

Spring
2024

Scottish Farming Update

STRUTT & PARKER'S KEY POINTS AND SUMMARY

FARMING OVERVIEW

Welcome to this quarter's Scottish 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.

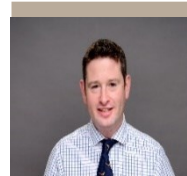
During the First Minister's Address at the NFUS AGM, Humza Yousaf provided assurances that there 'would be no cliff edges' in up-coming support transitions to the new four tier framework. He went on to say that funding under tiers 1 and 2 would make up 70% of the overall funding pot. With these tiers being the ones that will most closely reflect the current payment system, this was taken as a clear sign that the Scottish Government recognise the economic importance of farming and that production of high-quality food will be a priority. Tiers 3 and 4 will cover the climate change mitigation such as AECS and farm efficiency drivers. Whilst some encouragement has been received from the First Minister's address, we will have to wait until the end of the year to find out what the overall budget allocation will be.

Arable prices as shown in the market update have fallen around 15% since this time last year. Lower prices will mean significantly reduced profitability for grain and oilseed farmers in 2024. We have updated our arable farm profitability model using current market data to produce revised forecasts for harvest 2023 and harvest 2024. The net margin for an average performing arable farm for harvest 2024 is expected to be £258/ha (£208 in 2023) and for a higher performing farm it is expected to be £475/ha (£416/ha in 2023).

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

DATES FOR THE DIARY

- **29th February 2024**– 2023 AECS capital claim deadline as well as Preparing for Sustainable Farming claim deadline.
- **1st Feb to 10th June 2024** – AECS Application window for 2024 for non-organic AECS applications
- **1st Feb to 31st July 2024** – AECS Application window for 2024 for **Stand-alone** AECS organic conversion & maintenance applications



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Commodity	January 2024	January 2023
Beans	£242.1/t	£248/t
Oilseed Rape	£353.0/t	£433.5/t
Feed Barley	£148.8/t	£201.3/t
Milling Wheat	£237.6/t	£270.2/t
Feed Wheat	£171.4/t	£213.4/t
Beef Cattle (deadweight R4L)	502p/kg	464.2p/kg
Lamb (old-season deadweight R3L)	647.2p/kg	502.0p/kg
Pigs (SPP deadweight)	211.8p/kg	202.5p/kg
Milk (Defra Farmgate milk price December 23/22)	37.83ppl	51.60ppl
Red Diesel (Dec 23)	83.79p/lt	106.74p/lt
UK Ammonium Nitrate	£330/t	£700/t

Source: FW, AHDB & Defra

ARABLE

UK ARABLE MARKET

WHEAT	<ul style="list-style-type: none"> Total availability in 2023/24 is estimated at 17.658 Mt, up 225 Kt from November's estimate but 1.016 Mt less than 2022/23 levels, with a smaller crop outweighing a rise in carry-in stocks and imports. Reduced availability of wheat, combined with increased domestic consumption leads to a tighter wheat balance year-on-year at 2,827 Kt. However, minimal exports and concerns over next season's crop led to the heaviest wheat ending stock since 2015/16. This has contributed to the significant fall in prices with little sign of improvement on the horizon. 	OSR	<ul style="list-style-type: none"> A smaller planted area and flea beetle damaged crops have left the UK with a viable oilseed rape (OSR) area of between 305,000ha and 320,000ha for 2024, according to grower co-op United Oilseeds. Total estimated planted area has dropped from about 413,000ha last year to 354,000ha this year, with about 10% to 15% of this thought to have been lost already due to cabbage stem flea beetle. Prices are heavily affected by the global soybean market, which is currently sitting at 5-month lows
BARLEY	<ul style="list-style-type: none"> At 8.322 Mt, total availability of barley in 2023/24 is 115 Kt lower than 2022/23 due largely to a fall in production. The supply and demand balance of barley in 2023/24 is 166 Kt or 7% lower year-on-year, and down 78 Kt from the previous estimate, at 2.129 Mt. This is driven by a decrease in availability and a slight increase in domestic consumption. For barley, much like wheat, despite a tighter balance on the year, reduced exports, and concerns over the 2024 crop leave the heaviest ending stocks since 2014/15. 	OATS	<ul style="list-style-type: none"> Total availability of oats in 2023/24 is estimated at 995 Kt. This is down 187 Kt on the year, and down 16 Kt from November's estimate. A yearly fall in both opening stocks and production outweighs a rise in imports. The final Defra UK oat production estimate for 2023 is 830 Kt, down 177 Kt year on year, and down 11 Kt from November's estimate. Human & Industrial oat consumption in 2023/24 is estimated to rise by 16 Kt on the year to 507 Kt. Usage of oats in animal feed is forecast down 72 Kt or 21% on the year, at 278 Kt.

Source: FW, AHDB & United Oilseeds
English Farming Update

GLOBAL GRAIN MARKET

- European markets have been pressured by intense competition from the Black Sea region, only partly offset as the euro continued to weaken against the US dollar.
- Conflict in the Red Sea has increased the competition for grain sales in North Africa and Europe.
- Access to the Asian markets, which usually import Russian and Ukrainian grain, has been compromised, bolstering Black Sea supplies and weighing on European grain markets.
- Ukraine's export capabilities have been improved since the country established an alternative Black Sea corridor. Since 1 July 23 to 19 January 24, EU soft wheat exports are down 7.6% from this period last season at 17.4 Mt, while barley exports report a modest 0.4% increase at 3.3 Mt.
- Argentina is now able to export wheat to China following approval from Chinese customs. This could increase current competition for French wheat as China has been a key export destination in recent years.
- Recent rains in east and south Australia have improved the crop production outlook, which had been pressured by hot and dry conditions caused by the El Niño weather event. Wheat production could reach 30Mt according to some forecasters, 20 - 25% above latest official estimate.

UK WEATHER

Not much has changed since the start of the winter - rain and storms continue to affect agriculture. Preparation ahead of spring sowing is severely hampered by waterlogged and flooded fields.

Climate change is, as expected, leading to an increase in extreme weather. The Met Office highlighted that 2023 was provisionally the second warmest year on record in the UK. Their records also show that the UK is getting wetter, and heavy rainfall exceeding 50mm has become more frequent in the autumn. A warmer, moister atmosphere increases the capacity for deluges of rain, which can result in serious flooding, as we have seen across the regions.

Source: Met Office







S&P COMMENT

Arable prices highlighted in the market update are around 15% below 2023 prices. Prices have fallen in comparison to last year due to more favourable global production prospects in comparison to summer 2023, and more competition from Ukrainian and Russian wheat. Lower prices mean significantly reduced profitability for grain and oilseed farmers in 2024.

UK weather continues to affect arable production, farmers have struggled to get all their winter crops drilled due to flooding and waterlogged fields. This means farmers are looking at alternative options such as increased spring cropping or fallow with cover crops. There is however, a shortage of spring seed, with a large proportion of spring seed already sold out and what is left selling at an inflated rate.

LIVESTOCK PRODUCTION - 2023 VOLUMES

 <p>LAMB</p>	<ul style="list-style-type: none"> • Sheep meat production in the UK totalled 286,000 tonnes for 2023, a fall of 5,300t (-1.8%) from 2022. • Average clean sheep carcase weights for 2023 fell by 0.4kg from 2022, to 19.8kg. Carcase weights in the final quarter of the year were down on 2022 as weather and higher feed costs impacted on finishing. • Clean sheep slaughterings grew by 20,000 head (+0.2%) to reach 12.28m head for 2023, despite a lower kill in December 2023 at 1.14m head. This is the lowest December kill since 2019, with reports of wet weather making it harder to finish stock.
 <p>BEEF</p>	<ul style="list-style-type: none"> • Beef production in 2023 totalled 901,000t, a fall of nearly 23,000t (-2.5%) from 2022. • December 2023 totalled 67,200t, a fall of nearly 11,800t from the same month in 2022. This was the lowest volume of production in December in over five years, with a 15% decline year on year, and 21% month on month. • Carcase weights fell for 2023, down to an average of 342kg, the lowest weight since 2018. • Prime slaughter fell 1.3% for 2023 to total 2.04m head, as throughputs for December fell by 14% year on year to 150,800 head. This is the lowest December prime kill for over 5 years, as reports of wet weather have impacted ability to finish cattle and caused wider disruption. Cow kill also dropped for 2023, down by 16,000 head to total 612,000 head.
 <p>DAIRY</p>	<ul style="list-style-type: none"> • GB milk deliveries totalled 1,021 million litres in December, a slight decline of 0.4% (3.5 million litres) compared to last year. • Daily deliveries averaged 32.9 million litres. This year's milk season (April-Dec) production totals 9,272 million litres, slightly behind (-0.5%) the same point in 2022. • Up until December Q4 deliveries have been declining quite sharply with November back by 3% year on year.
 <p>PIGS</p>	<ul style="list-style-type: none"> • The UK produced 71,900t of pig meat in December 2023, a substantial decline of 14,300t compared to the same month the previous year; concluding another challenging year for the UK pork industry. For the full year of 2023, the UK produced 927,400t of pig meat, an 11% year on year decline and the lowest annual volume recorded since 2018. • Carcase weights have been lower throughout 2023 compared to 2022, averaging at 89.1kg. However the predominant driver in reduced pig meat production comes from a sharp fall in the number of pigs slaughtered, not weight. • Clean pig kill numbers in 2023 fell 10% year on year to 10.06 million head, the lowest annual clean pig kill in a decade (in 2013 the UK clean pig was 10.05 million head).

S&P COMMENT

Livestock production 2023 volumes highlighted by AHDB declined across lambs, beef, dairy and pigs. Weather continues to be highlighted as a one of the main reasons for the declines in carcase weights for both lamb and beef. Prices have remained firm as a result.

The rising costs of living is predicted to reduce the demand of lamb and beef consumption in 2024 due to tighter consumer budgets. Beef prices are predicted to keep firm in the UK, partly due to Ireland forecasting a 4% reduction in their beef production for 2024, which will limit their scope for exports to the UK.

FERTILISER & FUEL

Fertiliser

- UK produced Ammonium Nitrate has dropped in price to around £330/T (from £370/T in November), which will benefit those farmers who are yet to buy their spring requirements. This sees AN prices fall back into line with the global urea market.
- Nitrogen fertilisers will continue to react to natural gas prices, however there are ample natural gas supplies on the continent, which should keep some price stability in fertiliser markets short term.

Fuel

- The average price of crude oil stands at \$79/barrel (December 2023), a \$5.92/barrel reduction compared to November 2023.
- Red diesel prices have slightly reduced to around 83p/l in December 2023, (a 23p/l decrease compared to the same time last year).

Source: FW & AHDB

FARM BUSINESS NEWS

Medium-term drivers of farm production in Europe

The EU has published a report on the main drivers expected to affect farming in the region in the medium-term to 2035. They are:

- A continuing, but slower, increase in farm size. In the past, this has led to growth in farm productivity.
- Climate change and its impacts on key natural resources like water and soil. It is expected to reduce growth in yields and could lead to changes in crop cultivation patterns.
- Continuing changes in consumer demand.

These are expected to include lower meat consumption, especially of beef and pork; dairy product consumption is expected to be stable; and increases in consumption of some plant proteins, such as pulses. These changes are expected to lead to a stable area used for arable production but a switch in the arable crops grown, from cereals to soya beans and pulses. The area used for animal production is also expected to be stable, due to more extensive farming systems offsetting the expected reduction in livestock numbers.

Agri-Environment Climate Scheme (AECS)

The 2024 Agri-environment Climate Scheme (AECS) application window opened on the 1st of February. The deadline for standard AECS applications is the 10th of June with organic conversion and maintenance applications accepted up until the 31st of July. With agri-policy changes due to come in to effect over the next 2-3 years, it is expected that a tiered payment system will be implemented. That tiered system will likely offer access to higher levels of payment to businesses that incorporate practices that benefit the environment within their farming operations.

Therefore, if your existing AECS finishes at the end of 2024, or you wish to look at available options for a first-time application, please get in touch with a member of the farming team who would be happy to help.

Unlocking borrowing solutions for the rural sector

Whether you want to diversify, purchase new land, invest in a major capital project, or restructure loans to improve affordability, Strutt & Parker's rural brokerage team can help you to explore your finance and debt options. We are authorised to work with a panel of lenders and so are well placed to find the best solution for your business.

If you would like to find out more about our Rural Financial Brokerage Service, please contact Stephen Whiteford (contact details on the front page).

Updated arable farm profit forecasts for harvest 2024

We have updated our arable farm profitability model using current market data to produce revised forecasts for harvest 2023 and harvest 2024. The modelling tool uses a set of universal assumptions to provide an outlook for the sector. The analysis shows that the net margin – which can be considered to be the equivalent of profit, before rent and finance – for an average performing arable farm for harvest 2024 is expected to be £258/ha. This is higher than the estimate for harvest 2023 (£208/ha) owing mainly to higher grain prices currently available for 2024 crops compared with 2023 crops. The model shows that higher performing businesses can expect much better results than the average performing businesses (£475/ha for 2024) due to higher yields and lower fixed costs.

<https://rural.struttandparker.com/article/updated-arable-farm-profit-forecasts-for-harvest-2024/>

Operators investing billions in new EV charging sites

Electric vehicles are now accounting for about 20% of all new car sales and it is estimated there are about 850,000 fully electric cars currently on the road in total and an additional 530,000 plug-in hybrids. As the number of cars has increased, so has the number of chargers available just not by enough. The Government's target is for 300,000 public chargers to be available by 2030, but Zap-Map, a website which tracks the rollout of charging devices, estimates there were just 48,450 electric vehicle charging points across the UK at the end of August 2023. While this represents a 42% increase in the total number of charging devices since 2022, there is still clearly a long way to go. This provides an opportunity for landowners with property close to major road networks and for landlords of rural commercial buildings.

<https://rural.struttandparker.com/article/operators-investing-billions-in-new-ev-charging-sites/>

2024 Rural Payments Timeline

The Scottish Government Rural Payments and Inspections Department (SGRPID) have published their intended timeline for direct and SRDP payments – summary given below

Scheme	Payments Commence
Basic Payment Scheme & Greening - advance	September 2024
BPS/Greening/Young Farmer - Balance	December 2024
Less Favoured Area Support Scheme (LFASS)	December 2024
Scottish Suckler Beef Support Scheme (SSBSS)	April 2025
Scottish Upland Sheep Support Scheme (SUSSS)	May 2025
Agri-Environment Climate Scheme (AECS)	February 2025
Forestry Grant Scheme (FGS)	February 2025
Rural Priorities (RP)	February 2025

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