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Brexit and Politics

Abstract:

- The Government has set out its objectives for Brexit and for the relationship with the EU that will follow.
- It plans to conclude both Brexit and the new arrangements during the two year negotiation period allowed for by Article 50 of the Treaty.
- It hopes to agree with the EU a free trade agreement and some sort of customs agreement.
- Most analysts describe this bespoke arrangement as a 'hard' Brexit and one of the least advantageous of the options available for UK agriculture.
- EU Commissioner states that EU's agri-food standards will not be sacrificed on the altar of trade but questions whether the same is true for the UK.
- New Trump administration creating a lot of uncertainty for US farming
- Bilateral US-UK trade deal remains a possibility but TTIP in 'cold storage'.

Brexit: hard, muddled and bespoke

The Government's Brexit process is back on track following the majority vote in the House of Commons in favour of its simple EU (Notification of Withdrawal) Bill. Whilst the Bill will still have to go through the House of Lords, Theresa May's biggest hurdle for triggering Article 50 by the end of March has now been cleared.

As part of the process of engaging with Parliament, the Government had to be a little more transparent about its objectives than it originally intended. This was delivered on the 2nd February in the form of a White Paper which set out its 12 objectives for exiting and negotiating new arrangements with the EU. Of the 12 objectives, the two of greatest importance to UK agriculture relate to trade and immigration.

Regarding trade, the Government has made clear that it wants to broker a bespoke agreement that provides the benefits of free trade without the constraints that come with the EU Single Market: "*The Government will prioritise securing the freest and most frictionless trade possible in goods and services between the UK and the EU. We will not be seeking membership of the Single Market, but will pursue instead a new strategic partnership with the EU, including an ambitious and comprehensive Free Trade Agreement and a new customs agreement.*"

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The ambition shown by this statement is admirable; this is politics after all. The reality, however, of clinching a painless, costless Brexit and an advantageous new, bespoke arrangement with the EU within just two years will be very different. Theresa May wants tariff-free trade with the EU but she does not want to be part of the Single Market; she wants the right to negotiate trade arrangements with other third countries but she also wants to be involved in an EU customs arrangement; and the worrying part is that she does not know how this can be done: "*I hold no preconceived position. I have an open mind on how we do it. It is not the means that matter, but the ends."*

To help with the task, she is advertising for a 'Chief Trade Negotiator' (in the new Department of International Trade). The successful candidate will receive a larger salary than her own and will be expected to lead a team of around 200 negotiators. This number has risen significantly since August when it was estimated that there were around 30 staff with trade negotiating experience. This team will be expected to rapidly reach trade agreements with the 53 countries (that the UK currently has a free trade agreement with via its EU membership) and trade blocks around the world, in addition to the EU and the USA.

On the face of it, the EU deal should be the simplest. Unlike other trade negotiations, it is not about bringing two divergent systems together but about re-arranging the current position with zero tariffs on goods and a common regulatory framework. On this basis it should not be hard to negotiate a free trade agreement. However, the EU institutions need to show some benefit of membership to the remaining EU Members States. The draw of tariff-free exports to the UK of premium German cars, so often promoted by Brexiteers, will be tempered in the eyes of EU negotiators by the watching and waiting nationalist parties in other EU states campaigning for exit too. So it will not be easy as some may hope.

One also needs to bear in mind that whilst the UK imports around £70 billion more from the EU than it exports, the UK's exports to the EU represent 13% of its GDP. The equivalent figure for the EU-27 is 2% as its GDP is more than 5.5 times that of the UK. This weighs the cards in the EU's favour.

There are likely to be new tariffs, which will add cost and reduce net receipts from agricultural exports to farms. The new customs arrangement will probably still require customs procedures which will involve some (transaction) cost to trade. Being outside the EU Single Market will also allow a proliferation of non-tariff barriers to emerge over time (e.g. GMOs, neonicotinoids, glyphosate) which will also hamper trade and add cost to farm businesses.

The Government's White Paper and recent announcements have at least clarified that the UK is heading towards a 'hard' Brexit. While the soft/hard terms are now derided by some as being over simplistic, there can be no doubt now that that the Government is taking British agriculture through a less preferred Brexit door. Analyses of the different Brexit options in previous editions of *Inside***Track** (February & April 2016) showed that 'hard' Brexit options (such as a free trade agreement) reduced incomes in UK agriculture in aggregate. This is also supported by the models produced by the Andersons Centre across most farm types.

The Government has argued that any negatives from Brexit with regard to the EU relationship will be more than made up by the greater opportunities for trading with other countries around the world. It remains to be seen whether the UK can negotiate better trade deals than were previously obtained within the EU. One particular concern is that the Government may favour the interests of consumers over producers in negotiating trade deals, whereas the EU is legally required to balance the interests of consumers and producers under the Treaty of Rome. For example, the White Paper says that new global trade deals will "*enable suppliers to access higher quality and cheaper products in their supply chain and gives consumers more choice and lower prices"*.

The other White Paper objective of particular interest to agriculture, and to the food supply chain is the policy of controlling EU immigration. The Government claims that it would have liked to have resolved this issue ahead of the formal negotiations but, at this stage, we have no idea of the extent that access to EU labour will be restricted to farms, pack houses and processing plants – if at all.

The Government hopes that we should know the result of its negotiations within two years of triggering Article 50 at the end of March. The plan is to have finalised both the exit deal and to have reached an agreement about our future partnership with the EU in this time. From that point onwards, it expects a phased process of implementation which will give businesses enough time to plan and prepare for the new arrangements, including immigration controls and customs systems.

The two year timing for a new EU deal is highly optimistic, perhaps even unrealistic. But at least the new powers of scrutiny available to Parliament, following the High Court case, should allow farmers and farming organisations to lobby MPs and, through them, gain some influence on these new arrangements - however long it takes.

Hogan uncompromising on EU standards

The need to develop agri-food exports in non-EU markets is more important than ever for EU farmers to help to mitigate the risk posed by Brexit. That was the view expressed by Commissioner Phil Hogan at a recent global trade conference in Dublin. Unsurprisingly, little was given away on what the EU's negotiating strategy on Brexit might be as Article 50 has not yet been triggered. He did claim that an agreement on the terms of exit would need to be concluded before an agreement on the future trading relationship would be finalised. *However, this does not preclude exit negotiations and trade negotiations proceeding in a broadly parallel fashion as indicated previously by Michel Barnier, the EU Commission's lead Brexit negotiator.*

Commissioner Hogan did pose the question whether British farmers and food standards would become "sacrificial lambs" on the altar of free trade for a global Britain? He was clear that the EU will not compromise its food standards in the pursuit of trade deals although there was also an acknowledgement that any potential trade deal between the EU and Mercosur would require careful management.

What appears implicit in Commissioner Hogan's views is that if the UK wants a deal with the EU on agriculture, existing (EU) standards would need to be adhered to. If the UK pursues free trade deals with the US for example and permits hormone treated beef to be sold in Britain, could this mean that more rigorous checks are imposed for UK-EU agricultural trade?

Trump's farming policy remains uncertain

A few weeks into the new US administration and the key word emanating from agricultural circles is '*uncertainty*'. There are concerns that Trump does not see farming as a key priority as evidenced by the length of time it took to appoint Sonny Perdue as agricultural secretary. Added to this, there are mixed signals on support for the bio-ethanol and renewables sector. As reported last month, despite promises of support during the presidential campaign, Scott Pruitt, the head of the Environmental Protection Agency is a critic of biofuels. Furthermore, the administration contains numerous appointments with close links to the oil and gas industry. However, one area where farmers feel that Trump has sent clear signals that he will support them on is reduced environment-related regulation.

Trade is another area where there are major concerns. The US withdrawal from the Trans-Pacific Partnership (TPP) is seen as a significant, if not unexpected, blow as many farmers saw possibilities to export more soybeans, corn and pork to Asia. There is also anxiety over trade with China which is a major outlet for soybeans. If the US imposes tariffs on Chinese manufactured goods, then it is likely that the Chinese would react by importing soybeans from elsewhere.

There are also questions over the stance that the Trump administration will take on the next US Farm Bill, which is due to be put before Congress by autumn 2018, as well as migrant labour which was covered previously on *Inside***Track**.

From a UK perspective, the US has a major underlying influence on prices for arable commodities. The US biofuels policy supports grain prices globally. *Any trade disputes will disrupt prices although this could also present opportunities especially as the UK strives to be a champion of freer trade.*

The prospect of a bilateral US-UK trade deal should not be ignored. This is likely to be much less ambitious than the proposed US-EU trade deal (TTIP) which according to most experts has gone into *'cold storage'*. Market access for US beef to the UK under such a deal would be a key issue for British farming. *If the US secures good access for hormone-treated beef, UK farmers would struggle to be competitive, based on its current production standards. Arguably, US beef could displace imports from the EU, especially Ireland which imports sizeable volumes of animal feed from the UK. Any significant decrease in UK and Irish beef output would have negative implications for UK feed grain prices.*

Crop Markets

Abstract:

- Global grain output down by 3 Mt; stocks down by over 8.5 Mt. Prices up as a result.
- Oilseeds output forecasts for 2016/17 also revised down slightly but remain significantly higher than 2015/16.
- Brazilian soybean harvest proceeding well.
- UK grain market prices continue to be supported by weak Sterling. Old crop prices higher than new crop equivalents.
- EU remains the dominant export market for wheat, non-EU markets more prevalent for barley.
- Saudi Arabia may present export opportunities for the UK in the coming year.
- Potato prices remain high but deductions causing issues.

USDA world supply and demand

Latest WASDE estimates for 2016/17 show a 3 Mt decrease in output arising primarily from a 4.2 Mt reduction in wheat supplies caused by sharply reduced Indian, Kazakhstan and Russian production. Coarse grain production rose by 1.4 Mt, driven by corn production rises in Mexico and the Ukraine. World grain usage is forecast up by over 6 Mt due to increased coarse grain usage in the US and China. Closing stocks have therefore tightened, with US wheat stocks down nearly 4%. Global corn stocks are also down 3.4 Mt on January. Unsurprisingly, Chicago futures prices have risen with wheat up by 2% as a result.

Total global grains supply & demand at 9 February 2017 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	2,514.46	394.11	2,454.97	579.32
2015/16	2,456.26	377.62	2432.33	603.26
2016/17 Dec	*2,562.12*	*402.75*	*2,536.76*	*627.28*
2016/17 Jan	*2,560.36*	*404.29*	*2,537.22*	*625.82*
2016/17 Feb	2,557.40	406.13	2,543.41	617.24

*closing stocks Source: USDA

Global wheat supply & demand at 9 February 2017 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	725.91	164.42	705.43	214.51
2015/16	735.59	172.79	712.33	240.77
2016/17 Dec	*751.26*	*176.83*	*739.77*	*252.14*
2016/17 Jan	*752.69*	*178.05*	*739.89*	*253.29*
2016/17 Feb	748.24	178.99	740.40	248.61

*closing stocks Source: USDA

Oilseeds production forecasts for 2016/17 have declined slightly since January although output is some 32 Mt higher than 2015/16. As previously reported, this reflects significant increases in the US and Brazilian soybean crops. Argentinian production for 2016/17 is 1.5 Mt lower due to drought issues. With harvest underway in Brazil, early indications suggest that harvest progress is ahead of last year, and that the crop condition is generally good. *Whilst this is bearish for global prices it needs to be balanced against declining closing stocks, down 2 Mt since January as well as lower oilseed rape area for the UK which should support domestic prices in the months ahead.*

World oilseeds supply & demand as at 9 February 2017 (Mt)

	Production	Trade	Total use	Cl. stocks*
2014/15	536.86	147.13	440.32	93.14
2015/16	521.95	153.58	448.22	89.51
2016/17 Dec	*554.66*	*159.85*	*465.89*	*94.56*
2016/17 Jan	*554.80*	*160.26*	*467.54*	*93.71*
2016/17 Feb	554.19	160.98	468.52	91.67

*closing stocks Source: USDA

UK grain market round-up

The weakening of Sterling against the Euro in the last 6 months has meant that UK grains (like most other goods) have become comparatively cheaper to purchase in Europe than comparable grains from elsewhere. This means that UK exporters have found a ready buyer for the grain stocks that had been building up over the last three seasons. Wheat and barley carryover stocks for example are both currently looking likely to close the 2016/17 marketing year at approximately half the levels they reached at the close of the previous two seasons. Indeed, old crop values are considerably higher than new crop prices, with, for feed wheat, about a £20 per tonne spread between old crop and new crop. In fact, old crop wheat is currently uncompetitive for sale into Europe, which presents a price cap on the marketplace in the short term. The comparable price differential for barley is about £12 and less for malting specifications. Milling wheat premiums are very thin this year and, in some cases, barely evident because of the rapidly rising amounts of milling wheat grown. *Varieties capable of achieving full specification or feed wheat yield are coming into the market quickly, maybe this will reset the concept of a milling premium from now on.*

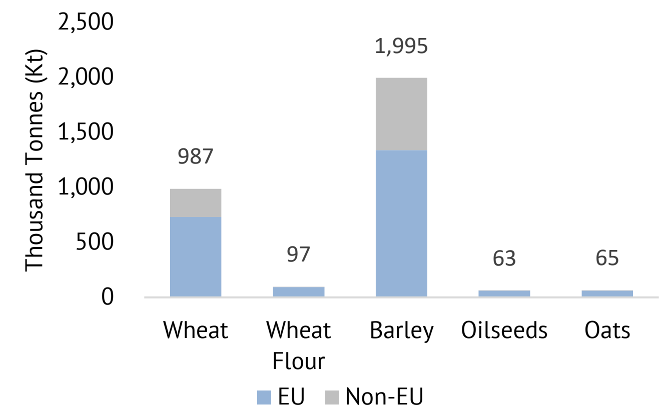
Latest Defra estimates demonstrate that wheat usage by millers (see below) and ethanol producers increased by 10% in 2016. *Whilst many people are focussed on the importance of exports, ultimately, this has to be a better use than simply exporting the grain, as processing the commodity into a higher value good and then exporting it underwrites the processing industry and adds value to the entire supply chain.*

UK cereals and oilseeds exports

AHDB Cereals and Oilseeds together with HM Customs provide a wealth of export statistics. Below is a brief analysis of UK exports of selected grain and oilseeds products. Thereafter, in the spirit of identifying new trading opportunities post-Brexit, we take a closer examination of the Saudi Arabian cereals market and the potential opportunities for UK exporters.

For 2015/16, the EU was the dominant export market, accounting for 74% of wheat exports, 67% of barley and more than 95% of exports of all other grains. In 2014/15, non-EU markets held a more significant share of wheat (36%) and barley (43%). However, historically the EU has been dominant.

UK Cereals and Oilseeds Exports Summary 2015/16 (Kt)



Source: AHDB / HM Customs

As the UK leaves the EU, other markets will play a more important role. Taking wheat for example, the UK exported over 175.5 Kt to Algeria which equates 31% of the 2015/16 non-EU total (258 Kt). Other key markets include Tunisia (159 Kt), Japan (92 Kt) and the US (63 Kt) which accounted for 28%, 16% and 11% of UK exports respectively.

For barley, Algeria (265 Kt) was again the largest non-EU market followed by Tunisia (159 Kt), Saudi Arabia (66 Kt), Japan (37 Kt) and Libya (31 Kt). These figures highlight the importance of North Africa for UK exports which is well documented across the industry. The data also reveal that other export markets merit a closer examination. Following on from its recent analyses of Canadian and Latin American markets, *Inside***Track** plans to focus on a selection of export markets in the coming year.

Market profile: Saudi Arabia – export opportunities

As one of the largest and wealthiest economies in the Middle East, Saudi Arabian grain imports primarily consist of food-grade wheat which is exclusively under the remit of the Saudi Arabia Grains Organization (SAGO). SAGO has also taken over responsibility to import feed barley since October 2016. Although Saudi Arabia has not imported feed wheat for several years, it is noteworthy that the Saudi government recently ended its domestic wheat production programme which had lasted for several decades but discontinued due to concerns over water scarcity as its wheat crop is 100% irrigated. A very small number of farmers may continue, but from 2016/17 onwards Saudi Arabia will be importing virtually all of its wheat. According to SAGO, the key specification for food-grade wheat is 12.5% protein and based on the contracts on offer, it is expected to import 15kt more wheat during 2016/17 versus last year. SAGO has already announced projected imports of over 2.4 Mt of feed barley for 2016/17. The USDA estimates that Saudi Arabia imported 11 Mt of feed barley in 2015/16, a 36% increase on 2014/15. Russia and Ukraine are the leading exporters but Germany, France and Romania are also present.

Saudi Arabia Market Overview	
Population (2016)	28.2 million
GDP per capita (2016)	$54,100
Estimated wheat imports (2015/16)	2.9 Mt
Projected wheat, flour and products imports (2016/17)	3.5 Mt
Wheat consumption per capita (2015)	109 kg per annum

Sources: SAGO, FAO, USDA

Admittedly, the UK's share of the Saudi Arabian market is small with barley accounting for virtually all exports. However, post-Brexit, such markets need to be pursued with vigour. The UK has previously exported wheat to Saudi Arabia, albeit in tiny quantities. *With Saudi Arabian production collapsing, and imports rising significantly, now seems an opportune time for the UK to develop this market.*

Potato prices still high, but grower concern over deductions increases

Potato prices have held their high value over the last month, with some English buyers looking to Scotland and imports to fill regional shortages. Prices are expected to rise further as the season progresses and pressure on supply increases.

Despite the shortages of potatoes, the NFU has complained to potato packers and processors that growers are getting payment deductions of up to 30% or more with little or no explanation. The NFU is calling for full itemised breakdowns of deductions within 48 hours. It fears that the current situation could cause long-term harm to the UK potato industry.

Early planting conditions have been largely favourable so far in the south west of England and the dry cold winter should allow main crop growers to get into their fields as soon as it warms up. Buyers will be hoping for as early a crop as possible to fill in gaps from the 2016/17 season. It can be expected that the UK area will be a little larger this year, although that increase may be limited by availability of seed.

Prices across north Europe remain at record levels for the time of the year because of lack of supply. The lack of seed is even more acute here, with Belgian seed potato prices double what they were a year ago.

UK Surveys and Reports

Abstract:

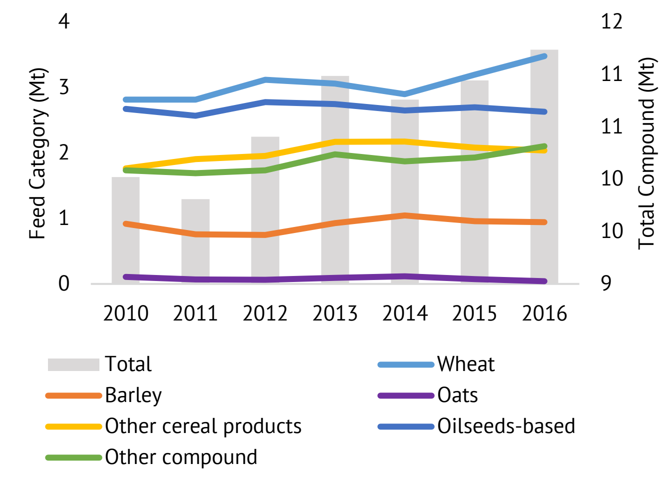
- Wheat usage in animal feed up 9% on last year, oilseed rape usage is down.
- Animal feed production up marginally, but cattle and pig feed down whilst poultry and sheep feed up. Poultry accounts for nearly half of animal feed grains usage.
- Milled wheat and malting barley usage continues to be up on last year.
- An estimated 8.3% of winter oilseed rape drilled this autumn has failed.
- Mains water usage remains dominant in England but bore holes showing increase on larger farms.

Animal feed usage survey

Latest Defra statistics show that compound animal feed raw material usage (11.2 Mt) increased by 2.7% versus last year. Wheat (3.5 Mt) is the main raw material used and showed an increase of almost 9% on 2015 and a 23.5% increase since 2010. Oilseed-based raw materials (2.6 Mt) were down 2.6% on the previous year. Oilseed rape cake and meal usage estimated at 0.6 Mt in 2016 was down by over 11%. This is unsurprising given the smaller oilseed crop last year.

Comparing 2016 against the previous year, compound animal feed production was up 12% for sheep and 11% for poultry, down 3% for pigs and 4% for cattle. In comparison with 2010, poultry usage has increased by almost 27% which highlights the extent to which poultry production has increased in the UK in recent years. In 2016, poultry consumed 46% of all grains made into animal feeds. Different animal species require different grain mixes in their diets, with poultry eating more wheat. Consequently, the usage figures showed a rise of 3.6% of wheat incorporation, but declines of barley, oats, maize and rape meal.

GB Compound Animal Feed Raw Material Usage 2010-16 (Mt)



Source: Defra

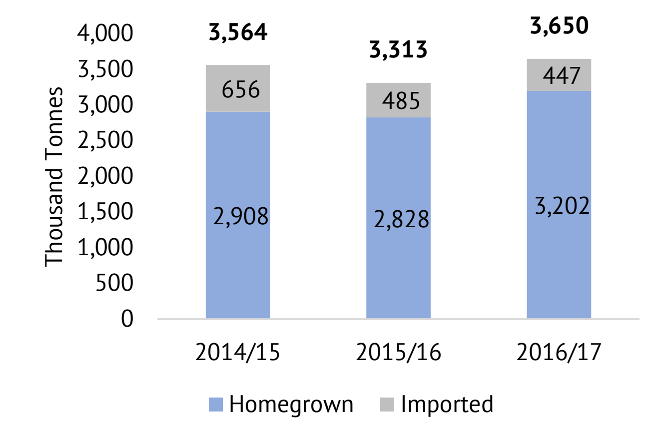
Raw material usage in integrated poultry units (IPUs) in 2016 (1.3 Mt) was down 8% on the previous year. Wheat accounts for the vast majority of IPU raw material feed. However, it should be highlighted that Defra adjusted its data from August 2015 to take account of IPUs that produce both feed for their own use and feed for retail sale. This has resulted in an increase in compound poultry feed and a decrease in IPU feed.

In terms of prices, the quarterly average price of cattle and calf compounds (Oct to Dec) was £211/t with the equivalent sheep price being £213/t. Pig compounds averaged £224/t whilst poultry was the most expensive (£237/t). Prices are generally up on 2015 equivalents but are £30-60 lower than the recent highs of 2012.

Milled wheat and malting barley usage

Latest Defra figures for 2016/17 (Jul to Dec) continue to show increases for both milled wheat and malting barley. Total volume of milled wheat processed is slightly ahead of 2014/15 but notably the amount of home-grown milled wheat processed is about 300 Kt higher at 3.2 Mt. Imported milled wheat is almost 210 Kt lower than 2014/15. Again, this reflects the high quality of the 2016 UK wheat crop as previously reported

UK Milled Wheat Usage 2014/15 – 2016/17 (Jul to Dec)



Source: Defra

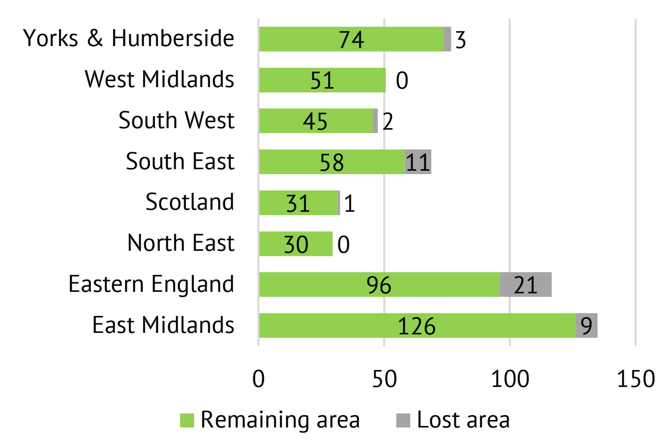
Malting barley usage (2016/17 Jul to Dec) 911 Kt is now slightly ahead of the previous year as malting usage has recovered after a relatively slow start to the year. The volume of oats milled this season (256 Kt) continues to be slightly behind last year (262 Kt).

Winter oilseed rape failure

A recent Kleffmann Group survey revealed that an estimated 8.3% of the GB winter oilseed rape crop drilled this autumn has failed. Applying this decrease to the Early Bird Survey estimate of winter OSR (557 K ha) suggests that the area likely to survive until harvest could be lower than 511 K ha. The survey also revealed that the losses were primarily attributable to flea beetle damage which also combined with the loss of neonicotinoids and issues with slugs. Losses were most pronounced in the East and South East regions (18% and 15% respectively) where moisture deficits inhibited establishment.

The survey also suggested that conventional OSR varieties account for just over half (51%) of drilled area. This is 3 to 5 percentage points higher than previous years. Admittedly, this year's winter OSR area is around 20 Kha lower than last year. However, the results do show that conventional OSR has bounced back. Conventional OSR varieties are most popular in the East and South East with hybrids dominant elsewhere.

Winter Oilseed Rape in England 2016/17 ('000 Ha)



Source: Kleffmann Group

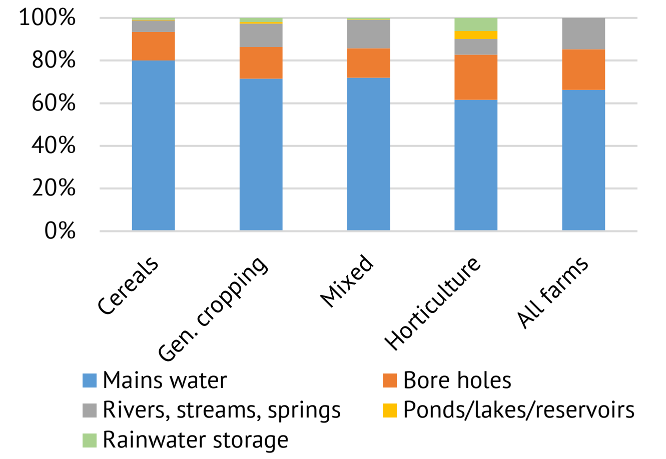
These results suggest that winter OSR has become more challenging and less profitable to grow. It remains to be seen how much will be replaced in the spring when the warmer weather arrives and the drills are in the field once again. However, OSR will remain important as a break crop as well as to satisfy the Three Crop Rule. Longer-term, if the Three Crop Rule is scrapped and the curbs on neonicotinoids remain in place, some farmers may question its viability.

Water usage in England

Mains water is the dominant water source on arable farms according to results from the English Farm Business Survey published recently. On cereals farms, mains water represents 80% of usage with bore holes accounting for 13%. Bore hole usage is slightly higher in general cropping and horticulture, estimated at 15% and 21% respectively. The use of mains water was also significantly correlated to region with farms in the East more likely to use mains water than in the West where extraction from rivers and streams is more prevalent.

The results also reveal that bore hole usage is most prominent on larger farms. On very large farms (defined as farms with 5 or more Standard Labour Requirement (SLR)), bore holes account for 32% of usage on average whilst mains water accounts for just over half of total usage. *The proportion of mains water used on all farms has been decreasing in recent years as farmers seek to source alternative water supplies in a bid to manage costs more effectively.*

Ave. proportion of water used in England 2015/16 by farm type



Source: Defra Farm Business Survey

Crop Protection

Mergers and acquisitions

There are a number of potential tie-ups in the agrochemicals sector which are being scrutinised by regulators across the globe. These include Bayer's acquisition of Monsanto, the proposed Dow-DuPont merger and ChemChina's bid for Syngenta. This strive for consolidation is arising partly in response to technological improvements that are more closely linking pesticides and seeds whilst aiming to achieve scale and cut costs as farm incomes have come under pressure. Each of these tie-ups pose competition issues in Europe and elsewhere.

Dow, DuPont offer to sell assets to get EU approval

On 7th February, Dow and DuPont in a submission to the EU Commission offered to sell assets to allay competition concerns over the planned $130 billion merger. The proposed remedies included divesting a proportion of DuPont's crop protection business and associated R&D as well as offloading Dow's acid copolymers and ionomers business. Both companies are keen to close the deal in the first half of 2017. The EU Commission will seek further input from stakeholders (customers and competitors) before making a decision, now expected on 4th April.

EU set to approve ChemChina's Syngenta bid?

Sources in Brussels suggest that ChemChina is set to secure conditional approval for its $43 billion takeover of Syngenta. The Chinese state-owned company has agreed to minor concessions (e.g. divesting a few national product registrations) to address the EU Commission's concerns regarding potential higher prices and reduced choice for farmers. Although the Commission has not officially commented on the matter, it is scheduled to announce its decision by April 12th.

When reporting its earnings for 2016 on 8th February, Syngenta stated that significant progress was being made "*towards achieving the necessary regulatory approvals and closing the transaction"* which it expects to take place in the second quarter of 2017. Whilst regulatory approval has been given by 13 authorities, approval from Brazil, Canada, China, India, Mexico, the US as well as the EU remains outstanding. A number of hurdles still remain but confidence is high that the deal will be done.

Bayer-Monsanto meeting with Trump

In mid-January, President Trump met with the CEOs of Bayer and Monsanto shortly before taking office. In what was described as a 'very productive meeting' on their proposed $66 billion merger, it signalled that the deal has a good chance of getting US approval. Both companies are keen to highlight that the proposed merger could potentially halve the time it takes to bring paired herbicide and seed products to market. However, many US farming professionals remain sceptical about the true motives of the deal and perceive it as a move to protect profits through higher prices.

Implications for UK farming difficult to determine

Having three major deals under scrutiny at the same time makes the task of assessing the implications for farming much more challenging. If any of the above deals get the go-ahead, they will have ramifications for the UK arable sector. Better integration that leads to superior products and a reduced product development timescale would be positive. A consolidated R&D effort to tackle blackgrass would also be beneficial. However, any increase in prices would negate these gains significantly. The consolidation would also lead to a shake-out in the agrochemicals sector as it is *highly probable that any approved deals would require divestments to take place. This would create opportunities for some of the smaller market participants to gain market share.*

Counterfeit pesticides cost €1.3bn per year in the EU

The European Union Intellectual Property Office (EUIPO) recently published a study which estimates the legitimate industry loses approximately €1.3 billion of revenue annually due to the presence of counterfeit pesticides in the EU marketplace, corresponding to 13.8% of the sector's sales. The study also calculated that the lost sales translate into direct employment losses of around 2,600 jobs, a figure which relates to goods produced and consumed in the EU only and does not take account of losses from outside the EU. Taking account of multiplier effects on other sectors of the economy including government, the manufacture of counterfeit pesticides causes losses of around €2.8 billion to the wider EU economy. It is important to note that the impact of counterfeit pesticides focused only on manufacturing and omitted wholesale and retail trade due to the absence of data.

For the UK, lost sales were estimated at €76 million, equating to around 12.5% of direct sales, corresponding to around 270 jobs. The wider economic effects in the UK were estimated to be €128 million and almost 500 jobs.

BPS and Policy

Abstract:

- The EU Commission has launched a consultation on the CAP which is the start of the process for the next CAP reform. Proposals can be expected in 2018 with new CAP measures in place by 2020
- While the Government hopes that Brexit will have taken place by 2020, it is possible that the negotiations will draw out beyond 2020. Following exit, transition arrangements for devolved agriculture policies in the UK are likely to be based on the reformed CAP from 2020 onwards
- Further capping of direct payments is expected to be one of the options in the next reform.

CAP reform 2020 – is there any point?

The CAP reform process has re-started, as per its normal 5-6 year cycle, with the Commission launching a new consultation on the CAP. The consultation, which ends on 2nd May 2017, can be found at: https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en. It will be followed by a Commission communication (draft proposals) in the autumn and then formal legal proposals (draft regulations) late in 2018. The aim is for a new CAP regime in 2020 to coincide with the EU's budgeting cycle (the Multi-annual Financial Framework).

Many readers will now be thinking – we will be out of the EU by 2020, so is there any point in knowing about the next CAP reform? There are a number of reasons why UK farming needs to remain involved in the CAP reform deliberations. Firstly, it is possible that the Brexit negotiations will not be concluded in the two year time-frame allowed and all parties agree to an extension. Second, it is important that we know what form that the CAP takes in 2020 so that farming organisations can lobby for some equivalence between the new devolved agricultural policies and the CAP, at least initially. UK farming may wish to ask for transitional arrangements which will mimic the CAP so as to give UK farms a soft landing following Brexit. Finally, as the policies of the devolved countries evolve over time, it would be foolish not to have an understanding of the support regimes of our EU competitors on the Continent and in the Irish Republic.

Agricultural Commissioner Hogan, in recent speeches, has set out three main policy areas for improving the CAP:

1. Market resilience;
2. Sustainable agricultural production; and
3. Generational renewal.

With regard to market resilience he questions whether:

- the CAP's existing tools intervene sufficiently and quickly enough at times of crisis;
- farmers should have greater risk management measures available to help in times of crises; and
- producers and processors have the ability to diversify or to find new markets.

Hogan is clear that basic income support, through a system of direct payments, and an effective safety net will continue in the reformed CAP. So there is little risk of those disappearing, although capping may rear its head again and be applied to a greater extent (see below).

He is also keen on strengthening the position of farmers in the food chain, so as to strengthen their resilience and allow them to reap more value from the chain. "*A more resilient agri-food sector within a stronger, fairer food chain will benefit every EU citizen*".

Turning to the objective of a more sustainable system of agricultural production, producing more food using less resources, Hogan has argued for significant investments in innovation and new technologies. New technology should reduce inputs and leaching while investments in new machinery should improve air quality and reduce GHG emissions. He says that the next reform should ensure that farmers are incentivised and rewarded for playing this crucial role in supplying public goods.

With regard to his generational renewal objective, Hogan wants the CAP to focus more on those barriers which hinder young people from taking up farming, and identify better ways to remove those barriers. He hopes to do this by improving access to credit, providing a stable and predictable working environment and reducing bureaucracy and red tape.

The communication launched this autumn will reflect Hogan's goals and will set out a menu of options for a formal consultation in the autumn. These are likely to include:

Option 1 (baseline): to assess the impact of the CAP as it currently stands.

Option 2 (no policy): to demonstrate the economic, social and environmental impact of having no CAP at all.

Option 3: to see if Member States/regions can deliver CAP measures against EU priorities. This would focus on risk management and investments in restructuring or business development (e.g. see RDPE Growth fund below).

Option 4: to consider the division of policy tasks between EU, Member States and farm level so to enhance the income safety-net via direct support (including area payments) and risk management. The idea here is to better link farm practice to EU-wide environment/climate action targets.

Option 5 Capping: this option will propose a *"strong redistribution of support from larger to smaller and environmentally-friendly farms. This option promotes stricter environmental requirements, short supply chains and local markets"*

The current informal consultation (https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en) is in the form of an online questionnaire, with 32 questions framed to provide answers which will support one or more of the 5 options above. The concept of the questionnaire is to allow the Commission to claim that all stakeholders and EU citizens have had the chance to feed their views into the next CAP reform. The results of the questionnaire will be announced at a conference in June or, more likely, July.

BPS Update

2016 payments

The RPA has confirmed 93% of farmers in England (80,000) received their 2016 BPS money by the end of January. This was the RPA's target for the end of March. Its attention has now turned to those who have still not received a payment, with the aim that all monies will have been paid by the end of March.
As from the middle of January, letters were sent out to those claimants still awaiting payment. Claimants will have received one of three types of letter depending on why they have not been paid:

1. More checks are required to complete the claim.
2. The claim is a cross-border farm.
3. The claimant has had either a remote or physical inspection and the data captured from this is still being updated.

The remaining physical inspection reports have started to be sent out from the beginning of February and payments are being made to these claimants. Remote sensing reports are still being worked on. As a result of some remote sensing inspections, physical ones are now having to take place, this is because some of the images are not conclusive due to cloud cover. These inspections are currently taking place.

Common Land claimants will have received a separate letter altogether. About 85% of claims with Common Land are said to have been paid by the beginning of February, with the RPA saying it has now completed the re-mapping exercise of eligible areas of commons, which appears to have been the main problem. Common land queries to the RPA should also now be directed to a dedicated RPA Common Land Team.

Claim statements have started to be sent out in hard copy. They will go to the registered business address, agents may need to contact clients if they need to check them. Unfortunately the RPA's system is still unable to produce a field by field breakdown and once again it will be difficult if claimants think their payment is wrong, to work out where or why this is. Where payment is not as expected, e-mail the RPA putting 'BPS 2016 Payment Query' in the subject title, including the SBI.

BPS 2017

Looking forward to 2017 applications, the new online Entitlements screen is now available to view, although the function to be able to transfer entitlements is not expected to be ready until the middle of February. It is possible to choose which scheme year to view from 2015 onwards and for each year it shows the entitlement balance, pending transfers, the number of entitlements clawed back by the RPA, any received under the New Farmer or Young Farmer rule and details of any transfers that have been approved by the RPA, including lease end dates. The inclusion of more detail and entitlement 'history' is helpful, although at this stage it is still advisable to thoroughly check what is being held as not all the information on the online system has been found to be correct.

The functionality to be able to transfer land via the online Rural Payments Service was expected to be available from the end of January, this has now been postponed and will be made available at the same time as entitlement transfer functionality – Mid February.

Chief Executive of the RPA, Mark Grimshaw, has decided to stand down. He has been head for more than six years and presided over some of the more difficult times seen by the organisation. Paul Caldwell has been announced as the Interim Chief Executive of the RPA. Paul has been with the Rural Payments Agency since 2001. He was made Operations Director in 2010 and in late 2016 he was appointed BPS Operational Delivery Director. Previously he was manager at the British Cattle Movement Service (BCMS).

Rural Development

Abstract:

• Farm and rural businesses invited to apply for £120m of grants for diversification (business development), food processing and tourism.

• South West, New Anglia and North East Local Enterprise Partnerships given the most funding for grants.

• The RPA has been hesitant in processing applications to date, but now that the Brexit uncertainty is over, it is hoped that applicants will receive a better service.

• The Countryside Stewardship Hedgerows & Boundaries Grant (2nd round) open for applications. Grants up to £5,000 available.

Growth Fund ready for more business

As announced in the January edition of *Inside***Track,** Defra has published the largest call for applications under the RDPE Growth Programme since its launch in 2015. £120 million is available to support food processing, business development and tourism infrastructure projects for an initial period of 12 months. The calls have been developed in collaboration with Local Enterprise Partnerships (LEPs) who have set the funding priorities and the number of projects they intend to fund. Small rural businesses are asked to 'think big' and are invited to submit Expression of Interest forms (EOI) for any relevant projects.

The Growth funds have been divided between the 36 LEP areas as shown in the Table (below). The South West has been allocated 10% of the money, and 25% of the total funding is split between three LEPs – the South West, New Anglia and the North East. Potential applicants should check which LEP area their business is located and the priorities for the projects in those areas.

Handbooks, guidance and EOI forms can be found at https://www.gov.uk/government/publications/rdpe-growth-programme. A series of workshops for applicants are being arranged across England to help familiarise businesses with the calls and provide the opportunity to talk to Rural Development teams and Local Enterprise Partnerships about potential projects. However a brief summary of each priority may be helpful:

Business development grants

These apply to small rural businesses – new or existing – including farmers who want to diversify into non-agricultural activity. As with all the other priorities, the grants are to help rural businesses grow and create more jobs. Grant funding can help pay for constructing or improving buildings or buying new equipment and machinery. Defra gives an example of a farm business which wants to diversify into metal fabrication. The business has made some gates and railings in the farm workshop, and has an agreement from a local building contractor to supply gates and railings for building developments. This will build on the skills already in the farm business, and the business will employ one new skilled person on a full-time basis.

Food processing grants

Food and drink businesses that process agricultural and horticultural products can apply for grants for buildings and equipment. A good example may be an established soft-fruit packing business which wants to process lower-quality, lower-value soft fruit. The project will supply the growing market for fruit smoothies, purées and juices. The project includes new processing and freezing techniques which allow year-round supply of products. The project will give the business a better profit margin on low-quality fruit, and the business has committed to paying 20% of the increased profit to farmers and growers through a bonus mechanism.

Tourism grants

This priority is slightly different to the others in that the expected outputs, such as profit and jobs, varies on the type of applicant. If the project is commercial and intended to make a profit, only small businesses and farmers who want to diversify can apply. If the project is not expected to make a profit, a wide range of organisations can apply. Many destination management organisations (e.g. local tourist boards, museums and councils) are likely to take up these funds at the expense of farms and rural businesses. A relevant farm business example might be the creation of a new visitor attraction for families, such as a farm park. This type of application could succeed on the basis that it will make the area more attractive to tourists and increase the number of visitors. This means other tourism businesses, like restaurants and accommodation providers, will also benefit.

The RPA's processing of project applications has been woeful to date due to a slow start to the RDPE programming by Defra, the purdah requirements before the Referendum and the uncertainty which followed it. Now that the government has confirmed that it will guarantee funding for RDPE Growth Programme grants if these are agreed and signed before the UK's departure from the EU, even if the grant agreements continue after we have left the EU, the RPA seems to be taking a more workmanlike approach.

Applicants should aim for projects to be finished and paid for, and complete grant claims submitted, by 31st March 2019. The final date to submit complete grant claims is 31st December 2019.

LEP Funding by Local Area and Priority Areas

LEP Area	Business	Food	Tourism	Total
Bucks & Thames Valley	£500,000	£500,000	£500,000	**£1,500,000**
Cheshire & Warrington	£434,000	£434,000	£450,000	**£1,318,000**
Coast to Capital	£835,422	£1,299,545	£1,113,896	**£3,248,863**
Cornwall & Scilly Isles	£1,350,000	£3,000,000	£2,175,000	**£6,525,000**
Coventry & Warwicks	£1,500,000		£500,000	**£2,000,000**
Cumbria	£928,247	£1,392,370	£1,206,721	**£3,527,338**
Derby & Notts	£1,579,019	£501,253	£928,247	**£3,008,519**
Dorset	£664,893	£1,200,000	£380,000	**£2,244,893**
Enterprise M3	£1,856,493	£881,834	£881,834	**£3,620,161**
Birmingham & Solihull	£450,000		£450,000	**£900,000**
Gloucestershire			£1,500,000	**£1,500,000**
Cambridge & Peterboro'	£3,248,863	£3,248,863		**£6,497,726**
Lincolnshire	£1,353,383	£1,543,375	£803,490	**£3,700,248**
South West	£2,784,740	£7,540,000	£2,088,555	**£12,413,295**
Hertfordshire	£1,216,700			**£1,216,700**
Humber	£200,000	£200,000	£214,000	**£614,000**
Lancashire		£1,287,478	£464,123	**£1,751,601**
Leicestershire		£909,217	£909,217	**£1,818,434**
Liverpool region	£340,000			**£340,000**
New Anglia	£3,063,214	£4,177,109	£2,413,441	**£9,653,764**
North East	£1,392,370	£1,624,431	£6,729,787	**£9,746,588**
Oxfordshire	£747,666	£747,666	£747,666	**£2,242,998**
Sheffield	£464,123	£835,422	£742,597	**£2,042,142**
Solent	£555,957	£282,675	£423,563	**£1,262,195**
South East	£1,856,493	£3,486,803	£2,475,324	**£7,818,620**
South East Midlands	£1,997,627	£2,092,062	£1,046,040	**£5,135,729**
Stoke & Staffordshire	£324,886	£1,113,896	£464,123	**£1,902,905**
Swindon & Wiltshire	£900,000	£1,392,370	£1,113,896	**£3,406,266**
The Marches		£2,320,616	£928,247	**£3,248,863**
Tees Valley	£450,000		£650,000	**£1,100,000**
Thames Valley	£400,000		£320,000	**£720,000**
West of England	£614,308	£544,936	£271,756	**£1,431,000**
Worcestershire	£1,250,000			**£1,250,000**
York & N. Yorkshire		£5,105,356	£3,235,867	**£8,341,223**
Manchester			£419,500	**£419,500**
Leeds			£3,001,021	**£3,001,021**
England Total	**£33,258,404**	**£47,661,277**	**£39,547,911**	**£120,467,592**

Hedgerows and boundaries grant

The second round of the Countryside Stewardship Hedgerows & Boundaries Grant is now open for applications. Through the scheme farmers can apply for a grant worth up to £5,000 towards the restoration of farmland boundaries. The scheme is competitive and those that have previously taken part in Environmental Stewardship or the Woodland Grant Scheme will score more highly. In addition, priority will be given to applications applying for more than £1,000 in grant, smaller holdings as well as for the restoration of hedges and stone walls over stone-faced or earth banks.

The application window closes on 28th April 2017 and this year applications can be made either using a paper form, or by using the new online application process which is expected to be available through the Rural Payments Service from early March 2017. Further guidance and paper application forms can be found at https://www.gov.uk/government/news/natural-england-backs-hedges-and-boundaries-for-wildlife-and-people

The scheme is not available on fields which already form part of a mid or higher tier CSS agreement, HLS or UELS on 31st July 2017 or where a 2016 Hedgerow and Boundary Grant is already in place. Land parcels subject to an ELS agreement are eligible as long as all other criteria can be met on the land.

Renewables

Feed in Tariffs

Feed in Tariffs (FITs) continue to decline across all sectors, suggesting a slowdown in installations is coming. The table below shows the tariffs that have been available on selected technologies (hydro is not shown). When originally introduced in 2010, the level of support was very generous and resulted in an investment surge. Early installations will still be receiving this high level of support as payments for 20 years are fixed at the point of commissioning. FITs have gradually reduced over time with the aim of tracking and encouraging technological change.

In late 2015, there was a fundamental review which suggested that some technologies / sizes would receive no support at all. The proposals were watered-down but rates are still much reduced. Anaerobic digestion rates will be reviewed from April 2017 onwards as part of the government's consultation on support for anaerobic digestion. For comparison, current retail electricity prices are around 9.9p/kWh (industrial users) and 15.2p/kWh (domestic consumers). Whilst support has fallen, the equipment cost (e.g. solar) has also reduced. However, any inflationary influences could exert pressure on equipment prices.

UK Feed in Tariff Rates (p/kWh)

Technology	Size (kW)	Original Rate	Jan-Mar '16	Jan-Mar '17
Solar PV	< 10kW	36.1	4.39	4.11
	10-50kW	31.4	4.59	4.32
	50-150kW	31.4	2.74	1.99
	150-250kW	29.3	2.74	1.99
	250kW-1MW	29.3	2.27	1.65
	1MW-5MW	29.3	0.87	0.52
Anaerobic Digestion	< 250kW	11.5	8.21 ~	5.99
	250-500kW	11.5	7.58 ~	5.53
	> 500kW	9.0	7.81 ~	5.70
Wind	< 50kW	24.1-34.5	8.54	8.26
	50-100kW	24.1	5.46	5.42
	0.1-0.5MW	18.8	5.46	3.51
	0.5-1.5MW	9.4	5.46	3.51
	1.5-5MW	4.5	0.86	0.82

~ April – June 2016 Source: ofgem

Environment

NVZ designations

Nitrate Vulnerable Zone (NVZ) designations and rules have to be updated every four years. Defra is currently sending out letters to farmers officially notifying them that their land falls within an NVZ (existing and new designations). Letters have been sent out in tranches throughout January and February depending on which river basin district the land is in. Farmers only have 28 days from notification to appeal the decision. There are only two grounds for appeal. Firstly the land does not drain into polluted water or secondly, it drains into water that shouldn't be identified as polluted. More details on how to appeal can be found on the Defra website at: https://www.gov.uk/guidance/nitrate-vulnerable-zones-appeal-a-decision-notice.

Designated areas can be found on the Environment Agency's website at: http://maps.environment-agency.gov.uk/wiyby/wiybyController?x=357683&y=355134&scale=1&layerGroups=default&ep=map&textonly=off&lang=_e&topic=nvz#x=357683&y=356457&lg=1,10&scale=4

In brief...

Key dates for coming weeks

Key dates* for Cross Compliance and ELS – main options

Rule/ option	ELS edn.**	Date	Action
SMR 1		28 Feb	End of quantity restrictions for application of organic manures with a high readily available N content - see guidance.
GAEC 7A & 7C		1 Mar	You must not cut hedgerows or trees from this date until 1 Sept (hedge-laying and coppicing allowed until 30 April). Orchards excluded from ban
EB1,2	All	1 Mar	You must not cut hedgerows from this date (until 1 Sept).
EB3	2013	1 Mar	For one management option you may no longer cut hedgerows from this date (until 1 January).
EB6,7	All	1 Mar	You must not cut vegetation on ditches from this date (until 15 September).
EB14	2013	1 Mar	You must not lay hedges and/or gap up from this date (until 1 Nov).
EC4, ED4	All	1 Mar	You must not trim shrubby growth from this date (until 1 Sept).
EE7,8	2010, 2013	1 Mar	You must not cut from this date (until 1 Sept).
EF1	All	1 Mar	You must not cut from this date (until 1 Sept).
EF2	All	1 Mar	Retain crop mixture until at least this date before re-establishment in spring.
EK1	All	1 Mar	You must not cut from this date (until 1 Sept).
EF9,10,15, EG4	All	15 Mar	Do not apply insecticides from this date (until following harvest).
EK4	All	15 Mar	You may not cut from this date (until 31 July).

*This summary is a memory prompt – always check guidance and/or contract **ELS edition which applies is determined by date of contract All = all editions where option is available
Source: RPA and Natural England

Consultations relevant to arable sector

Consultations announced

Description	Department & deadline
Consultation on modernising and simplifying the common agricultural policy (CAP) https://ec.europa.eu/agriculture/consultations/cap-modernising/2017_en	European Commission 2 May
Renewable Heat Incentive: support for Biomass-Combined Heat and Power https://www.gov.uk/government/consultations/renewable-heat-incentive-support-for-biomass-combined-heat-and-power	BEIS 10 March

Consultations reported or Government responses

Description	Department & deadline
Review of support for Anaerobic Digestion and micro-Combined Heat and Power under the Feed-in Tariffs scheme https://www.gov.uk/government/consultations/review-of-support-for-anaerobic-digestion-and-micro-combined-heat-and-power-under-the-feed-in-tariffs-scheme	BEIS 9 February
Rural planning review: call for evidence https://www.gov.uk/government/consultations/rural-planning-review-call-for-evidence	Department for Communities and Local Government & DEFRA 7 Feb
Agricultural weight limits for trailers and combinations https://www.gov.uk/government/consultations/agricultural-weight-limits-for-trailers-and-combinations	Department for Transport 3 February

First Glencore soy shipment arrives in UK

The Associated British Port's (APB) King's Lynn facility recently completed its first import of soybean meal, a 3,300 tonne shipment from Latin America on behalf of Glencore Agriculture UK. This follows October's announcement of Glencore Grain's launch of a UK animal feed products marketing business and is expected to provide further competition in supplying a key pigs and poultry production region of the UK.

Andersons spring seminars 2017

These seminars provide an overview of the entire farming industry and its prospects- covering policy changes, new legislation, economic outlook, market prospects and farm profitability. They also look at the implications for the structure of farming and farming businesses, and those that service them. The seminars take place at 12 venues throughout Britain and commence on 3rd March. See www.theandersonscentre.co.uk/seminars

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