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Brexit and Politics

Abstract:

- Oxford conference highlights concerns over Defra's Brexit preparations.
- Great Repeal Bill to allow MPs to debate future agricultural policies.
- Brussels has indicated that Exit negotiations need to conclude by Oct 2018. Also suggests future relationship talks can run in parallel to a certain degree.
- Sir Ivan Rogers (UK Permanent Representative in Brussels) has resigned. A leaked email shows frustration at the Government's 'muddled thinking' and lack of preparedness for Brexit and post-Brexit negotiations.
- Agriculture is mostly excluded from current EU/third country arrangements (FTA, EEA-EFTA or Customs Union); UK Agricultural Policy is likely to be more influenced by domestic priorities than by the new UK/EU arrangement.
- Scotland is pushing for its own 'differentiated' arrangement with the EU and to reclaim devolved powers for all policies which were formally the preserve the EU including the CAP.
- House of Lords Committee suggests a UK-Ireland bilateral deal to address the significant challenges Brexit poses to Ireland.

Oxford Farming Conference

Unsurprisingly, much of the discussion at the 2017 Oxford Farming Conference (OFC) centred on Brexit. Both Andrea Leadsom and George Eustice were high on optimism but short on detail as to what leaving the EU would mean for UK farmers. When pressed for details, Mrs Leadsom used the pretext of not wishing to prejudge the results of a consultation on Brexit that DEFRA is going to undertake. However, there was not even any clear timetable for the consultation, with a rather vague hope that it would be 'before the spring'. *If Article 50 is indeed triggered by the end of March, then the timing of this consultation all looks a little late.*

There were some policy announcements from the DEFRA team. As well as a further £120m funding for the Growth Programme in England (see separate article), Andrea Leadsom pledged to end the three-crop rule once agricultural policy was repatriated to the UK. This was part of a wider promise to cut agricultural red tape after Brexit.

A panel session on the morning of the first day with politicians from the four devolved Governments, then another on the second day between representatives of lobby groups, highlighted the difficulty of setting a post-CAP farm policy. A wide divergence of views was seen, and it was clear that the devolved administrations have no desire to relinquish any powers over setting farm policy in their nations.

Inside — Page

A final word on the Oxford Real Farming Conference. This was an event started in 2010 as an antidote to the OFC which was seen as 'corporate' and 'establishment'. Whilst focusing to an extent on organic, co-operative and ecological farming models there is also something in it for mainstream farmers. It is now a successful event with over 750 attendees. In fact, some people switch between the two conferences.

2017: More process than substance?

Much has happened since 23 June when Britain voted by 51.9% to 48.1% to leave the EU. Politicians from both sides have argued incessantly about how the process of disengagement from the EU will work in practice. While arguing about process is tiresome, it is important as the process will determine how much say stakeholders will have in influencing the substance. The substance includes all the things that could impact agriculture, such as how EU support payments, standards, tariffs and labour availability will be phased out and replaced by new arrangements under a National Agricultural Policy.

Theresa May has promised a Great Repeal Bill which will transfer EU law into British law in block after the Article 50 process has run its course. While the Prime Minister has promised to trigger Article 50 by 31 March, we are still waiting to hear from the Supreme Court whether this will need an Act of Parliament first. The Government has said there would still be time for a Parliamentary Act, and a White Paper, before the end of March – but the timing looks tight. If the Government wins its case, the Prime Minister told the Liaison Committee on 20 December that MPs would have ample time during the Great Repeal Bill to consider and debate Brexit issues.

In Brussels, Eurocrats are relishing the unprecedented task of the Brexit process. Having a role in the biggest negotiation in town is a CV enhancing challenge that policy wonks in Brussels are desperate to be part of, even if they fear that their British counterparts are not up to the job. The Commission, for example, is concerned that the UK exit bill (circa £50bn) has not yet been floated by the UK's politicians and media.

On 6 December, the European Commissioner responsible for Brexit, Michel Barnier, said that his team of negotiators is *"ready to receive notification"* from the UK. He made clear that the period for actual negotiations will be shorter than the 2 years allowed for in the legislation – probably only 18 months - due to the time required to get formal ratification of the final deal through the EU Council and the EU Parliament (before its own elections in 2019). In other words, if the negotiation starts in April 2017 as planned by Theresa May, it would have to finish by October 2018 to be ratified in time. However Theresa May admitted, in answering a question from Crispin Blunt, that contingency planning is taking place in case the European Parliament, or even some EU Member States, veto the Brexit deal.

With regards to the trade-off bedevilling UK politicians between the having access to the EU Single Market and border controls on EU citizens, Barnier made clear that "*cherry picking is not an option… third countries can never have the same rights and benefits (as EU members*)". Theresa May's view (to the Liaison Committee) is that there is no trade-off; she will get "*the best possible deal..for..trading….within the single European market. We will also want to ensure that it will be the British Government….making decisions about the immigration….from..the EU*". It sounds as if the 'best deal' in town may mean not being part of the EU Single Market, in which case this will start to emerge during the Brexit negotiations.

The Commission has acknowledged that the negotiations on a new UK/EU arrangement can run in parallel with the Brexit negotiations, since Barnier admitted that "*this agreement on the exit of the United Kingdom from the European Union will have to take into account the future relationship that we want to build together, that is also what Article 50 of the Treaty says*". The flexibility inherent in this statement from Barnier supercedes other comments from Brussels which suggested that negotiations on the new UK/EU arrangement could only start once the Brexit deal had been finalised.

UK's top Brexit negotiator resigns

The civil servant responsible for coordinating all the UK's negotiations in Brussels, Sir Ivan Rogers, resigned on 3 January. His resignation email to colleagues hinted at his frustration at the Government's inability to accept advice and to prepare for the upcoming negotiations. Extracts from his letter include comments such as:

- *"We do not yet know what the government will set as negotiating objectives for the UK's relationship with the EU after exit"*
- *"Senior ministers, who will decide on our positions, issue by issue, also need from you detailed, unvarnished - even where this is uncomfortable - and nuanced understanding of the views, interests and incentives of the other 27 "*
- *"Serious multilateral negotiating experience is in short supply in Whitehall, and that is not the case in the Commission or in the Council"*
- *"The structure of the UK's negotiating team and the allocation of roles and responsibilities to support that team, needs rapid resolution. The working methods which enable the team in London and Brussels to function seamlessly need also to be strengthened"*
- *"Contrary to the beliefs of some, free trade does not just happen when it is not thwarted by authorities: increasing market access to other markets and consumer choice in our own, depends on the deals, multilateral, plurilateral and bilateral that we strike, and the terms that we agree."*
- *"I hope you will continue to challenge ill-founded arguments and muddled thinking and that you will never be afraid to speak the truth to those in power"*.

His departure was probably inevitable following his leaked comments to the BBC about Member States' views on the time required to put in place post-Brexit arrangements. His offence was being involved in a leak (a cardinal sin for civil servants), rather than the message that was leaked. He warned Ministers that many EU states thought that a deal might not be done until the early to mid-2020s. As the UK's Permanent Representative in Brussels, he was alerting Ministers that even after a decade of negotiation, any new arrangement could still be rejected ultimately by EU Member States during the ratification process in national parliaments.

Rogers also suggested that the expectation among European leaders was that a free trade deal (FTA), rather than continued membership of the Single Market, was the likely option for the UK after Brexit. Continued membership of the Single Market would be quicker to negotiate than a new FTA, given the recent experience of FTA negotiations between the EU/Canada, EU/USA, and USA/Pacific rim. A Customs Union, often talked about recently with reference to the EU/Turkey arrangement, is another option which is discussed further below. In the cases of all the EU Single Market trade arrangements to date, the focus of the deal has been on industrial products; agricultural aspects are an afterthought, if included at all (see February 2016 edition of *Inside**Track*** for more background to the different types of third country arrangements with the EU).

Customs Union or Single Market

It is possible to be a member of the EU Customs Union and outside the EU Single Market (e.g. Turkey, Andorra or the Isle of Man). Conversely, it is possible to be a member of the Single Market via the European Economic Area (EEA-EFTA) but not the Customs Union (e.g. Norway, Liechtenstein or Iceland). These third countries which are not part of the EU Customs Union are free to strike their own trade deals but they need to abide by complicated "rules of origin" regulations, (see below) and the EU's free movement of people. Not only do goods move freely, but so do services, investment and people; this allows for the exchange of typically non-tradable goods, such as plumbing services.

If Britain however decides to quit the Single Market because it does not want Polish plumbers to enter at will, the next question is whether it would want to remain in the EU customs union. A Customs Union is a type of free-trade area whereby two or more countries agree to abolish restrictions on mutual trade, and to set up a common system of tariffs and import quotas that apply to non-members. In the jargon, they have a "common external tariff" (CET). The main advantage of a Customs Union is understood when you consider what could happen when there is no CET. For example if the UK had zero tariffs on US wheat, but France had a 10% tariff, then it would be a profitable wheeze to export the US wheat to the UK, and thence (freely) to France. So France would have to carefully monitor wheat imports from the UK, and slap a tariff on any American stuff sneaking in (so-called "rules of origin" regulations). With a CET, however, such monitoring is no longer necessary (because the possibility of such arbitrage is eliminated). One disadvantage of a Customs Union, however, is that its members are not allowed to negotiate their own trade deals with third countries. Pro-Brexit politicians have hung their hats on opening up a new trade deals globally following our unshackling from the EU, so it would seem that remaining in the Customs Union is unlikely given their rhetoric.

The best option from an economic perspective, of course, is for Britain to quit neither the Single Market nor the Customs Union. But that would give no point to Brexit. From an agricultural perspective, all the Single Market (EEA) and Customs Union deals agreed with the EU to date have excluded agricultural products and services. All those partners – whether Norway or Turkey – have had to look after their own farmers' support and agricultural trade arrangements anyway. On the face of it, a FTA deal as compared to a Single Market or a Customs Union deal might make little difference in principle to the prospects for UK farming. However a 'differentiated' approach, as proposed by Scotland, could lead to some differences across the devolved countries in the unlikely situation that this was agreeable to central UK government.

Scotland: devolved and differentiated

Scotland's wish to remain in the European Single Market was set out in its paper 'Scotland's Place in Europe'. Published last month, the paper makes clear that remaining in the Single Market is its 'least best' option; its preferred option is to become an independent member of the EU followed, in second place, to remain in the EU through continued UK membership of the EU. Acknowledging that both those options are currently ruled out, the paper focuses on persuading central UK government to remain in the Single Market but, failing that, explaining how Scotland could remain a member of the Single Market even if the UK decided not to.

The paper claims that the UK could take a 'differentiated position' which would allow Scotland to remain part of the UK and part of the European Single Market, even if England and Wales are not (justified because, at the Referendum, England and Wales voted for Brexit but Scotland and N Ireland did not). The Scottish proposal is unprecedented in that currently all States within the EEA/EFTA are whole countries, rather than regions or devolved countries of States. Scotland argues that there is flexibility provided within regions of some EU Member States which are either outside the EU or are EEA/EFTA members (e.g. Denmark and Greenland, or the UK and the Channel Islands) but that is slightly different to this situation where no part of the State is in the EU. In any event, a differentiated position for Scotland as compared to the rest of the UK would have to be championed by the UK Government and, one suspects, by the EU institutions, if it is to happen.

More significantly, Scotland makes a good case in the paper for taking responsibility for all policies formerly managed by the EU but which are not included in the new UK/EU arrangement. This is significant for agriculture, which is largely excluded from all current EU/third country arrangements, and which the Scottish Government believes should be fully devolved. Scotland says that it would press the UK Government to negotiate tariff-free access to the European Single Market for agricultural products, which on the face of it makes sense for Scotland but would be strewn with difficulties if the rest of the UK was not involved in the EEA/EFTA and had different tariff rates (see "rules of origin" requirements above). More importantly, whatever the EU/UK future arrangements, it raises the question about how much devolution there will be amongst the UK devolved countries once the CAP has gone. Up to now, politicians in Scotland, Wales and N. Ireland have been far more sympathetic to agriculture than their counterparts in England and will fight to acquire devolved powers for agriculture. There are many battles on the horizon facing the UK Government and the devolved countries as Brexit reaches its denouement. It is also apparent that Scotland will seek to exploit any special arrangements agreed between the UK and Ireland post-Brexit.

Brexit and Ireland

The implications of Brexit for Ireland will be more profound than in any other EU Member State and some of the effects could affect Ireland more acutely than the UK itself according a recent House of Lords European Union Committee Report.

This thoughtful report highlights the extent of UK-Ireland trade in the agri-food sector. According to the Irish Central Statistics Office (CSO), the value of Irish agri-food and drink exports to the UK was €4.9 billion in 2015/16, which equates to 40% of Irish agri-food exports globally. Over the same period, Irish agri-food imports from the UK totalled €3.8 billion including significant animal foodstuffs (€255m) and cereal imports (€664m).

The committee recommends that the UK and Irish governments negotiate a bilateral deal as a strand of the final Brexit arrangements with the EU to include the following objectives:

- Maintain the current open land border between the UK and Ireland, as well as the ease of movement across the sea boundary between Northern Ireland and the rest of the UK.
- Maintain the current Common Travel Area and UK and Irish citizens' rights to reside and work in each other's countries.
- The retention of rights to Irish (and therefore EU) citizenship for the people of Northern Ireland.
- In the event that the UK leaves the customs union, a customs and trade arrangement between the two countries, subject to the agreement of the EU institutions and Member States.
- Acceptance of the Northern Ireland Executive's right to exercise devolved powers in making decisions about the free movement of EU workers within its jurisdiction.
- Reaffirmation by both governments of their commitment to the Good Friday Agreement and subsequent agreements, including continued support for existing cross-border cooperation.
- Continued eligibility for cross-border projects to EU funding programmes.

All parties to the Brexit negotiations are keen to ensure that the success of the Northern Ireland peace process is not jeopardised. However, some of the report's recommendations will be challenging to implement, especially if the UK leaves the Customs Union.

The Irish government gave a lukewarm response to the idea of a bilateral UK-Irish deal stating that the negotiations will be conducted between the EU and the UK and that the Irish government will form part of this team. This is unsurprising, as negotiations have not formally commenced, the EU is keen to present a united front. However, a bilateral UK-Ireland strand to the eventual exit arrangement will be required to deal with the intricacies of the UK-Ireland relationship. This could result in a 'special status' for Northern Ireland within the UK, but could also involve a form of 'special status' for the Irish Republic within the EU. Such an arrangement would help to facilitate the free movement of people between both countries. Trade will be much trickier to address. If there are trade restrictions due to the UK being outside the Customs Union, then one of the suggestions contained in the report to establish a trade agreement for agricultural products based on quotas merits consideration. Such a quota system, would be similar to the tariff rate quota (TRQ) systems already in place between the EU and third countries and could be based on historic trade flows between the UK and the EU. However, it should be based on a longish reference period (e.g. 5–7 years) to mitigate the impact of exchange rates which can skew trade flows in the short term.

RPA yet to discuss Brexit

Mark Grimshaw, the RPA Chief Executive, gave evidence to the EFRA Select Committee on 22 November. While the enquiry was largely about progress on the delivery of 2016 Basic Payments, he was asked by MPs about the future of support arrangements post-Brexit. His response was that "*none of those conversations have taken place at all.*"

Being a civil servant, and not a politician, he was unable to answer MPs questions on his preferred configuration of a post-Brexit support arrangements. However he affirmatively answered the following scenario and question for 2019 claim "*if we invoke Article 50 and say, theoretically, we leave in April 2019—or it might even be May 2019—that application that farmers make in 2019 will then, I take it, still be paid under a similar system, but will be paid directly by the UK Treasury rather than going to Europe and coming back again. Is that how you would see it?*"

Trump presidency appointments update

Donald Trump has yet to name his Agriculture Secretary although Bloomberg claims that Sonny Perdue III, former Georgia governor, is the lead candidate. In recent weeks, President-elect Trump held meetings with several candidates and is expected to decide shortly. His inauguration take place on 20th January. Scott Pruitt has been appointed as head of the US Environmental Protection Agency (EPA). As a climate change sceptic and critic of the US biofuel policy, Mr. Pruitt's strong support of fossil fuels could place him at odds with the US biofuel industry which uses more maize than the country exports, at over 50 million tonnes. This alone could have significant ramifications for global agricultural markets and other stances concerning deregulation and the more liberal use of agro-chemicals is also likely to court controversy in the years ahead.

Crop Markets

Abstract:

• Global grain production and stocks rising further, but UK prices are supported by weaker Sterling and tight supplies.
• The oilseed rape price rise is almost entirely due to a fall in the value of Sterling against the Dollar.
• Exchange rate is likely to be even more volatile than we are used to. Both progress towards Brexit and the election of Trump are significant new risks.
• The Paris oilseed rape futures market has shown an exceptional relationship with the UK delivered price.
• The currency impact makes the use of the Paris market for hedging UK oilseed rape prices more expensive than for a euro based grower but still surprisingly effective in most years.
• Brazilian soybean production rising which is forecast to exert a downwards pressure on global prices during 2017. Reduced OSR production in the UK and EU will counteract this somewhat.
• Europe is satisfying a greater proportion of its soybean meal demand via soybean imports for crush.

Global production rises again

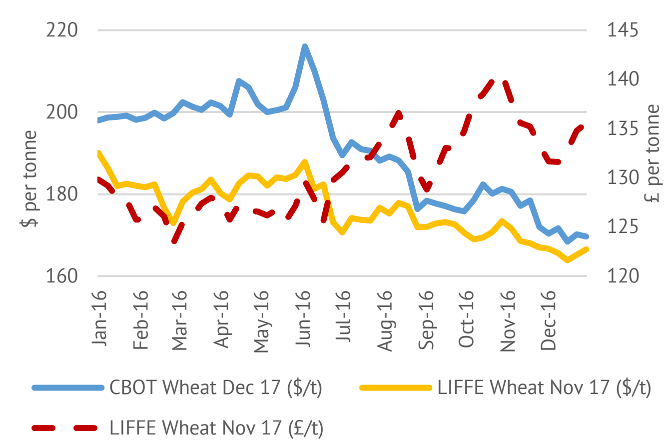
Latest projections from the USDA and IGC show further production increases across most grains and oilseeds. This is inevitably leading to stock rises and negative implications for prices.

In December, the USDA raised its wheat production by 6.5 million tonnes to 751.3Mt led by a 4.7 Mt increase for Australia whilst wheat stocks are 3.2Mt higher at 252Mt. IGC forecasts 2016/17 world wheat production at 749Mt, while consumption is projected at 736Mt. Carryover stocks are forecast to be 235Mt meaning the stocks to use ratio is 32%. Unsurprisingly, world prices are decreasing in Dollar terms, but the weaker Sterling has insulated UK prices during the 2nd half of 2016 as the following chart depicts. It is also noticeable that the price differential between the US and UK prices has narrowed considerably from approximately $20/tonne in June to around $3/tonne. This reflects a tightened UK supply situation (see separate article on UK cereals balance sheet).

The USDA has also raised its global production estimates for coarse grains to 1,329Mt, up almost 10Mt on November. Consumption (1,319Mt), whilst up by 4.7Mt is struggling to keep pace, so stocks have risen accordingly.

Oilseeds presents a similar picture. Production is up by 3.4Mt and stocks are 1.7Mt higher. Oilmeals stocks are up 1.6Mt although vegetable oil stock projections have declined slightly.

US and UK Wheat Futures Prices, $/t and £/tonne



Source: AHDB

Oilseed rape price influences

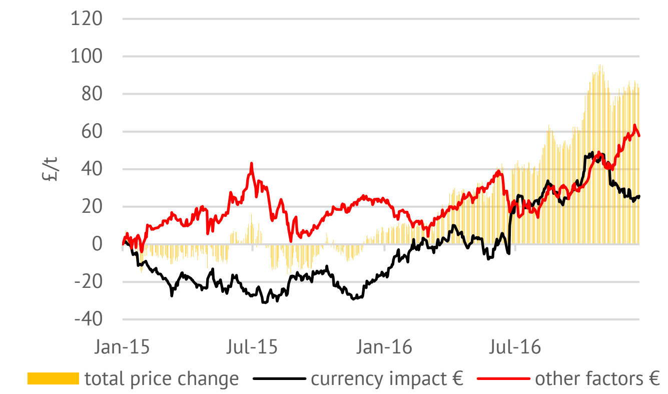
Guest article by Simon Ward, Increment Limited and The Policy Group

What a tangled web

One of the few bright spots is the oilseed rape price rise. The euro-sterling exchange rate suggests a significant impact of supply and demand as well as exchange rate on price. However, this is misleading.

The graph below shows how the oilseed rape price in sterling, the influence of the euro: sterling exchange rate and, by deduction, other factors (such as supply and demand). We have based the analysis on the February 2017 Paris futures data.

Euro sterling currency influence and other impacts on the oilseed rape February price, £/t

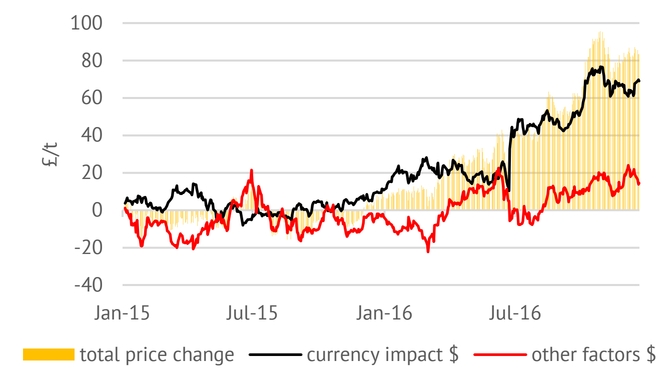


Source: Paris Futures market and European Central Bank analysed *Inside*Track

The graph shows that prices were relatively static until January 2016, with strengthening sterling against the euro offsetting an underlying price rise in euros. As the referendum approached sterling weakened, and at the end of June fell significantly, and in conjunction with a strengthening underlying oilseed price the sterling oilseed rape price began to rise. It would appear that from July until mid-November 2016, the impact of the two changes were approximately equal (as at 10 November 2016 sterling –euro currency movement explained 47% of the price change over the period from January 2015). However, this is misleading and the parallel movement of currency and other impacts from July and the mirror image of the two factors earlier in the year rings alarm bells.

In practice, commodities are largely traded in dollars and it is the relationship with the dollar that is most important. While, of course, in sterling terms the price rise is the same however the changes are examined, the explanation changes.

Dollar sterling currency influence and other impacts on the oilseed rape February price, £/t relative to the dollar price



Source: Paris Futures market and European Central Bank analysed *Inside*Track

In dollar terms the non-currency impacts are small and the impact of the referendum is much greater. (As at 21 December 2016 currency movement explained 83% of the price change over the period from January 2015).

Exchange rates are very difficult to predict. Markets are likely to be watching how Trump confirms and implements policies announced in his election addresses. A trade war could prove damaging for the dollar and this would have a big impact on commodity prices. On the other hand unsatisfactory progress on the Brexit negotiation could weaken sterling.

Through a hedge backwards

Many growers are now comfortable with using options and a few more adventurous farmers also use spreads to add a premium to their sales if opportunity presents itself. But with no UK oilseed futures market most growers use the Paris market where there is not just exposure to price change but also to exchange risk.

The graphs (see 'what a tangled web') showing the impact of exchange rate on oilseed rape price provide an indicator of how effective the use of the Paris market is likely to be for risk management. If sterling and the euro exchange rates move in parallel against the dollar, and deviations are small compared with price movement, the market will provide a more effective hedge than if price movements are small and if sterling and the euro move independently against the dollar.

Futures markets

A functioning futures market should reflect the physical market. If the market does not do this it provides an ineffective indicator of price and fails as a risk management device.

Futures markets have at least one point of delivery. The physical price should relate to delivery to that market.

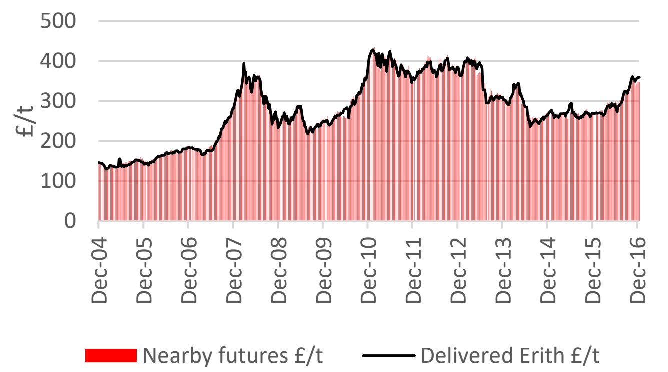
For the UK wheat market almost anyone with a weighbridge and a good quality store can register as a futures store (enabling a delivered price to be achieved and potentially payment for storage).

For the Paris oilseed rape market there is a specific delivery point at Rouen. This is a major import/export port and since cost varies relatively little between ports this price is widely applicable.

There will be a difference between the UK ex-farm price and the futures price (known as the basis) and the relationship will vary. If the relationship is erratic the hedge will generally be poor.

The relationship between the Paris futures market and the UK delivered oilseed rape price is actually exceptionally good.

Paris oilseed rape nearby futures price in sterling and UK delivered price to Erith 2004 to 2016 (£/t)



Source: Paris Futures, EU Central Bank and delivered prices as reported by AHDB

The UK price, on average, over this period was about 1% below the futures price and on 72% of occasions the Erith price discount was between minus 4% and plus 1%.

Risk management

The conventional risk management strategy using options is to combine a physical sale, or potential physical sale, with an option to buy or sell a futures contract.

Where options are purchased through a merchant, it is usual to sell the crop forward and simultaneously purchase a call option fixing the price to buy the same quantity back, at a similar price for the same delivery month (consider it as an insurance premium guaranteeing a purchase price if it is needed). If the price rises, the purchase is made. The purchased crop (in practice the futures contract to buy the crop) is immediately sold for a profit with the additional return added to the original sale. If the price falls, the down payment (the option cost) is lost.

A similar result can be achieved by putting down a deposit to enable a sale to be made on the futures market at a specific price (a put option). In this situation if the price rises, the sale at a lower price would result in a loss, so the logical solution is simply to forego the down payment. Sale of the physical crop is at a higher price than would have been the case at the time the option was taken out. However, if the price falls the option to sell at the higher price is taken out and futures crop is purchased to meet the contract at a profit. This uplift leaves the sale price at about the same price as would have been achieved had the crop been sold earlier.

An option is worthwhile if the prices moves up or down by more than the cost of the option, although the option itself only makes money where the price moves in one direction (e.g. where the option is to sell crop, when the price goes down). Where used sensibly, an option will usually outperform selling in instalments.

Spreads are used to make a gain where two related markets show an unusually large or small differential. Based on the historic relationship (which is not always a good indication of the future relationship) the chances that the price will return to the historic position can be calculated i.e. a premium of 6% or more of the physical market over the futures market has historically occurred on fewer than 3% of occasions.

The principles of option cost

The price of an option is determined in the market by a willing buyer and seller. However the price is not random.

As a rule, the further forward the contract is the higher the option cost since the risk period covered is longer. In addition, a volatile market indicates a higher risk. Volatility is calculated from the standard deviation as applied via the Black and Scholes equation. This is only a guide but provides a useful check for the trading parties. Finally, interest rate also impacts on the cost since the payment increases over the option period more rapidly where interest rates are high.

Significance of the currency risk in futures trading

While there are a number of assumptions and necessary caveats to our analysis we have attempted to identify the historical relative importance of i) the fundamentals on price and ii) the impact of sterling: euro exchange rate, on the effectiveness of UK farmers trading on the Paris-based, oilseed rape futures market.

It is impossible to look at all the permutations in a short review such as this and we have based our analysis on:

- All the Paris futures market close positions for the period from August 2006 to November 2016. (Market close months are November, February, May and August in each year giving 42 marketing periods in this analysis)
- The close week and the price 52 weeks earlier averaged over the 42 marketing periods.
- We have assumed that the supply and demand influence is reflected in the dollar price (this is not completely true since there are local supply and demand influences but the EU and UK are consistent importers of soybean and other influences are minimal in practice).

Since 2006 the average absolute change when priced in dollars for the period (i.e. up or down) was a little over 20%. This movement is reflected in the euro and sterling prices before any change in exchange rate. Thus all other things being equal, if the option price was less than 20% of the market price, an option would have left the seller better off, either through avoiding a lower price, or by allowing an additional return. Incidentally, over a shorter 26 week period the average movement was 12%. This is still large in comparison with the option cost.

Over the same 52 week period the $/€ exchange rate caused an additional average price change of 8% (when calculated in euros). This would of course be reflected in the Paris exchange price and would be accounted for in any futures hedge. However, sterling moved counter to the euro by about 5% on average. It is this relatively small movement that would not be protected by a hedge on the Paris oilseed rape futures market.

The largest sterling euro currency divergences occurred in August and November 2008 and February 2009, when the recession initially hit the UK prior to the remainder of Europe, and in November 2016, following the referendum turmoil.

The price rose on average over each 52 week period by a little under 3% i.e. on average it would be better to sell at close rather than 12 months earlier. The alternative would be to sell (say) 50% of the crop at each timing, although this would result in some very large swings and leave the seller worse off than a single later sale – or generally, a sale with an option. An option at around €20/t would leave the seller better off than selling at close or selling half on each occasion.

Futures markets reflect the anticipated and actual price at the market close. So a sale at harvest at a low price due to anticipated market pressure cannot be protected by a February option since the harvest discount is a feature. The February market might also rise for other reasons but at harvest the difference between the two will reflect the harvest depression.

There are many more scenarios to explore and it is likely that currency volatility over the next 12 months will be more significant than generally in the past. However, despite the currency risk (which makes the use of the Paris market more expensive than if the market had been sterling based) the option cost looks to be good value and part of a sensible marketing strategy.

Latin American soybean market

At this time of year, Latin America soybean exerts a major influence on global oilseed markets, and hence UK prices, as the crop is planted in October/November and is harvested during February to May. Taken together, Argentina and Brazil account for almost half of global soybean production. Last year, InsideTrack examined the Argentinian market as its abundance of stocks (more than 50% of production) and political reform meant that it exerted a major influence on global markets during 2016. This edition monitors the continued influence of Argentina and focuses in detail on the prospects for Brazilian soybean ahead of harvest.

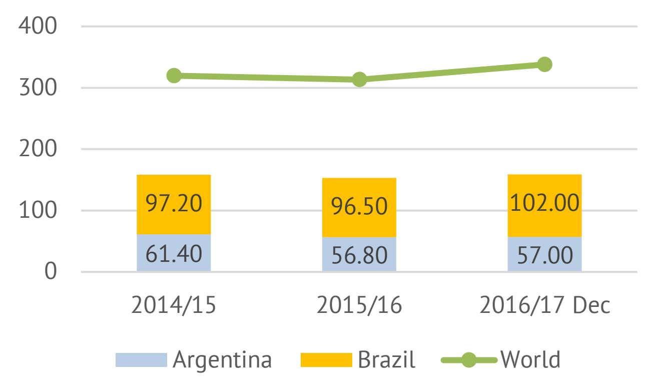
USDA soybean estimates show global production is almost 25 Mt higher than last year, with latest estimates being revised upwards by 1.9 Mt, driven mainly by India. The USDA has kept Brazilian production unchanged at 102 Mt, however Brazilian sources continue to indicate higher 2016/17 production. IBGE soybean forecast 2016/17 production at 103.53 Mt and CONAB (Brazilian Crop Supply Agency) forecast at 102.5 Mt.

World soybeans supply & demand as at December 2016 (Mt)

	Production	Imports	Exports	Crush	Cl. stocks*
2014/15	319.78	124.36	126.22	263.49	78.61
2015/16	313.31	132.99	131.95	276.41	77.22
2016/17 Nov	336.09	136.21	139.16	288.17	81.53
2016/17 Dec	338.00	136.96	139.25	289.44	82.85

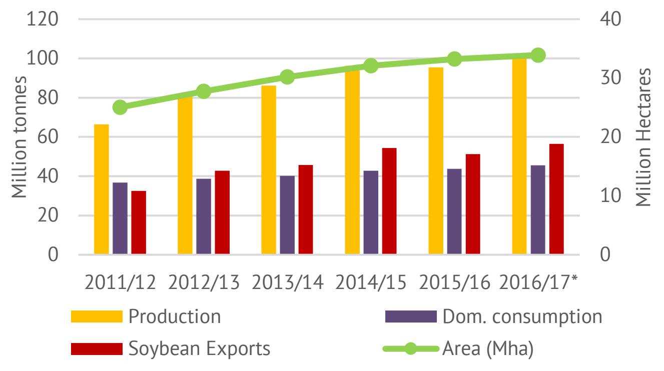
*closing stocks Source: USDA

Argentinian & Brazilian Soybean Production 14/15 - 16/17 (Mt)



Source: USDA

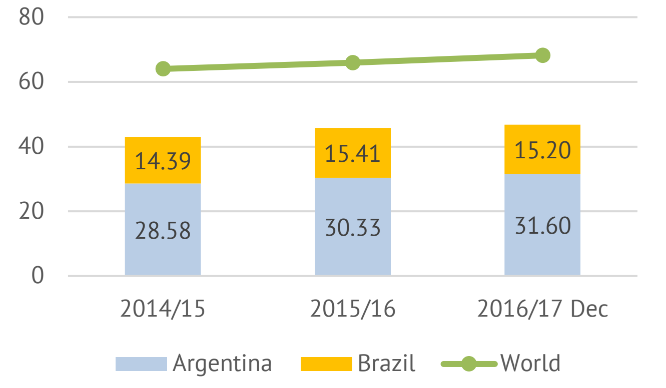
Overview of Brazilian Soybean Output 2011/12 – 2016/17



Source: CONAB

Full year estimates for 2016/17 suggest that soybean meal exports are at broadly similar levels to last month's WASDE. However, most recent USDA quarterly estimates (Aug. to Oct.) indicate that global soybean meal trade from major exporters is 11% lower than the same period last year. The decline is particularly strong in Argentina and Brazil where exports are down by 13% and 24% respectively. Combined, both countries account for 70% of global soybean meal exports, and thus exert a major influence on the wider oilseeds market. Slowed soybean sales to processors have subdued Argentinian exports whilst tighter supplies have reduced exportable soybean meal supplies in Brazil.

Arg. & Brazilian Soybean Meal Exports, 14/15 - 16/17 (Mt)

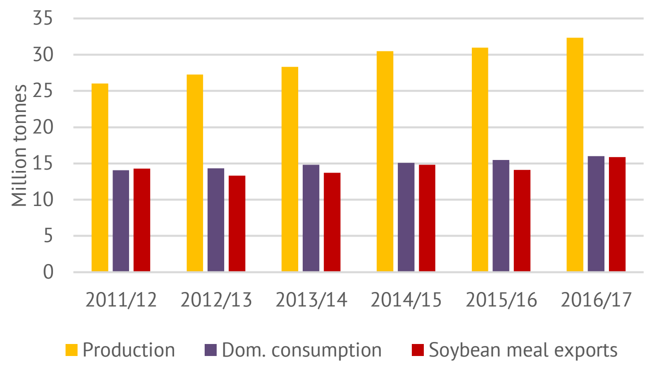


Source: USDA

Latest Brazilian trends

Since 2011/12, Brazilian soybean crop area has risen by 35% to 33.9 Mha. Production is up substantially more (by 54%), however, 2011/12 was an unusually low yielding year. That said, production has been rising for several years and has contributed to a substantial growth in exports of soybeans (by 74%). During this time, soybean meal exports have risen by only 11% whilst soybean oil exports have fallen by 12%. However, CONAB forecasts 2016/17 exports of all soybean categories to be higher than 2015/16 implying a downward pressure on global oilseed prices in the months ahead. China accounts for about 75% of Brazilian soybean exports. The Netherlands, France and Germany are key soybean meal export markets and combined represent over 40% of exports from Brazil.

Brazilian Soybean Meal Output Overview 2011/12 – 2016/17



Source: CONAB

Implications for EU and UK markets

Globally, the EU is the largest soybean meal importer, but recently has been supplying a greater proportion of its soybean meal demand via soybean imports for crush. Indeed, EU soybean 2016/17 imports are projected up 0.8 Mt to 13.8Mt according to the USDA, reflecting favourable crush margins and insufficient EU rapeseed and sunflower seed production. This also reflects large maize and wheat supplies which have depressed prices for those commodities, making them more affordable in feed rations, thus impinging on soybean meal demand. Accordingly, EU soybean meal imports are down 0.7 Mt to 20.3Mt. A large Brazilian crop will exert downward pressure on oilseeds prices as 2017 progresses. This is already reflected in soybean futures and spot prices as Brazilian weather conditions are favourable with harvest potentially starting earlier than expected. However, such trends need to be balanced against reduced oilseed rape (OSR) area in the UK (15% below the 10-year average) and Defra's 2016/17 OSR production estimate (1.8Mt) which is the lowest since 2004. With the EU OSR area also lower, this should help to support domestic prices and limit any bearish Brazilian influence in the coming months.

Longer-term, a continued increase in Latin American soybean production could be problematic for UK farmers. Much will depend on soybean import demand from China which looks set to be a record during 2016/17. Domestic Chinese soybean production is also increasing but, thus far, is unable to keep pace with rising demand from the crushing industry and the desire to have a large stock of imported soybeans.

Sugar beet yields and prices

Beet yields for the 2016 crop have been better than expected. Difficult planting conditions and a lack of sun during the early summer led to some poor looking crops. However, the 'open' autumn has allowed a recovery. Although the campaign is not yet completed, British Sugar expects an average (adjusted) yield of just over 70 t/ha. This is below the levels seen in the last two years, which were exceptional, but about on trend for the crop. Quite a wide range in yields has been reported, with some growers having done well, but other with very disappointing output.

The world, and EU sugar markets have recovered after a two-year slump. British Sugar is offering extra Contract Tonnage Entitlement (CTE) to growers in order to raise the area grown from the reduced acreage seen in the last two years. The CTE is open to both existing and new growers, although new growers will be expected to take a contract for at least 500 tonnes.

Price statistics in the EU sugar market are slightly sluggish to be reported. However, it seems that deals currently being done for refined sugar are above the €475 per tonne threshold where the bonus starts under the 2017 pricing mechanism. This would see something added to the £22 per tonne base price. But the calculation does not begin to operate until the start of October this year, so nothing is yet guaranteed.

Potato prices to pause until spring

British potato prices ended 2016 at their second highest level for the time of the year since the Millennium, only exceeded by the rain impacted season of 2012/13.

Average free-buy values are £230/tonne with some varieties over the £300/tonne mark. Growers can now expect a lull in the market which will be in balance until March or April. In previous high-priced seasons values have increased into the late spring and early summer as stocks came under pressure, especially in years where the upcoming harvest was predicted to be late.

This season strong export demand for processing potatoes in particular could influence the market. Belgium, France and the Netherlands all had smaller than anticipated harvests in 2016 and need potatoes to keep their many processing plants open. One Dutch processor commented "We are importing British potatoes, processing them and then send them back to Britain as French fries."

At the recent US Potato Expo, growers expressed cautious optimism about a Trump Presidency expecting some more business friendly policies, although many expressed concern over possible trade and migrant labour restrictions. Consumer analysts at the show described how speciality fresh potatoes are becoming more popular with small potatoes cited at number three in an influential list of 10 top restaurant trends for 2017.

UK Surveys and Reports

Abstract:

- Cereals and oilseeds production down, consumption up, stocks are tightening.
- Total income from farming (TIFF) for 2015, down 24% on previous year but weaker Sterling will should a rise in 2016.
- Defra statistics confirm that regional wheat yields are down significantly on 2015.
- Maize area grown for anaerobic digestion up substantially.

2016 UK wheat yield estimates

Defra published its final estimates of crop areas and yields on December 20th. It confirms the substantial decreases in cereals production (-11.2%) and oilseed rape (-30.2%) noted in previous *Inside***Track** editions. These are primarily due to reduced yields with wheat down by over 12% and winter barley 16% lower than 2015. However, 2016 wheat and barley yields are consistent with long-term averages. Oilseed rape yields are 21% lower due to weeds (blackgrass), poor drainage and disease.

UK final crop production estimates

	Yield (t/ha)		Area ('000 ha)		Production ('000 t)	
	2015	2016	2015	2016	2015	2016
Wheat	9.0	7.9	1,832	1,823	16,444	14,383
Barley	6.7	5.9	1,101	1,122	7,370	6,655
winter	7.7	6.4	442	439	3,382	2,823
spring	6.0	5.6	659	683	3,988	3,832
Oats	6.1	5.8	131	141	779	816
Minor cereals	3.5	2.6	35	45	122	110
All cereals	**8.0**	**7.0**	**3,100**	**3,132**	**24,734**	**21,964**
Oilseed rape	3.9	3.1	652	579	2,542	1,775

Source: Defra

The table below shows a significant variation in wheat yields in recent years with all regions down significantly on 2015.

UK wheat yields 2012–16 by region (t/ha, % change on 2015)

	2012	2013	2014	2015	2016	% change
North East	6.4	6.5	8.1	9.0	7.8	-14.3
North West	5.0	5.4	5.5	7.0	6.4	-10.7
Yorks & Humberside	6.9	7.3	8.4	9.5	7.9	-16.0
East Midlands	6.4	7.6	8.5	9.0	7.9	-15.3
West Midlands	6.3	6.7	8.2	8.4	7.7	-10.9
Eastern	7.3	7.9	9.1	8.8	8.2	–9.3
South East	7.0	7.3	8.8	8.7	7.8	–14.3
South West	5.6	6.9	8.1	8.0	7.6	–6.6
England total	**6.7**	**7.4**	**8.6**	**8.8**	**7.9**	**-12.3**
Wales	5.8	6.5	7.6	7.9	7.3	-9.4
Scotland	6.7	7.5	9.1	9.7	8.5	-9.2
N. Ireland	6.0	7.3	7.5	8.0	7.0	-13.1
UK total	**6.7**	**7.4**	**8.6**	**8.8**	**7.9**	**-12.1**

Source: Defra

June survey – final UK figures

Final UK June survey results (crops '000 ha, '000 livestock numbers, % change 2016/2015)

	2013	2014	2015	2016	% ch
Wheat	1,615	1,936	1,832	1,823	–0.5
Barley	1,213	1,080	1,101	1,122	+2.0
- winter	310	429	442	439	-0.5
- spring	903	651	659	683	+3.6
Oats	177	137	131	141	+7.5
Rye, mixed corn & Triticale	24	26	35	45	+28.6
Total cereals	**3,028**	**3,179**	**3,100**	**3,132**	**+1.0**
Oilseed rape	715	675	652	579	–11.2
Linseed	34	15	15	27	+81.6
Borage	3	2	3	1	-54.1
Potatoes	139	141	129	139	+7.8
Sugar beet	117	116	90	86	–4.8
Field peas & beans	147	139	213	228	+6.9
Maize[1]	194	183	187	194	+3.7
(Maize for AD in England)	n/a2	29	34	52	+55.1
Other crops for stock-feeding	88	79	79	79	0
Other arable crops	35	30	37	40	+7.2
Total horticultural crops	163	164	174	162	-7.0
Total crops	**4,665**	**4,722**	**4,679**	**4,667**	**–0.2**
Uncropped arable land	255	160	214	262	+22.4
Total croppable land	6,310	6,278	6,059	6,073	+0.2
Livestock					
Cattle & calves	9,844	9,837	9,919	10,033	+1.1
Pigs	4,885	4,815	4,739	4,866	+2.7
Sheep & lambs	32,856	33,743	33,337	33,943	+1.8
Poultry	162,609	169,684	169,579	172,607	+3.0
Other farmed livestock	447	453	437	426	–2.4

Source: Defra [1] includes fodder and grain maize [2]BSPB estimate 15,500 ha maize for AD in 2013
*1% rounding errors Source: Defra

UK cereal balance sheet

The first official Defra cereals supply and demand estimates for 2016/17 were recently published on its behalf by the AHDB. For wheat, lower production and increased consumption has tightened the balance considerably. Imports are up almost 10% as the higher proportion of nabim Group 1 wheats met the high quality bread wheat specifications, leading to a more delicately balanced feed wheat situation. Human and industrial (H&I) usage has risen due to bioethanol and starch output, aided by the reopening of the Ensus plant in July. As reported last month, both milling wheat usage and wheat usage for distilling are up for 2016/17. Poultry demand is the primary driver of the 1.8% increase in animal feed usage. UK wheat exports are estimated at 712Kt from July to September, implying a surplus of 1.139Mt for the rest of the 2016/17 season.

UK wheat supply and demand balance sheet ('000 tonnes, % change 2016/17–2015/16) estimate 1 December 2016

	2014/15	2015/16	2016/17	% change
Opening stocks	1,559	2,434	2,792	+14.7%
Production	**16,363**	**16,506**	**14,467**	**-12.4%**
Imports	1,669	1,509	1,657	+9.8%
Availability	19,591	20,449	18,916	-7.5%
Human & industrial use.	7,831	7,357	7,892	+7.3%
Animal feed	6,991	7,091	7,219	+1.8%
Seed	291	282	282	0.0%
Other consumption	88	82	72	-12.2%
Total consumption	**15,201**	**14,812**	**15,465**	**+4.4%**
Balance	**4,390**	**5,637**	**3,451**	**-38.8%**
Exports	1,957	2846	-	
End of season stocks	**2,434**	**2792**	**-**	
Surplus over stock*	**2,890**	**4,137**	**1,851**	**-55.3%**

Source: DEFRA *surplus over estimated minimum working stock

Tightened stocks are reported for barley with surplus over stocks (1,731Kt) over 33% lower than last season. This is due to lower production coupled with lower opening stocks brought about by a strong 2015/16 export campaign. Consumption is essentially unchanged with increased H&I usage cancelling out lower animal feed utilisation. The barley balance is therefore 26% lower than last season.

UK barley supply and demand balance sheet ('000 tonnes, % change 2016/17–2015/16) estimate 1 December 2016

	2014/15	2015/16	2016/17	% change
Opening stocks	1,379	1,497	1367	-8.7%
Production	**6,911**	**7,370**	**6,652**	**-9.7%**
Imports	139	152	**130**	-14.5%
Availability	**8,429**	**9,019**	**8,149**	-9.6%
Human & industrial use	1,949	1,833	1,874	+2.2%
Animal feed	3,276	3,605	3,570	-1.0%
Seed	177	182	181	-0.5%
Other consumption	35	37	33	-10.8%
Total consumption	**5,437**	**5,657**	**5,658**	**0.0%**
Balance	**2,992**	**3,362**	**2,491**	**-25.9%**
Exports	1,495	1995	-	
End of season stocks	**1,497**	**1,367**	-	
Surplus over stock*	**2,242**	**2,602**	**1,731**	**-33.5%**

Source: DEFRA *surplus over estimated minimum working stock

Maize consumption is forecast to rise by 1% to 1.812Mt, driven by a 22% increase in H&I usage which more than offsets decreased animal feed usage. Imports are therefore forecast to rise by 15% to just over 2Mt this season.

2015 TIFF down 24% on previous year

Defra's second estimate of UK Total Income from Farming (TIFF) of £4,009 million, shows a real-terms 24% fall versus 2014. Although 6% higher than its initial spring estimate, 2015 income was affected by lower commodity prices and reduced direct payments resulting from the less favourable euro/sterling exchange rate. 2016 TIFF should improve as a weaker Sterling supports UK domestic prices, a trend set to continue into 2017.

UK TIFF and farming subsidies at real (2015) prices (£m)

	2012	2013	2014	2015
Total Income	4,806	5,480	5,251	4,009
Subsidies	3,416	3,428	2,979	2,850

Source: Defra

Total income per AWU (Annual Work Unit) of entrepreneurial labour (farmers and other unpaid labour) was estimated at £20,698 (a fall of 24%) in 2015. This figure is also 7% lower than the 10 year average £22,311.

UK crop output at real term prices (£m)

	2012	2013	2014	2015
Wheat	2,250	2,116	2,458	2,053
Barley	958	1,159	902	827
Oilseed rape	1,043	784	701	720
Sugar beet	236	275	316	173
Other arable	257	319	232	279
Forage	152	221	265	269
Fresh vegetables	1,307	1,367	1,218	1,263
Plants/ flowers	1,189	1,215	1,168	1,149
Potatoes	686	966	678	547
Fruit	597	614	623	690
Other crops (incl. seeds)	670	593	649	520
Total crops*	**9,345**	**9,630**	**9,211**	**8,489**

Source: Defra

AHDB Arable Strategy

The AHDB has published its strategy to boost the efficiency and competitiveness of UK farming towards 2020. Entitled 'Inspiring Success', it aims to help agriculture thrive in a post-Brexit environment and outlines four strategic priorities:

• inspiring British farmers and growers to be more competitive and resilient

• accelerating innovation and productivity growth through coordinated Research and Development (R&D) and Knowledge Exchange (KE)

• helping the industry understand and deliver what consumers will trust and buy

• delivering thought leadership and horizon scanning.

From a cereals and oilseeds perspective, the first priority seeks to improve the international performance of UK industry through supporting the development of more competitive supply chains. This includes benchmarking production and delivery costs against competitor countries, better communication between businesses within supply chains (including helping feed growers to better understand feed-specific requirements) and managing volatility.

Regarding productivity, it is targeting 50% of growers knowing what it costs to produce a tonne of grain or oilseeds by 2020. The third priority focuses on managing reputational issues domestically and maximising overseas demand. This involves raising the awareness of milling wheat and malting barley potential and differentiating the UK from competitors whilst facilitating better market access. Such access will be vital post-Brexit but may take some time to achieve.

Fourthly, it seeks to translate R&D and KE into more effective innovation that is closely aligned with industry needs.

These priorities appear sensible, although some targets (e.g. 50% of growers knowing what it costs to produce a tonne of grain or oilseeds by 2020) seem to be on the low side. If the UK is to become a world leader then the majority of farmers need to have a good understanding of production costs. From there, the key will be ensuring that the costs are optimised for the markets targeted. This will require careful management.

More details can be found at http://www.ahdb.org.uk/publications/consultation.aspx

AHDB Recommended Lists (RL) 2017/18

The AHDB Cereals and Oilseeds RL contains 29 new varieties for the 207/18 season whilst 28 have been removed. For the first time in four years, six soft wheat varieties have been added whose markets include distilling, soft biscuit wheat for export and soft endosperm feed.

The winter wheat list has increased by five varieties on aggregate. KWS Zyatt is a provisional nabim Group 1 – a high yielding and high quality bread making wheat. Two spring varieties, KWS Cochise and KWS Chilham, both high yielding nabim Group 2 milling wheats, can also be drilled in the autumn due to orange wheat blossom resistance properties. This could be potentially useful for crop diversification purposes. The new wheat varieties all show good resistance to yellow rust. This year's RL also includes Septoria tritici ratings (reported to one decimal place) and eight of the new varieties have resistance scores of between 6.2 and 7.3. The percentage protein achieved in trials grown to milling specification, as well as the protein levels reported in all trials, for both feed and milling are also reported. Whilst protein quality is not measured in the RL, varieties are subject to baking tests which are managed by nabim to ensure that they are adequate for the quality bread markets.

The RL includes tree new winter feed barley varieties. KWS Creswell is a two-row feed variety for the north, Funky is a six row conventional and Sunningdale is a six-row hybrid variety which has performed particularly well in the North. Three spring barley varieties have been added which are under test for brewing, malt distilling and brewing, and grain distilling. However, further tests are required before they achieve Institute of Brewing & Distilling (IBD) approval.

The new oilseeds list balances yield with disease resistance, particularly light leaf spot and phoma stem canker. Five new varieties of oats (3 winter; 2 spring) have been added with none removed.

The full AHDB Recommended Lists for cereals and oilseeds booklet will be published in February 2017.

BPS and Policy

BPS payment progress

The 2016 Basic Payment window opened on 1st December. The Welsh Government made payments to almost 90% of claimants on the first day. The English and Scottish paying agencies haven't fared quite as well. In England, the RPA set itself the target of paying 90% of eligible claimants by the end of December. The RPA has confirmed it has hit this first target. According to the latest announcement from the agency, 91% of claimants in England received their 2016 Basic Payment by the end of the year. This represents 78,000 claimants. Total payments received is said to be just over £1.4 billion, about 82% of the BPS fund, meaning some of the larger payments are yet to be processed. The next target is to pay 93% of eligible claimants by the end of March.

Scotland has been running a national scheme since November. The Scottish Government set up the National Basic Support Scheme to help farmers with their winter cash flow after it realised its computer system would not be able to fully validate claims until into 2017. By the end of November, over 12,500 farmers had already received their payment. The scheme closed on 14th December. All eligible claimants will receive an estimated 80% of their 2016 BPS Payment. The remaining 20% will be paid once applications have been fully validated and EU funds can be used.

Cross compliance

The new Cross Compliance year started on 1st January. Cross Compliance is made up of Statutory Management Requirements (SMRs) and standards for Good Agricultural and Environmental Conditions of land (GAECs) which farmers and land managers must adhere to on their holding if they claiming for the Basic Payment Scheme or the Countryside Stewardship Scheme, Environmental Stewardship or parts of the English Woodland Grant Scheme. The RPA has published the 2017 edition of the Guide to Cross Compliance in England, there is only one change to the rules for this year. This is to GAEC 1, which sees the introduction of 2m buffer strips next to watercourses in all fields not just those over 2ha in size. The guide is only available online this year and can be found at: https://www.gov.uk/guidance/cross-compliance-2017. The site also includes a video, giving an overview of what claimants can expect if they are inspected. See Key Dates below for Cross Compliance rule reminders throughout the year.

Rural Development

Growth programme

At the Oxford Farming Conference, Environment Secretary, Andrea Leadsom announced £120 million will be made available through the Growth Programme. The Growth Programme is part of the Rural Development Plan for England 2014-2020. This is not 'new' money, but means the Programme will continue to be available following the UK's decision to leave the EU.

The Growth Programme provides funding, through Local Enterprise Partnerships (LEPs) (there are 39 across England), to help projects in England which create jobs and help grow the rural economy. LEPs have developed strategies based on priorities in their specific area.

Woodland grants

Rural Development funding for woodlands is available for farmers and land managers again in 2017. The Forestry Commission has announced up to £6,800 per hectare is available from the Woodland Creation Grant. The window is now open for initial applications, it closes on 1st March. This is a capital grant available through the Countryside Stewardship Scheme. Applicants can apply for one-off payments for the trees themselves (TE4 - £1.28 per tree) and any associated protection items (up to a max. of £6,800/ha). Successful applicants have two years to plant and install all capital items. Once the final capital claim is paid, it may be possible to subsequently apply for the Woodland Creation Maintenance. This provides £200 per Ha for 10 years to support the newly created woodland.

Prospective claimants are advised to get in contact with their local Woodland Officer. Guidance and application forms can also be found at https://www.gov.uk/government/collections/countryside-stewardship-woodland-support.

The Woodland Planning Grant is also available again in 2017. There are no significant changes to the grant except there will be a new online application process. This is available at https://www.gov.uk/government/collections/countryside-stewardship-woodland-support.

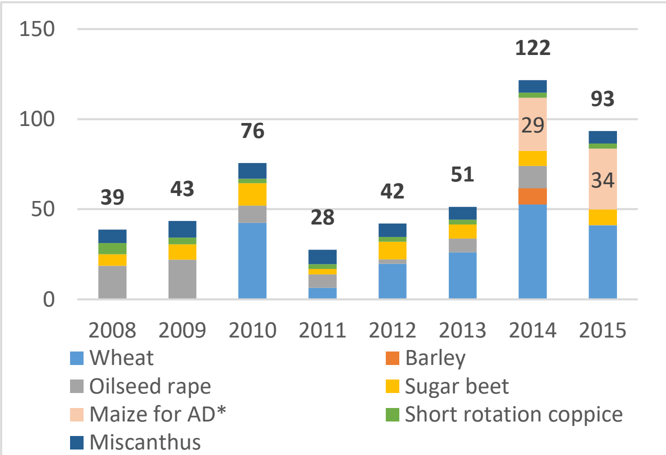
Woodland Tree Health applications are available all year round, for further information see https://www.gov.uk/government/collections/countryside-stewardship-woodland-support

Renewables

UK bioenergy 2015 crop usage down

A Defra study (published 8th December) estimates that 93,000 ha of UK agricultural land was used for bioenergy, equating to 1.6% of arable land. This is a 23% decrease on the previous year (122,000 ha) due mainly to reductions in wheat, barley and OSR used in biofuels. Road transport fuel usage (i.e. bioethanol and biodiesel) (49,900 ha) accounted for 53% of the 2015 area. However, it is noteworthy that the majority (70%) of crop derived biofuels for road transport originates from outside the UK, with France being the leading contributor.

Total area of crops grown for bioenergy ('000 ha), 2008 - 2015



Sources: Defra, Department for Transport

* Data for maize only available from 2014 (England only)

As a proportion of total area of individual crops, 10% of sugar beet, 2% of wheat and less than 1% of oilseed rape was used for biofuel production in the UK in 2015. Oilseed rape usage for biofuel has decreased substantially and reflects a shift towards more wastes in feedstocks instead of crops.

In addition to biofuel usage, cereal straw can also be used as a biomass energy crop to be burnt for heating and electricity in power stations and combined heat and power units. However, Defra estimates that such usage (404 thousand tonnes) is small and represents 4% of UK cereal straw production (10.4 million tonnes). Animal bedding and feed remain the primary uses, accounting for 75% of UK cereal straw production.

The study also included an estimate of maize grown for AD in England during 2016 (52,280 ha), which is 55% higher than 2015, and accounts for 29% of the total UK maize area and 1% of total arable area. This underscores the increasingly prominent role that maize for AD is playing in UK agriculture.

Environment

Future of Natural Environment report

The House of Commons' Environmental Audit Select-Committee report examines the future of the natural environment after the EU referendum. It urges the Departments for Exiting the European Union and for International Trade to recognise the influence their negotiations and trade arrangements will have on the UK's natural environment, and that they must coordinate with Defra's development of plans for the future of farming and the environment. It also calls for the Government to legislate for a new Environmental Protection Act whilst Article 50 negotiations are ongoing to maintain the UK's environmental standards to be put in place before the UK leaves the EU. It argues that this would reduce the risk of 'zombie legislation', a term which *"describes EU legislation transposed into UK law which is no longer updated and which can be eroded through statutory instruments with minimal parliamentary scrutiny."*

It recommends that the Government (Defra) must:

- assess the resources necessary to replace existing EU environmental funding to ensure that farm businesses remain viable, and that animal welfare, food security and food safety are protected and to ensure that Defra has the capacity to meet deliver manifesto commitments as well as Brexit.
- in the event of leaving the Single Market, clearly state "*what new measures need to be put in place to maintain food safety and security, protect British agriculture from tariff and non-tariff barriers and ensure the UK maintains our current level of environmental protection.*"
- *"as part of leaving the EU, ensure that plans for post-EU environmental coordination between the countries of the UK is sufficient to ensure that funding is allocated fairly and transparently, with shared strategic objectives complemented by minimum environmental standards, so that the UK can continue to meet its international obligations."*

Reducing the risk of 'zombie legislation' is certainly worthwhile but given the severe cut-backs that Defra has experienced since 2011 and the added pressures of managing Brexit, it is difficult to envisage there being sufficient time and resources to address this report's recommendations before formal exit.

In brief...

Key dates for coming weeks

Key dates* for Cross Compliance and ELS – main options

Rule/ option	ELS edn.**	Date	Action
SMR 1		16 Jan	You may apply manufactured nitrogen fertilisers to grassland and tillage land from this date (until 14 September - grass/31 August - tillage)
CAP		16 Jan	End of period for cover crops (began 1 October)
EJ13	2010, 2013	late Jan	Earliest date cover crop can be destroyed. See guidance for details
SMR 1		1 Feb	You may apply organic manure with a high readily available N content to grassland and tillage land on non-sandy or shallow soils from this date (until 14 October - grass/30 September - tillage). Restricted amounts until end February.
EB6	All	1 Feb	You must not clean ditches from this date (until 14 September).
EF13	2010, 2013	1 Feb	Create rough cultivated areas between 1 February and 20 March.
EF15, EG4	All	1 Feb	Broadleaved weeds may be controlled between 1 February and 31 March. See guidance for details.
ED3	All	14 Feb	If sowing a spring crop, maintain stubble until this date.
EG1	2010, 2013	14 Feb	Establish cereal crop between 14 February and 20 April.
EF6,15, EG4	All	15 Feb	Stubble can be returned to farm rotation.

*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

Broadband in rural areas

Around 600,000 more homes could be connected to superfast broadband as a result of 'extra' £440 million government funding arising from cost savings and returned subsidies from BT. While this announcement is welcomed, issues remain. Many broadband connections still make the final journey to homes via copper wires, which severely restricts speed and quality. No timeline has been given for connecting 600,000 households.

Calls for extension of neonicotinoid ban to wheat

In its "Farming wheat without neonicotinoids" report, the Friends of the Earth claims that the use of clothianidin on wheat poses a threat to bees and other wildlife. It calls for the current neonicotinoid ban to be extended to include wheat. Farmer groups view this call as being unsupported by scientific evidence and threatens farmers' ability to grow food sustainably.

Consultations relevant to arable sector

Consultations announced

Description	Department & deadline
Renewable Transport Fuel Obligation: proposed 2017 changes https://www.gov.uk/government/consultations/renewable-transport-fuel-obligation-proposed-changes-for-2017	Department for Transport 22 January
Changes to environmental impact assessment regulations https://consult.defra.gov.uk/housing-and-planning/environmental-impact-assessment-eia-changes/	Joint (DEFRA, Welsh & Scottish Governments & DAERA NI) 31 January
Land Rights & Responsibilities Statement – A Consultation https://consult.scotland.gov.uk/land-reform-and-tenancy-unit/land-rights-and-responsibilities-statement/consult_view/	Scottish Government 10 March
Bovine TB : Supplementary badger disease control https://www.gov.uk/government/consultations/bovine-tb-supplementary-badger-disease-control	DEFRA 10 February
Crown Estate: A Consultation on the Long Term Management of the Crown Estate in Scotland https://consult.scotland.gov.uk/crown-estate-strategy-unit/long-term-management-of-the-crown-estate/	Scottish Government 29 March

Consultations reported or Government responses

Description	Department & deadline
Bovine TB: controlling bovine TB in non-bovine animals https://www.gov.uk/government/consultations/bovine-tb-controlling-bovine-tb-in-non-bovine-animals	DEFRA 16 December
Bovine TB: improving testing in the High Risk Area of England https://www.gov.uk/government/consultations/bovine-tb-improving-testing-in-the-high-risk-area-of-england	DEFRA 16 December
Bovine TB: controls in the High Risk and Edge Areas of England https://www.gov.uk/government/consultations/bovine-tb-controls-in-the-high-risk-and-edge-areas-of-england	DEFRA 16 December
Renewable Heat Incentive: A reformed and refocused scheme https://www.gov.uk/government/consultations/the-renewable-heat-incentive-a-reformed-and-refocused-scheme	BEIS 14 December

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Tel: +44 (0)1664 503230 E-mail: enquiries@insidetrack.org.uk
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