up. It is believed that it is due to problems with biofuels in the mix with the red diesel. The NFU are running a survey to keep track of the problem, and are appealing for those affected to go to their website ([NFUonline.com/nfu-diesel-survey](https://www.nfuonline.com/nfu-diesel-survey)) to report it.

POLICY AND REGULATION NEWS

Basic Payment Scheme

Despite Brexit, farmers should not see any significant changes to their BPS in 2020. Treasury funding has already been put aside, and the application process will remain the same. It has not yet been announced whether payments will be available in Euros, or whether the Treasury will use the £:€ exchange rate to set the payment rates for 2020.

Greening for 2020 will remain the same. Please get in touch with a member of the Farming Team to discuss your greening options.



Convergence Funding

Fergus Ewing has announced that the first tranche of convergence funding will be paid by the end of March. £90 million of direct support will be paid automatically to farmers and crofters who made claims in 2019. One new point is that the convergence funding **will be capped at £55,000 per business**; this is expected to affect around 80 farm businesses. The remaining £70 million will be paid during the next financial year, work is still on going on how this will be distributed.

Tenants Amnesty

The **deadline for this is June 2020** and the process can be time-consuming, so anyone who thinks they have a case should make a start if not already in progress.

Committee of Climate Change – Land Use Policies for a Net Zero UK

The Committee on Climate Change has published its second and more detailed report on land use, called Land Use Policies for a Net Zero UK. The report aims to explore policies which could help bring about the required changes, and while it acknowledges that Farmers and Landowners will face many challenges it suggests that there are ways these challenges can be balanced at least in part by creating new revenue streams in return for delivering the required changes. These include low carbon food production, afforestation, developing the markets for bioenergy crops and protecting the most valuable habitats. Watch this space for a more detailed summary in due course.

FARM BUSINESS NEWS

Low Carbon Farming

Climate change and agriculture are inextricably linked, so how will landowners meet the challenge of low-carbon, environmentally-friendly farming and still thrive? Farmers and land managers are on the front line in more ways than one when it comes to dealing with climate change. In tandem with the challenges that extreme weather events, such as heatwaves and floods, present to their businesses, they are under ever-closer scrutiny, with the sector a net contributor to climate change.

There is a £500 grant available in Scotland to carry out a farm level carbon audit. These audits highlight methods to create a low carbon, environmentally friendly, profitable business. Please get in touch with a member of the Farming Team for more information.

AHDB Benchmarking

Following the re-launch of the AHDB Farmbench programme last year, the Scottish Strutt & Parker Farming Team facilitated three benchmarking groups focusing on 2018 cereal harvest results (one in East Lothian, one in Perthshire and Fife and one in Angus). We are pleased to report that funding has been secured to run the three existing groups again to benchmark the 2019 harvest. In addition, **we will be establishing two further groups with one to be in the Highland Region and the other in Aberdeenshire.**

This is a great opportunity to **evaluate the profitability of your individual farm enterprises.** Performance will be broken down by crop with output, variable costs and fixed costs all benchmarked anonymously. The plan is to input data and sign up new participants, with a view to the required one-off summary meetings to be scheduled for February.

With five groups covering the majority of the country, there is **plenty of opportunity for new participants to get involved.** The system is very user friendly and there is no cost involved. Therefore, please get in touch and a member of the farming team will be available to discuss further and can make arrangements to visit to assist with data gathering and input.

Business Resilience Reviews

In the face of Brexit uncertainty and challenging market conditions, the Scottish Government through its Farm Advisory Service (FAS) has recently lifted the funding deadline indefinitely for resilience planning. **The funding of £1000 is designed to encourage farmers to look closely at their businesses** to find ways of building in some financial shock absorbers so that it is equipped to cope with Brexit disruption.



Scottish Enterprise also has a Brexit support grant available that **provides a minimum of £2,000 and a maximum of £4,000** to help small to medium-sized enterprises in Scotland manage a wide range of Brexit impacts. Please get in touch with a member of the Farming Team for more information.

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