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Budget and UK Economy

The Chancellor, Philip Hammond, presented the 2017 Spring Budget on the 8th March. It was a fairly low-key speech, with the Chancellor possibly holding some major policy announcements back until the new Autumn Budget later in the year, which is to become the main 'fiscal event' in the UK.

The policy change that generated the most column-inches was an increase in National Insurance Contributions (NICs) payable by the self-employed. From April 2018, Class 4 NICs will rise from 9% to 10%. There will be another increase to 11% in April 2019. With a growth in self-employment in the UK, this was billed as a measure to make more equitable the tax treatment of the employed and self-employed.

Most of the main tax rates and thresholds for the 2017/18 year had already been announced. Other measures of potential relevance to arable farming businesses include;

- A reduction in the tax-free allowance for **Dividend Income** from £5,000 to £2,000 from 2018/19. *This will hit those taking cash out of incorporated farm businesses (as well as those with large share portfolios).*
- The Government plans to look at the tax treatment of alternative forms of remuneration. This includes a consultation on changing the rules on **employer-provided accommodation** which is currently tax-free. There will also be a call for evidence on the taxation of benefits in kind.
- The threshold for **registration for VAT** will rise from £83,000 to £85,000 as from 1st April 2017. The de-registration threshold will increase from £81,000 to £83,000.
- There will be a number of additional reliefs (in addition to those announced in the Autumn Statement) to offset rises in **Business Rates** arising from the latest revaluation. The Government's preferred option of moving to three-yearly revaluations (from the present five) will be set out in the Autumn Budget, followed by a consultation.
- There will be an extra year, until April 2019, before **Making Tax Digital** (MTD) becomes mandatory for unincorporated businesses and landlords with turnovers below the VAT threshold. MTD requires taxpayers to keep electronic records and provide quarterly updates to HMRC.
- The Chancellor ruled out a 'death tax' supplement to **Inheritance Tax** to fund social care, but a green paper will look at this issue later this year.
- **Fuel duties** remain frozen, but the Government will publish a 'call for evidence' on the use of red diesel (article continues on next page).

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- As previously announced, the Personal Allowance for **Income Tax** will rise from £11,000 to £11,500 for the 2017/18 tax year. The Higher Rate threshold rises £2,000 to £45,000 whilst the Additional Rate remains at £150,000. Income Tax rates of 20%, 40% and 45% continue to apply.
- Also, as set out in earlier statements, the rate of **Corporation Tax** will fall to 19% from April 2017. The Annual Exemption for **Capital Gains Tax** will rise to £11,300, and the **Inheritance Tax** nil-rate band remains at £325,000.

UK exports up considerably in 2016

Latest Office of National Statistics (ONS) trade data show that UK goods exports rose by 5.6% in 2016 to £290.8 billion. When comparing the 2nd half (H2) of 2016 with the same period in 2015, exports rose by 12%. The equivalent comparison for H1 2016 shows that exports declined by 0.6%. These results confirm that the weaker Sterling brought about by the referendum has been highly influential. The value of imports have also risen by 7.7% to £424.5 billion during 2016. The weaker Sterling is also influential here as it now costs more on a per unit basis to import goods than it did just before the referendum.

Summary of UK exports and imports 2015 – 2016 (£ million)

Exports	2015	2016	% change
Food and live animals	11,728	13,172	12.3%
Animal and vegetable oils	410	422	2.9%
Total goods exports	275,414	290,768	5.6%
Imports			
Food and live animals	33,161	35,795	7.9%
Animal and vegetable oils	1,050	1,154	9.9%
Total	394,517	424,470	7.6%

Source: ONS, HMRC

Food and live animal exports (a proxy for agriculture) are up 12.3% to £13.2 billion in 2016 and was the best performing industry sector. The machinery and transport sector also performed well with exports rising by 11.4% to £119.4 billion. Animal and vegetable oil exports (£422 million) rose by 2.9%.

Food and live animal imports also rose by 7.9% during 2016 to £35.8 billion. Animal and vegetable oil imports (almost £1.2 billion) rose by almost 10% during 2016.

The results are positive for exports and confirms the previously reported "Brexit boost" to UK farming. For the wider economy, the increase in goods exports (£15.4 billion) is just over half that of imports (£30 billion) meaning that the UK's trade deficit has grown in 2016. Given the added inflationary pressures, household incomes are starting to get squeezed. Such circumstances should present opportunities for UK agricultural produce to displace imports in some areas but also suggest headwinds for the UK economy generally.

Crop Markets

Abstract:

- Global cereals production to break new records in 2016/17; bearish outlook for prices.
- 2017/18 EU cereals production predicted to recover to previous levels, but wheat will be lower than 2015/16.
- Record Brazilian soybean crop driving oilseeds production up.
- Japan presents export opportunities for UK wheat and barley.

Global grain crop to surpass 2.1Bt – IGC

For the first time, the IGC has projected 2016/17 (2016 harvest) global production of wheat and coarse grains to surpass 2.1 billion tonnes, an 8 Mt increase on last month. Record wheat and barley harvests in Australia have been a key driver whilst improved maize prospects in South America have also contributed. On a more positive note, it forecasts that most of the increase will be absorbed by higher consumption. Whilst total grain carryover stocks are raised by 1Mt on last month, they are up a substantial 33Mt on 2015/16. Wheat stocks in 2016/17 (236 Mt) are forecast to be 15 Mt higher than the previous year; that is more than the UK usually harvests

Looking ahead to 2017/18, the IGC forecasts wheat production to decline by 2% year-on-year to 735 Mt. It expects both crop areas and yields to decline, although it notes that northern hemisphere crop conditions have remained mostly favourable. The bearish outlook for prices and profitability has contributed to the US winter wheat area being the lowest in more than a century. *With more land available and firm trade in Asia, soybean plantings in the US could increase this year and this will exert pressure on OSR prices which have been decreasing in Europe of late*. Barley is forecast to post modest gains, led by a recovery in North Africa which suffered from droughts during 2015/16.

Continued plentiful global supplies and a fourth consecutive global grain surplus in 2016/17 present a bearish outlook for prices. The UK has been insulated from this due to a tighter supply-demand balance, good quality harvest in 2016/17, and a weaker Sterling. This insulated effect looks like continuing in the short-term as 2017/18 UK crop area estimates for wheat are forecast to be lower Although a sudden strengthening of Sterling cannot be ruled out, it appears less likely. The main threat to UK wheat prices is potentially a poor quality 2017 harvest. If significant volumes of wheat do not meet milling specifications and export markets are well-supplied then domestic feed grain prices would suffer.

USDA world supply and demand

Further increases in global grain output were also reported in the March USDA WASDE. Total grain production is up almost 15.7 Mt, driven by increases in Brazilian corn where record first crop yields have been reported. Corn increases have also been reported in Argentina, India and S. Africa whilst barley production is Australia is projected to be up sharply. Global grain increases may be less than 1% in global terms, but is noteworthy when put in the context of UK cereals production, estimated at just under 22 Mt in 2016.

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

	Output	Trade	Total use	Cl. stocks*
2014/15	2,514.44	394.13	2,455.08	579.18
2015/16 (Est)	2,456.79	377.33	2433.49	602.48
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
2016/17 Mar	2,573.12	412.78	2,553.00	622.61

*closing stocks Source: USDA

World wheat production is up 2.8Mt on last month. Increases in Argentina and Australia have more than offset EU reductions. Global use is up by 1Mt, driven by Indian imports which are at their highest levels in a decade, but stocks are up by 1.3Mt.

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

	Output	Trade	Total use	Cl. stocks*
2014/15	728.28	164.42	705.69	274.52
2015/16 (Est)	735.25	172.79	712.48	240.29
2016/17 Jan	*752.69*	*178.05*	*739.89*	*253.29*
2016/17 Feb	748.24	178.99	740.40	248.61
2016/17 Mar	751.07	181.02	741.42	249.94

*closing stocks Source: USDA

Oilseeds production has also seen production increases (3.84 Mt) on last month, fuelled by a 4Mt increase in the Brazilian soybean crop which is now projected at a record 108 Mt. Australian rapeseed and sunflower production in Turkey and Serbia is also projected higher. Chinese soybean imports, estimated to reach a record 87 Mt will only partially offset this and rapeseed and soybeans futures prices have fallen as a result.

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

	Production	Trade	Total use	Cl. stocks*
2014/15	536.65	147.13	440.14	92.52
2015/16 (Est)	520.99	153.44	447.26	88.92
2016/17 Jan	*554.80*	*160.26*	*467.54*	*93.71*
2016/17 Feb	554.19	160.98	468.52	91.67
2016/17 Mar	558.03	162.36	468.50	94.26

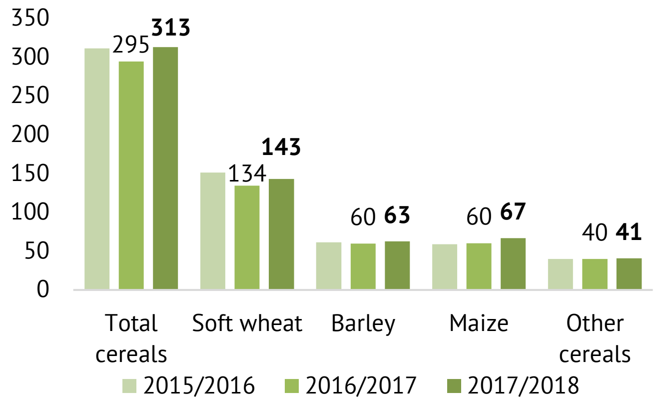
*closing stocks Source: USDA

EU cereals projections

The EU Commission recently released its cereals production forecasts for 2017/18 and updated 2016/17 estimates. Last Autumn's harvest was below average as disappointing wheat yields, particularly in France, resulted in an 5.5% decrease in cereals production. A recovery is forecast in 2017/18 with maize expected to be the primary driver with a 10% increase in harvest. Improved yields are forecast to help soft wheat recover some of the losses suffered during last year's harvest. That said, 2017/18 production is predicted to be 5.5% lower than 2015/16, as the EU crop area is decreasing.

Cereals use is forecast to rise by 1.2 Mt to reach 284.4 Mt in 2017/18 and stocks are projected to rise to 39.8 Mt during this time. Wheat usage is expected to decline slightly to 116.6 Mt next year, however barley usage is forecast to rise by 1.6 Mt (to 52.6 Mt) over the same period. Only minor increases are expected for maize meaning that stocks are forecast to rise to 13.7 Mt in 2017/18, 2.6 Mt higher than 2016/17.

EU cereals production forecasts to 2017/18 (Mt)



Source: European Commission

Given the poor 2016 harvest in Western Europe, a recovery in 2017/18 is unsurprising. The fact that the recovery in wheat production is only partial is also a logical reaction to abundant global supplies and the inevitable sluggish prices. This should assist UK wheat prices. UK barley producers may face increased continental competition in 2017/18 although EU barley stocks fell in 2016/17 so excess production should replenish stocks.

Market profile: Japan – export opportunities

Last month's edition reported on UK cereals and oilseeds exports to EU and non-EU countries for 2015/16. This month, we are examining the Japanese market in further detail to identify potential opportunities for UK exporters.

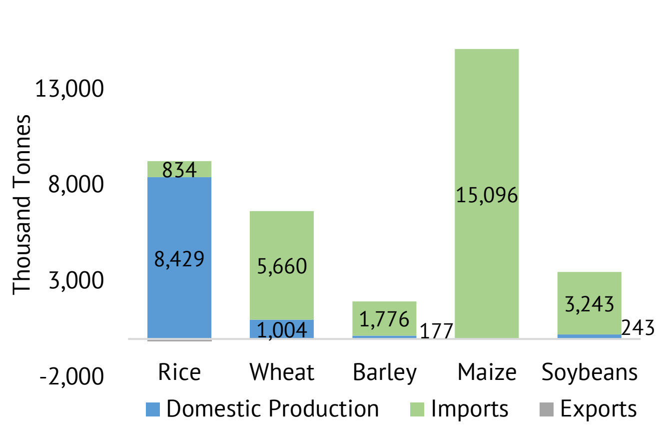
Japan Market Overview

Population (2016)	127.3 million
GDP per capita (2016)	$38,401
Estimated wheat imports (2016)	5.4 Mt
Estimated barley imports (2016)	1.1 Mt
Wheat consumption per capita (2016)	42.8 kg per annum

Sources: OECD, Global Trade Atlas, USDA

As the chart below illustrates, aside from rice, Japan is heavily dependent on cereals and oilseeds imports. For maize, the USDA estimates that roughly 75% of imports are used for feed and the remaining 25% is primarily used for corn starch processing.

Japan Food Balance Sheet – Selected Commodities – 2015



Source: Japanese Ministry of Agriculture, Food and Forestry (MAFF)

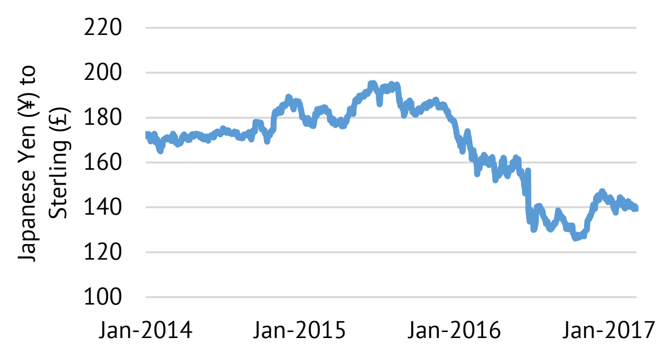
More importantly from a UK perspective, Japan imports significant quantities of wheat and barley. Latest Japanese Ministry of Agriculture, Food and Forestry (MAFF) data suggest that domestic wheat production is rising, but imports still account for over 90% of domestic consumption (circa 6.6 Mt) which is primarily used for human consumption. Food quality wheat is mainly imported from the US, Canada and Australia for a variety of uses including noodles, bread-making, confectionary and pasta production. MAFF controls both producer and resale prices of domestic wheat, as well as the resale price of imported wheat. Imported wheat purchased by MAFF, at international prices, is sold to domestic flour millers at a mark-up.

In terms of the UK, the AHDB estimates that wheat exports to Japan totalled 91,912 tonnes in 2015/16, more than doubling from 42,500 tonnes during 2014/15. Exports include both food quality and feed wheat with the latter estimated by the USDA to be around 34,300 tonnes during 2014/15.

Whilst the USDA estimated aggregate barley consumption (food and feed) to be in the region of 1.3 Mt in 2014/15, MAFF estimates suggest that Japanese barley consumption is closer to 1.9 Mt with industrial use representing nearly 60% of usage. With cattle populations decreasing, Japanese feed barley usage is down. Due to a 2015 trade deal, Australia is the main source of Japanese barley imports. AHDB estimates put UK barley exports to Japan at 36,880 tonnes in 2015/16 and around 73,350 tonnes of unroasted malt was also exported during this period.

These findings show that the UK already exports significant volumes of grain to Japan. With Japanese whisky becoming increasingly prominent in recent years, there may be opportunities for the UK to further increase exports, particularly given the weaker Sterling. It is also worth noting that there is demand in the Japanese food industry for barley with high levels of beta-glucan, because of its perceived health benefits. In the UK, high beta-glucan content is seen as being disadvantageous for malting and feed markets. Such perceptions may change if opportunities in premium markets such as Japan start to emerge.

Japanese Yen to Sterling Exchange Rate – 2014-2017



Source: Bank of England

Although some had hoped for the EU to conclude a trade deal with Japan by the end of 2016, the chances of this happening now appear remote. Therefore, the UK is unlikely to experience any benefits from a Japanese trade deal for the remainder of its EU membership. The extent to which the UK will be able to agree a free trade deal with Japan post-Brexit is questionable. Firstly, as the Japanese Chief Cabinet Secretary Yoshihide Suga suggested in January, the Japanese government is likely to "watch for a while" to see what effect Brexit and any associated transition is likely to have on the world economy and on Japanese firms before conducting any extensive trade negotiations.

Potato prices ease, but remain high

The upward pressure on UK potato prices has eased partly due to lower continental values, but prices remain historically high.

High grade pre-pack potatoes are making £350/tonne, with £300/tonne being paid for bagged chipping material. Some processing potato prices are at £250/tonne which is attracting import buying from France and Belgium where potatoes can be sourced for €200/tonne (£175). Even with transport costs, that makes importing economic.

A mainly dry winter meant that early growers were able to get on to fields, but progress was hampered by high winds and rain in late February and early March, especially in the South West. Planting has been smoother on lighter soils in the east.

World Potato Markets predicts a small drop in UK plantings in 2017 to 137,000 hectares (that area is higher than AHDB estimates as it includes Northern Ireland). A tend yield of 41 tonnes/hectare would deliver a crop of 5.617 million tonnes, up 5.0% on the 2016 figure. A return to trend yields and a slightly larger potato area could see an increase production in the EU-5 (Belgium, France, Germany, Netherlands and UK) of 7.7% to 27.256 million tonnes.

Brexit

Abstract:

• Parliamentarians in both Houses of Parliament have become edgy about the Government's 'no deal is better than a bad deal' pronouncements.

• The House of Lords has proposed two amendments giving Parliament the right to influence 'the deal'. Both are likely to be overturned.

• 'No deal' would mean trading under the default WTO rules. Moreover it would allow the Government to follow a unilateral free-trade model with lower tariffs on imports than those facing exports. This would be particularly harmful for UK agriculture.

• However 'no deal' would allow the UK to walk away from the EU without making any divorce payments.

Is "No deal better than a bad deal"?

On 6th March the House of Lords voted by majority of 98 to give Parliament a veto over the final outcome of the Brexit negotiations, inflicting a second defeat on the Government's Article 50 Bill. The Government had rejected the amendment, saying it would weaken its ability to walk away from the negotiating table. The Brexit Bill will now return to the House of Commons who will probably overturn both the amendment requiring a vote on the Brexit deal and the other guaranteeing the rights of EU citizens.

The Government's hard-ball stance of "no deal is better than a bad deal" has alarmed the Lords, and even some Conservative MPs, who feel that they should have a say on what is a good or bad deal. The prospect of 'no' deal is worrying for agriculture, even if it is just a negotiating stance at this stage. This concern has been heightened by reports that Ministers have been told to prepare for the eventuality that Theresa May will walk away from the Brexit negotiations without a deal. Sources confirm that civil servants have been told to upgrade the UK's customs, immigration and regulatory agencies in preparation for the hardest of hard Brexits. This includes spending billions of pounds on a new IT system to deal with 390 million customs declarations every year for goods being imported and exported in and out of the UK.

It is not only British farming interests that are concerned. Indeed the possibility of 'no deal' is exercising the minds of Irish farmers more than UK farmers at the current time. Irish Agriculture Minister Michael Creed told the EU Farm Council on 7th March that Dublin was pushing for a Brexit outcome that is as close as possible to the status quo in the national interest. With just over 40% of Ireland's agricultural exports destined for the UK market and more than 50% of beef exports, Creed said the UK's decision to leave the EU would have the "most dramatic impact on Ireland out of all European countries".

On the face of it, what is bad for Irish farmers could be good for British farmers if Irish imports become less competitive due to tariffs. But this assumes that falling back on WTO rules would lead to the default rate of tariffs and levies (i.e. existing EU Common External Tariffs transposed into UK law) being applied in the UK. However this may not be the case at all as walking away from an EU deal gives the UK a degree of choice in respect of unilateral actions that it could take.

A 'no deal' scenario could allow the UK to set lower tariffs than the WTO maximum. WTO "bound" tariffs constitute a maximum or "ceiling" to which WTO members must adhere. Actual (or "applied") tariffs can be set at lower rates, right down to zero, on a unilateral basis (i.e. irrespective of whether or not other WTO members are willing to reciprocate). If the UK is no longer an EU member, it could adopt a unilateral free-trade model, removing all tariffs on imports, as some WTO members (for instance Singapore) have done and which the UK has a history of doing, off and on, from the repeal of the Corns Laws in 1846 until the Second World War. Under this arrangement, the UK would not prioritise the seeking of a trade agreement, with the EU or anyone else. UK exporters would simply have to pay the tariffs imposed by the countries in which they sell their products while importers and consumers would benefit from cheaper products.

This approach, proposed by Professor Minford and other 'free market' economists, would have a negative effect on agriculture and parts of the manufacturing sector, but would improve UK productivity growth as a whole (due to the dominance of the UK services and processing sectors). Agriculture would suffer greatly from a unilaterally low tariff policy.

No deal, no cash

One of the advantages of a 'no deal' is that the UK could walk away without making any contribution to the EU budget, according to a House of Lords report on 'Brexit and the EU budget'.(https://www.publications.parliament.uk/pa/ld201617/ldselect/ldeucom/125/125.pdf).

The UK provides approximately 12% of the resources available to the EU budget, and is a significant net contributor. The removal of the UK's payments into the budget would mean that the other EU Member States would either have to pay more into the budget, or draw less from it. The Government has stated that it is open to making payments towards specific programmes in order to cement a cooperative future relationship with the EU but many argue that it is not required to pay anything if it walks away from a deal.

The legal position appears to be that if an agreement is not reached within the two year Article 50 process, all EU law—including provisions concerning ongoing financial contributions — will cease to apply. This would be create a big hole in the EU budget (£10 billion approx.) but it would also damage the prospects of reaching friendly agreement on other issues with the EU. If the Government wishes to include future market access on favourable terms as part of the discussions on the withdrawal agreement, it is likely to prove impossible to do so without also reaching agreement on the issue of the budget.

Many figures have been suggested for the UK's 'exit bill', with the European Commission's chief negotiator, Michel Barnier, reportedly putting the bill at close to €60 billion. No doubt the Treasury will estimate a far lower figure. If a FTA agreement is to be reached, a financial settlement will have to be included in the deal.

The lack of clarity on the financial settlement will make it hard for the EU to put to bed its long term budget (the Multi-annual Financial Framework) and CAP reform in 2020 as planned. In the meantime, George Eustice commented that he will remain an interested observer (but not an active participant) in the 2020 CAP reform: "the UK does of course retain an interest in these discussions, not just because we intend to be a constructive and friendly future partner with the EU, but also because the challenges the next CAP reform will address are similar to those facing farming policy-makers everywhere".

UK Surveys and Reports

Abstract:

- English farm business income up in arable sectors, but mixed results in livestock.
- Scottish TIFF estimated to be 14% higher in 2016.
- Cereals and OSR winter plantings down with wheat 5.6% lower
- Land prices fall further during H2 2016.

Farm business income

Defra has forecast farm business income in England, based on the Farm Business Survey (FBS), for 2016/17 (i.e. March 2016 to February 2017 covering the 2016 harvest and includes the 2016 BPS). This gives a broad indication of how each farm type is expected to fare compared with previous years. Across most farm types, income is expected to increase with a 5% rise projected for cereals, 22% for general cropping and 55% for mixed farms based on real-terms (2016/17) prices. As expected, the weaker Sterling has been a key driver of higher prices and has meant that the 2016 Basic Payment is 19% larger than 2015. Dairy (-49%) and poultry (-31%) are forecast to decline, mainly due to lower output prices although higher feed costs have affected poultry farms.

On cereal farms, firmer prices are expected to more than offset reduced yields from the 2016 harvest. Reduced oilseed rape yields (-20%) and crop area (-12%) compared to 2015 were also reported whilst increases were noted in pulses and barley. Input costs were broadly similar to previous years, although some increases have been noted in fuel and general farming costs. *With inflation becoming more prominent in the general economy, one would expect input cost increases in the year ahead, especially as most projections show inflation accelerating.*

Firmer potato prices have bolstered general cropping incomes and are expected to compensate for reduced OSR and sugar beet output. Mixed farm incomes reflect the increases across arable and livestock farms generally whilst Defra projects that fertiliser prices could experience a fall as in other sectors (e.g. cereals).

Farm business income[1] (£/farm, 2016–17 prices) and % change 2016–17 / 2015–16 in England

	2013–14	2014–15	2015–16	2016–17	% change
Cereals	51,400	46,000	36,000	38,000	+5%
General cropping	70,100	53,000	63,600	77,500	+22%
Dairy	91,100	85,500	44,600	22,500	−49%
Lowland stock	15,600	18,900	12,200	19,000	+56%
Upland stock	15,000	14,900	19,300	24,500	+28%
Pigs[2]	67,600	50,400	22,000	57,000	+160%
Poultry[2]	163,000	129,500	108,200	74,000	-31%
Mixed	30,700	22,000	18,700	29,000	+55%

[1]Provisional forecast. [2]The sample sizes for specialist pig and poultry farms are relatively small..
Source: Defra Farm Business Survey

These results generally confirm industry forecasts that exchange rates have positively affected farm incomes. This so-called 'Brexit boost' is, of course welcome. However, farm businesses should be prepared for inflation in the year ahead and use this additional income to build capital reserves in advance of potential upheavals and support changes in the longer term.

Scottish total income from farming (TIFF)

The Scottish Government's first estimates of TIFF for 2016 (£749m) suggest that farm profits rose by 14% (£96m) last year. TIFF is an aggregate measure of the profitability of the agricultural industry and is based on a calendar year. Similar to England, the Sterling-Euro exchange rate has had a major influence as output prices rose for beef, lamb, potatoes and cereals whilst BPS payments rose by 17%.

Overall output (£2.87bn) is down by 1% with lower milk prices being a significant headwind. Costs (£2.61bn) were 3% lower than 2015, as fertiliser and feed prices fell whilst fuel remained steady and labour increased slightly. Grants and subsidies (£533m) were 10% higher due to favourable exchange rates.

Cereals output (£308m) has fallen for two consecutive years, down 12% in 2015 and an additional 8% in 2016. Potatoes output (£209m) is projected to have increased by 23%, due to improved ware prices and volume. Within horticulture, estimated vegetables output (£123m) was up 13% but fruit (£115m) is down 18% as 2016 volumes and prices dropped back from the very high levels of 2015.

These first estimates come pretty soon after the 2016 year-end and are therefore dependant on a number of assumptions and forecasts. That said, they give a good indication of the overall direction of Scottish farming. Although the trend is positive, farmers must use this opportunity to improve the capital position of their businesses and build reserves for the future. The full statistical release which also contains final estimates for 2014 and revised estimates for 2015 is available via: http://www.gov.scot/Resource/0051/00513593.pdf

AHDB Winter Planting Survey

The AHDB Winter Planting Survey which replaced the Defra December Survey was published on March 8th and records the area planted in England and Wales at 1st December 2016 based on around 2,800 responses. There were insufficient replies to support estimates for oats and oilseed rape (OSR) areas in Wales so these figures are not available. Due to low response rates in the North West for OSR and oats, its results have been merged with the West Midlands.

Compared with 2016 harvested areas, winter wheat is down by 5.6%, but is quite close to the 1.66 Mha reported in last year's Winter Planting Survey. Whilst winter wheat remains the dominant crop, the AHDB has noted anecdotal evidence suggesting that longer rotations are being considered to better control weeds and disease. This presents an opportunity for other crops including spring wheat.

Crop area sown by 1 December 2015, England & Wales ('000 ha, % change on 2016 harvest)	Harvest 2016 final	Dec 2015	Dec 2016	% change 2016 harvest
Winter wheat	1,705	1,662	1,610	-5.6%
Winter barley	384	376	377	-1.8%
Winter oats*	102⁻	76	95	-6.9%
Winter OSR*	534	611	538	0.7%
Total winter cereals/OSR	2,725	2,725	2,620	-3.9%

*England only, ⁻ includes spring oats Source: AHDB

Winter barley (377 Kha) is 1.8% lower, which again suggests a trend towards spring cropping. However, the fact that feed barley prices have been struggling recently relative to feed wheat is also likely to have been influential.

Compared with last year's winter survey, oats area is up by 19 Kha. Defra does not segment the 2016 harvested oats area by winter and spring-sown, so comparisons with last year's harvest reveal little. Scottish estimates of winter plantings are due for release in mid-March. Scotland accounts for around 20% of the total UK oats crop so is quite influential.

The figures for OSR winter plantings in England (538 Kha) suggest a slight increase (0.7%) on the 2016 harvested area that was winter sown. However, these figures hide quite large regional variations with the East and North East estimates indicating significant decreases which are offset by increased plantings elsewhere. As noted last month, crop failures due to cabbage stem beetle damage are also having an impact, particularly in Eastern England.

The regional breakdown (below) of the major autumn sown crop areas (wheat + winter barley + oats + oilseed rape) shows that the reduction in winter crops is widespread but most pronounced in the East Midlands and Eastern regions.

Total area wheat, winter barley, oats and oilseed rape sown by 1 December 2016 ('000ha, % change on 2015 harvest)	Dec 2014	Dec 2015	2016 harvest	Dec 2016	% change 2016 harvest
North East	127	612	127	126	−0%
N. West & W. Midlands*	314	296	317	313	−1%
Yorkshire	407	388	390	384	−1%
East Midlands	538	528	546	507	−7%
Eastern	733	695	699	648	−7%
South East	344	338	352	346	−2%
South West	275	267	275	268	−3%
England	2,738	2,637	2,705	2,591	−4%
Wales	38	n/a	40	n/a	n/a
England & Wales	2,776	n/a	2,744	n/a	n/a

* Due to low response rate for OSR & oats these regions have been combined. Sources: AHDB, Defra

In Northern Ireland, DAERA statistics estimate the area of cereal crops in the ground at 1 December 2016 at 15,800 hectares, down 11% on 2015. Winter wheat and winter barley were both down 14% to 7,300 and 7,100 ha respectively. The winter oats area is estimated at 1,400 ha.

RICS/RAU Rural Land Market Survey

The latest survey results covering H2 2016 indicate a further softening in farmland demand, a trend which started to emerge in the latter half of 2015. The RICS/RAU report also suggests that anecdotal evidence from survey respondents highlight Brexit and future farm support uncertainties as well as declining agricultural profitability due to poor commodity prices as key headwinds. The report also forecasts a further price declines over the next twelve months although it notes that respondents' sentiments are less negative than the last survey, conducted at the time of the referendum.

The survey uses a combination of transaction based measure of farmland prices (which includes a residential component where its value is estimated to be less than 50% of the total) and an opinion-based measure (a hypothetical estimate by surveyors of bare land prices). The transaction-based measure suggests an average price of £10,233 per acre which is 7% lower than a year ago. The opinion-based measure, although 3% lower than last year, was broadly flat in comparison with H1.

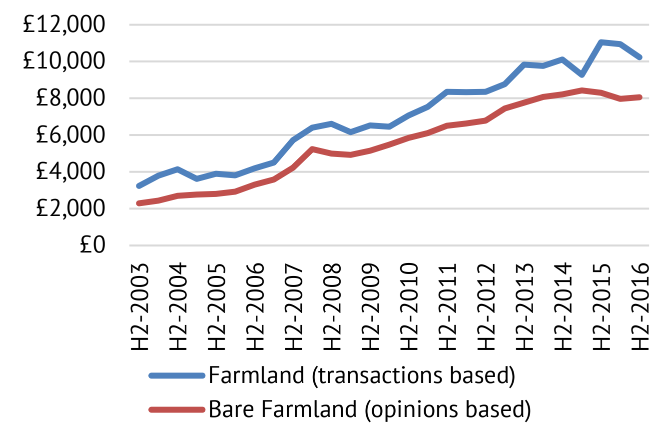
RICS/RAU Rural Land Market Survey H2 2016 – Key Results

(£ per acre unless specified)	H2-2015	H1-2016	H2-2016 (p)	% change
Farmland: transaction based[1]				
Weighted average price	11,049	10,952	10,233	-7%
Bare land: opinion based				
Weighted price	8,306	7,975	8,062	-3%
Arable	9,304	8,911	8,982	-3%
Pasture	7,308	7,040	7,143	-2%
Rents: weighted average per acre				
Arable - AHA 86	79	[illegible]	75	-5%
Arable - ATA 95 (FBT)	151	14[illegible]	135	-11%
Pasture - AHA 86	56	[illegible]	53	-5%
Pasture - ATA 95 (FBT)	103	[illegible]	94	-9%
Yields (%)	1.8		1.5	-17%

(p) provisional subject to revision; [1] includes residential component (less than 50% of value) Source: RICS/RAU

The report also estimates that average arable FBT rents are 11% lower than a year ago whilst pasture rents are down by 9% on a year-on-year basis. AHA rents have also declined although as one might expect this is not as pronounced given they are set at a lower level to reflect their longer term duration.

Average land prices since 2003 (£ per acre)



Source: RICS/RAU

Yields on investment land are also lower. During H2-2016, it is estimated that 63% of buyers were individual farmers whilst lifestyle buyers accounted for just under 25%.

In Ireland, the Irish Farmers' Journal Land Price Report estimates that average land values decreased by 1.6% on 2015, a second consecutive fall. The average value of Irish farmland is estimated at €8,771 per acre (£7,455).

Looking ahead, with UK farm profitability and incomes picking up and Sterling likely to remain weak in the foreseeable future, it is possible that farmland prices could stabilise and possibly even rise during 2017/18, especially given the low interest rates and potential effect of inflation which has driven land prices upwards in the past. Longer term, Brexit remains the big unknown and the period of relatively robust land prices over the last 15 years could end if the exit terms and future farm support are unfavourable. Brexit will also become more of an issue for rents, particularly FBTs as 2019 draws closer. It is likely that 'Brexit clauses' or clauses to review rental values in the light of a significant change in support for example will become a more common feature of rental agreements.

Livestock numbers in England and UK

Latest Defra estimates of livestock numbers in England (to 2016) and the UK (to 2015) show that in comparison with a year ago, numbers have generally been increasing. Cattle populations have declined slightly mainly due to a 1.4% decline in dairy cow numbers which was a response to the poor prices experienced during 2016.

Livestock Numbers in England 2015-2016 (Thousand Head)

	2015	2016	% change
Pigs (as at December)	**3,530**	**3,608**	**+2.21%**
Breeding	403	408	+1.30%
Fattening	3,127	3,200	+2.33%
Cattle and calves (as at December)	**5,358**	**5,355**	**-0.04%**
Breeding herd	1,878	1,866	-0.67%
Other cattle and calves	3,479	3,489	+0.30%
Sheep (as at June)	**15,142**	**15,283**	**+0.93%**
Breeding flock	7,057	7,114	+0.81%
Other	8,085	8,169	+1.04%
Poultry (as at June)	**125,433**	**128,879**	**+2.75%**
Breeding	7,426	7,750	+4.35%
Laying	25,181	25,451	+1.07%
Table chickens (broilers)	82,585	85,328	+3.32%
Other poultry	10,240	10,351	+1.08%

Source: Defra

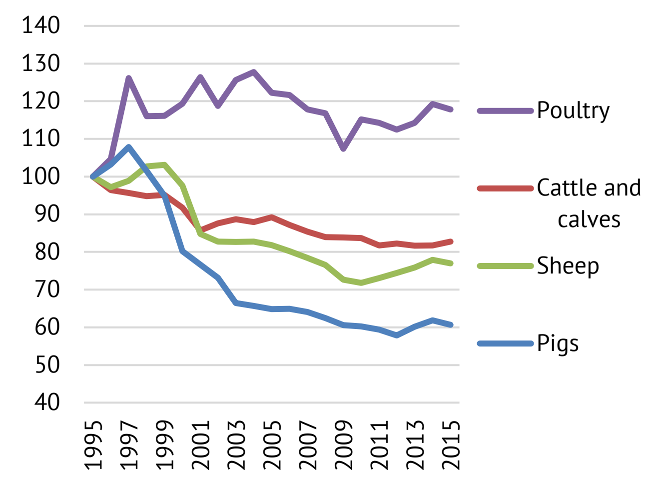
Pig numbers are up by over 2.2% as suppliers have reacted to improved prices. Whilst some declines (e.g. in fattening pigs) have been noted since June 2016, the trend for gilts is positive suggesting future increases in pig numbers for the coming year.

Poultry data is only available to June 2016 and shows that numbers are up by 2.7% overall. Layer numbers have increased only slightly as sluggish prices are likely to have affected supply. Breeding and broiler numbers continue to show strong increases and reflect strong domestic demand and competitive UK production.

Sheep numbers are up slightly and projections for 2017 indicate that further increases are possible.

For the UK as a whole, Defra data for 2016 is not yet available. Since 1995, poultry numbers have increased substantially whilst other sectors have seen marked declines. The popularity of poultry meat and eggs as a cheaper protein source in comparison with red meat is a key reason for this. The banning of stall systems in the pig sector as well as the impact of foot-and-mouth on cattle and sheep numbers are also noticeable.

Index of UK livestock populations – 1995 – 2015 (1995=100)



Source: Defra

Whilst livestock numbers are a useful indicator of animal feed demand, they need to be viewed in the context of overall meat, dairy and egg output and productivity. In this context, pig and poultry have out-performed as domestic UK production has increased in the last 10 years, despite stagnating/falling pig numbers. As reported last month, annual feed usage during 2016 in the poultry and pig sectors has increased by 27% and 24% respectively since 2010. Rising feed prices may inhibit usage somewhat in the year ahead.

UK food purchasing report

Defra's latest report Family Food 2015 presents purchasing trends by food type. Average household expenditure on food and drink in 2014 was £42.43 per person per week, of which £13.18 (31%) was spent on purchases outside the home. Taking inflation into account, the weekly total is 3.7% lower than 2012. The percentage of spend on food and non-alcoholic drinks for the average UK household was 10.7% in 2015, continuing the downward trend since 2012, but is slightly higher than 2006 (10.3%). Total energy intake from food and drink is also down.

Potato purchases have continued on a downward trend in 2015 and are 20% lower than 10 years ago. Fresh potato purchases are the main driver of this decline. Fruit is also down but some categories such as fresh fruit have shown increases. Bread purchases are also trending lower, although increases in cake, biscuits and other cereal products have offset this. Vegetables are also showing growth, driven by fresh produce.

Egg purchases have increased since 2012 but have held constant in comparison with 2014. As noted elsewhere, meat and dairy purchases are down on 2012 values although beef and cheese have increased slightly on 2014. Fish purchases have also increased.

Selected purchased foods (gram/person/week)

	2012	2013	2014	2015	% change since 2012
White bread	266	247	222	221	-16.9%
Brown & wholemeal bread	158	156	150	143	-9.9%
Vienna & French bread	28	27	26	24	-13.0%
Cakes, buns & pastries	149	150	147	155	+3.7%
Biscuits & crispbreads	160	165	162	164	+2.4%
Other cereal products	542	549	560	566	+4.5%
Fruit (including fruit juices)	1,107	1,114	1,096	1,093	-1.3%
Vegetables (excl. potatoes)	1,086	1,102	1,080	1,103	+1.5%
Potatoes (fresh & processed)	724	682	671	675	-6.8%
Milk, cream & yoghurt	1,901	1,847	1,849	1,827	-3.9%
Cheese	114	118	111	112	-1.6%
Carcase meat	196	182	195	187	-4.4%
Non-carcase meat[1]	793	766	760	742	-6.5%
Fish	144	146	144	146	+1.2%
Eggs[2]	1.8	1.8	1.9	1.9	+5.8%
Fats	178	171	158	162	-9.1%
Confectionary	126	128	130	132	+4.7%
Sugar & preserves	124	123	109	106	-14.2%

Source: Defra [1]includes poultry, bacon, ham and meat products [2]number of eggs/person/week

Overall, the report indicates that some divergent trends in the UK. On the one hand, consumption of sugar and preserves is decreasing yet cake and confectionary purchases continue to rise. Red meat consumption is also declining with consumers switching to poultry, eggs and fish (particularly salmon) which are perceived as being healthier. At the same time however, consumption of low fat spreads has declined whilst butter has risen. From an arable perspective, it is concerning that bread purchases continue to decline. The data also suggest that more product innovation is needed in the potatoes sector to satisfy consumer demands for convenience.

Defra rural business survey

In 2015/16, there were 537,000 businesses registered in rural England, which represents 24% of the national total according to the latest Defra rural business statistics. The statistics also estimate that rural businesses employed 3.5 million people, which is around 13% of all those employed by registered businesses in England. Agriculture, forestry and fishing accounted for 15.3% of all rural registered businesses, closely followed by professional, scientific and technical services (14.9%). In total, an estimated 101,580 registered businesses fall into the agriculture, forestry and fishing category with 12,465 such businesses situated in urban areas. Unsurprisingly, over half of agricultural businesses (51,345) are located in rural hamlets and isolated dwellings.

These numbers confirm the central role that agriculture plays in the social fabric of rural society. That said, despite representing almost 4% of registered businesses across England, agriculture accounts for just 0.6% of English GDP. Last year, a House of Lords study estimated that agriculture, forestry and rural affairs contributed just 2% to rural England's Gross Value Added (GVA). This is well behind public administration, education and health which contributed 20% of rural England's total GVA. Statistics such as this will have a bearing on Government's thinking on future rural policy and it is clear that the big challenge facing agriculture in the coming decade is productivity which is also likely to involve "doing more with less", not just in terms of support but also achieving more output with the same or fewer inputs particularly land and labour.

Crop Protection and GM

Glyphosate

The European Chemicals Agency (ECHA) Risk Assessment Committee (RAC) is discussing the classification of glyphosate this month. These discussions take place amid claims from Greenpeace that the RAC committee members including its Chair (Tim Bowmer) have conflicts of interest on glyphosate and it has also expressed concerns regarding the use of unpublished scientific research by industry as part of the ECHA's glyphosate "opinion-development" process. Both claims that have been dismissed by the ECHA in its March 8th response. The ECHA's final scientific opinion is expected to be published on March 15th, although further deferrals cannot be ruled out.

Pesticide and GM voting rules

Proposed changes to EU voting rules for approving products such as Genetically Modified (GM) crops and pesticides are aimed at making Member States more responsible for their actions. Under current rules, many Member States abstain from voting, particularly on politically sensitive topics. This increases the likelihood of 'no opinion' outcomes, delays and shifting responsibility for such decisions to the Commission.

The new proposals being considered include classifying those who abstain or who are absent at the Appeal Committee vote (2nd stage of the voting process) being classified as 'non-participating Member States'. Such countries will be subsequently discounted when the double majority of votes (55% of Member States representing 65% of the population) is calculated.

Other proposals include making public Member States' voting patterns and the introduction of a 'quorum provision' which would mean that a vote would be invalid if a simple majority of Member States did not participate in the Appeal Committee vote. In addition, where an initial vote results in a 'no opinion', a second referral to the Appeal Committee would take place and Member States would be represented at Ministerial level. There is also a proposal to have the right to refer the matter to Council to obtain a non-binding opinion, in a bid to give the Commission a political steer.

These proposals are unlikely to be popular amongst several Member States which have been content to permit the Commission to be criticised for authorising sensitive products. However, such reforms are necessary, especially if the EU is serious about being more accountable to its citizens. Having unelected bureaucrats making contentious decisions is an abdication of responsibility and has contributed to the increasing 'disconnect' that voters feel regarding the EU.

Some may feel that such proposals will not have much relevance to the UK as it prepares for Brexit. However, EU regulation will remain important in the next two years and beyond. The Great Repeal Bill will transpose whatever EU regulation is in place upon formal Brexit directly into the UK statute and may not be amended for some time. Therefore, decisions such as whether glyphosate is reauthorized will continue to play a central role in UK arable farming.

GM wheat field trials approval

The UK Government has given its approval for GM wheat field trials. Rothamsted Research scientists in collaboration with Essex and Lancaster Universities have developed wheat plants that can carry out photosynthesis more efficiently, thus offering scope to significantly increase yield, by up to 40%. The field trials aim to measure the photosynthetic efficiency of the plants in the field and to determine total above ground plant biomass as well as grain yield. Opposition concerns centre on the risk of cross-contamination with non-GM crops. Whilst GM soybeans and maize are commonly used in animal feed and industrial use, GM wheat is not commercially cultivated anywhere. *GM crops are not cultivated in the UK and this is likely to be one of the key discussion areas as a British Agricultural Policy starts to be formulated. Given rising global populations and the need to produce more food with finite inputs such technologies should at least be investigated.*

BPS and Policy

Abstract:

• Secretary of State reaffirmed the Government's aim for 'frictionless' trade with EU in her vision for agriculture post-Brexit.
• Making no mention of support payments, she made positive noises of labour availability, a focus on the agri-environment, animal welfare and sector resilience.
• The only commitment offered was to farmers who had still not received their 2016 BPS payments, who, after the end of this month, would be eligible for a 75% bridging payment
• The NFU used the findings of research they commissioned to demonstrate that UK agriculture offered very good value for money, returning £7 for every £1 invested

Leadsom's Farming Future

The Defra Secretary of State has outlined the five principles that will frame the future of a post-Brexit agricultural policy. Speaking at the NFU Conference last month, she said she was looking at designing a new domestic agricultural policy around trade, labour, the environment, animal welfare, and resilience against livestock and plant diseases:

1. **Trade**

Admitting that only 1 in 5 British food and drink producers are currently exporting, Leadsom recognised that around 60% of exports go direct to the EU, and that 4 of our 5 biggest markets are in the EU. She is hoping for tariff-free and frictionless cross-border trade with Europe; thus with zero tariffs and zero non-tariff barriers as her starting point, she says she striving for the best possible access for our farmers and food exporters. However we know from the politics section (above) that most of the 'hard' Brexit options favoured by the Government make 'frictionless' trade unlikely.

2. Labour availability

Leadsom acknowledged that she had "heard loud and clear the vital role" that seasonal agricultural workers from the EU play in many farm businesses but she was reminded by delegates at the Conference that it is not only 'seasonal' workers that are vital but also those that work full-time.

She says she is finding out what kind of labour is needed in both farming and food processing, whilst also exploring the role innovation can play in improving labour productivity.

3. Environment

She wants to incentivise as many farmers as possible to undertake environmental improvements on their land while striking the right balance between national support measures and local landscapes and catchments. She seems to be particularly impressed with the Farmer Cluster concept, where farmers come together at a landscape scale to deliver greater out-comes for soil, water and wildlife.

4. Animal welfare

Defra says it is working with industry to improve welfare standards, whilst ensuring that farmers are not put at a competitive disadvantage. While the Conservative Party's 2015 manifesto states that 'high animal welfare standards will be incorporated into international trade agreements…", animal welfare standards cannot be incorporated in WTO deals so we must hope that Defra can negotiate them in separate bilateral FTAs.

5. Resilience to energy, disease and weather risks

The Secretary of State focused on the Government's progress with its TB policy as evidence of the Defra's policy towards agricultural 'resilience'.

UK Farming provides a return of 7:1

The case to Government for supporting UK agriculture post-Brexit was made in a recent Development Economics report. Commissioned by the NFU, the report claims that the UK gets a sevenfold return from the support agriculture currently receives.

The report calculates the total contribution of agriculture to the UK economy and society and compares it with the costs associated with the sector. In 2015, it estimated that farming made a major contribution to the nation of 7.4 times the support it received via direct payments plus the carbon costs and external costs for soil, air and water resources of UK domestic food production.

According to Development Economics, farming contributed the following to the nation in 2015:

- £24 billion of revenues and around £8.5 billion of Gross Value Added to the UK economy
- 475,000 jobs directly, as well as supporting a further 30,000 jobs through procurement activity benefiting other sectors of the UK economy (ranging from manufacturing, transport and construction through to professional and financial services).
- 61% of the raw materials for the wider UK agri-food industry which is worth around £108 billion of GVA to the national economy and provides over 3.7 million jobs. The agri-food sector as a whole generates around £18 billion of gross export earnings for the UK
- Management of 70% of the UK's land area. The overall value of these habitat and species protection services is estimated to be worth around £672 million.
- £514 million of carbon sink activities
- 10% of overall UK electricity generation from renewable energy technologies sited on agricultural land.
- 3.7 billion day recreational visits to the countryside each year, and the annual value of these visits (in terms of users' estimated willingness to pay) is estimated to be worth just over £19 billion per annum.
- 20% of international visitors visit the countryside during their stays. This tourism is estimated to be worth at least £2 billion per annum to the UK economy.

UK agriculture's benefits to the UK economy (2015)

Benefits to the UK	(Value £ million)
Agriculture GVA	8,457
Goods & services	15,356
Carbon savings from renewables	395
Air filtration services	20
Habitat and species protection	672
Carbon sink services	514
Countryside use for recreation	19,082
Countryside use for tourism	2,000

Source: Development Economics

The researchers have set the costs faced by society against the overall value of the benefits estimated at a total of £46.496 billion. These costs in 2015 were:

- £2,803 million of direct payments, including £2,176 million of Basic and Single Payment schemes and £488 million from agri-environment schemes
- £2,603 million of external costs associated with the use of soil, water and air resources (estimated by the Environment Agency)
- £886 million of greenhouse gas emissions associated with UK agricultural production.

UK agriculture's costs to the UK economy (2015)

Costs to the UK	Value (£ million)
Direct payments	2,803
Air, water and soil costs	2,603
Carbon costs of production	886
Total monetised costs	6,292

Source: Development Economics

Overall, the estimated scale of the benefits, in monetary terms, is £46.5 billion compared to estimated costs £6.3 billion indicated, according to the NFU, that UK agriculture generated benefits to costs in the UK at a ratio of 7.4:1.0 during 2015.

Whilst the study is wide-ranging, the Government is likely to challenge whether many of the benefits listed could be realised for a lower cost. Nations like New Zealand also use the countryside for tourism/recreation, yet the money paid to farmers is minimal. The UK is lagging behind other countries on productivity and this is likely to be a core focus of a future farm policy.

Bridging payments for late 2016 BPS

Speaking at the NFU Conference on 21 February, Andrea Leadsom announced that she had secured agreement from the Treasury to offer a 75% bridging payment to any farmer with an outstanding 2016 BPS claim at the end of March. At the end of February, there were approximately 4,000 claimants still waiting for their 2016 Basic Payment. The Secretary of State claimed that 95.5% of farmers had already been paid.

In addition the RPA has made available online a 'BPS Payment Query Form'. This should be completed where a claimant has a query about a BPS payment after they have reviewed their Claim Statement. The form can be found at - https://www.gov.uk/government/publications/basic-payment-scheme-payment-query-form. A number of payments are being identified as incorrect again this year; many have not been resolved for 2015 yet. In both instances these are likely to have an effect on this year's claim. How successful this new Query Form will be remains to be seen.

BPS 2017

Applications

The 2017 BPS application window in England is now open. It is also possible to transfer land and entitlements online as well now. The process and the system is very similar to last year. Paper applications are being posted out from mid-March. Although this year, these will only be sent to claimants who did not use an agent in 2016 and made a paper application last year. Agents who applied on paper last year, will not receive hard copy applications this year; they will be expected to use the online service for their clients. Those who receive a paper application, but would like to apply online this year, will need to phone the RPA on 03000 200 301 to 'activate' their online application. Some Agents may need to do this if they take on new clients who made a paper application in 2016. The deadline for applications reverts back to 15th May this year.

Online

There are no major changes to the online system, to get started log on at https://www.ruralpayments.service.gov.uk. That said there have been a few glitches! Initially, the information in the Land Use section was not filtering through to the Application Summary meaning that when claimants went to print off a summary to use as a working document the areas and land cover were wrong, in many cases the activated area (C8) was showing zero. The RPA has now fixed this, but it appears that those who have already created an application and experienced this situation will have to follow the steps below:

1. Submit the online application already created as it is - the RPA will take the latest submitted BPS 2017 online application as the valid application.

2. Go to 'Apply for BPS', click on 'Applications' and 'Create a new DIRECT PAYMENTS application'

3. Generate a new application summary and that should show the data correctly

Note any work carried out on the application may not be carried forward to the newly created one, so this needs to be checked carefully. **Remember to submit the new application**. Those who have already submitted their online application and have not experienced the issues above are said to be OK.

National reserve

The National Reserve, for young and new farmers, is available again, the rules are the same as in 2016. Those who have already received an allocation of entitlements from the National Reserve cannot apply again. A completed Accountants Certificate must be submitted by 15th May 2017. The Young Farmer Payment is also available. Again, the rules are the same as in 2016. But remember the payment is available for up to five years and must be claimed each year. In addition, claimants need to supply evidence **every** year to show that they are still 'head of the holding' and that there haven't been any changes to the business structure. This evidence needs to be submitted by 15th May. A number of people failed to submit their evidence on time last year and were caught out.

Pesticides banned on EFAs from 2018

The European Commission is amending ('simplifying') the Greening legislation in response to criticism following its introduction in the last CAP reform. On 15th February it adopted new draft legislation which, amongst other things, will ban the use of pesticides in Ecological Focus Areas (EFAs) from 2018, unless it is over-turned by the European Parliament or Council in the next couple of months.

This proposed legislation follows a review of Greening by the Commission last summer. The review report found that arable land under crop diversification amounts to 75% of the total EU arable land, ranging from less than 10% to more than 90% of arable land, depending on how Member States used the permitted exemptions. Approximately 25% of total EU arable land is not subject to crop diversification, 13% is subject to the two-crop requirement and 62% to the three-crop requirement.

The Commission estimates that EU farmers have had to adjust a part of their crop production pattern on 8% of the total arable land in Europe in order to follow the crop diversification rules (e.g. the one crop should not exceed 75 % of the farm's total arable land). In fact, the amount of land on which farmers have to change crops to meet the rules is estimated to be only 1%.

The report found that Member States and farmers have considerable discretion in fulfilling the EFA requirement, leading to significant differences in the types of implementation across the EU. The main EFA types declared are: nitrogen-fixing crops (45.4 % of the farm), catch crops (27.7 %), land lying fallow (21.2 %), landscape features (4.3 %) and buffer strips (less than 1 %). Nitrogen-fixing crops and catch crops amount to 73.1 % of the total declared EFA area.

The various EFA areas are subject to weighting factors according to their expected environmental value. Overall, the area covered by the declared ecological focus areas amounts to 14 % of arable land before application of the weighting factors and to 9 % after this application, which is well above the regulatory requirement of 5 %.

The draft legislation proposes the following changes:

- Member States (e.g. Defra) will be able to fix different diversification periods to take account of climatic conditions. In some specific situations where a significant variety of crops on a small area exists, Defra should be able to declare them as one mixed crop.
- As regards fallow land, Member States should be able to set the length of the fallow period to subsequent cropping before the end of the year. But this period should not be less than six months.
- The distinction between different landscape features will be merged so that hedges and wooded strips, and 'field copse' and 'trees in line', becomes one type of landscape feature so that a single size limit applies to each of them.
- Size limits should not exclude valuable features that exceed the dimensions. These areas which qualify as a landscape feature should be added up to the permitted maximum.
- Given the high environmental benefit of riverbank vegetation, it should be included in the calculation of the ecological focus areas.
- Field margins will be merged with buffer strips with a single size limit. To provide the maximum flexibility to farmers, the definition of buffer strips under GAEC 1, SMR 1 or SMR 10 and field margins protected under GAEC 7, SMR 2 or SMR 3, should be supplemented with any other kind of strips.
- Currently landscape features and buffer strips adjacent to arable land are considered as ecological focus areas. This definition will be extended to features not adjacent to the arable land but which are adjacent to the ecological focus area.
- A maximum size will be set for margins along forest edges
- The existing deadline for sowing of catch crops and green cover does not always fit with the agronomic and climatic conditions. Member States should be allowed to fix that period at the most appropriate geographical level. Rules on qualifying catch crops or green cover as ecological focus areas will also be aligned. Under-sowing leguminous crops in the main crop should also be possible.
- The rules on nitrogen-fixing crops being grown as pure species will be relaxed as long the predominance of the nitrogen-fixing crops in mixtures is ensured. Member States should be allowed to establish additional conditions on nitrogen-fixing crops if necessary.
- The use of plant protection products will be banned on land lying fallow, strips of eligible hectares along forest edges, catch crops or green cover and nitrogen-fixing crops. Where catch crops or green cover is established by under-sowing grass or leguminous crops in the main crop, the ban would apply from the moment of the harvesting of the main crop. The pesticide ban would apply during the minimum retention period – for catch crops not less than 8 weeks, for land

lying fallow not less than six months.

The Parliament and Council will now have two months to accept or reject the proposals, with the possibility of a two month extension, if necessary. If the EU adopts the legislation, Defra and the devolved authorities will have to change the Greening guidance documents and the cross-compliance rules as required.

Rural Development

Countryside stewardship

Mid and Higher Tier application window is open

The Countryside Stewardship application window for both the Mid and Higher Tier opened on 10th March. The deadline for requests for Mid-Tier application packs is 31st July 2017. Completed applications must be submitted by 30th September 2017. The deadline for requesting application packs for the Higher Tier is 13th April 2017, with initial applications having to be submitted by 5th May 2017. Natural England will then inform claimants of the success or failure of their initial application by mid-June, with the aim of having all 'negotiations' for successful claims completed by the end of August so that claimants can submit their final confirmation by the deadline (30th September 2017).

Mid-Tier offers management options and capital items to achieve 'simple but effective environmental benefit'. In previous rounds take-up has been lower than hoped as it has been seen as 'complicated' and burdensome especially compared to the previous ELS. Natural England and RPA have tried to provide further help and advice. With the prospect of future funding being reduced due to Brexit more may be tempted to look into the scheme this year; the Government has guaranteed all contracts signed before the UK leaves the EU will be fully funded.

Applications for both tiers remain paper based, (although some areas of CS will be available online this year, see below). Guidance can be find at https://www.gov.uk/government/collections/countryside-stewardship-get-paid-for-environmental-land-management. Further help to identify priority options can be found through individual claimants' Rural Payment Service accounts. Application packs can be requested by telephoning Natural England on 0300 060 3900.

There had been talk this year of bringing the application deadline date earlier to 31st July (this has not been taken up) one of the reasons was to give Natural England more time to process applications and offer contracts. This should all be done by December, so that Agreements can commence on 1st January, but for the last two years contract offers have been late. This year there are many claimants still waiting to hear anything, making it very difficult where seed needs to be bought for spring options etc.

Hedgerow and Boundaries grant scheme

Natural England is inviting applications for its second round of the Countryside Stewardship Hedgerow & Boundaries Grant. This is a standalone scheme and is not part of a Mid or Higher Tier application. It 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 already have a 2016 Hedgerow and Boundary Grant in place. Land parcels subject to an ELS agreement are eligible as long as all other criteria can be met on the land.

Eligible land managers can apply for a grant (up to £5,000) towards the restoration of farmland boundaries. There are set rates for each works (e.g. hedge-laying, coppicing, gapping up etc.). The scheme is competitive and priority is given to smaller holdings as well as for the restoration of hedges and stone walls, as opposed to stone-faced or earth banks. Those holdings that have previously taken part in Environmental Stewardship or the Woodland Grant Scheme will also score more highly, as do applications applying for more than £1,000 in grant.

Applications close on 28th April 2017 and can be made using a paper form, or by using the new online application process which is expected to be available through the Rural Payments Service By the end of March 2017 (see below). 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

Online functionality

The RPA is introducing a number of online Countryside Stewardship (CS) functions for 2017. These will be available via the Rural Payments Service's from users individual 'Business Overview' page (where BPS is claimed, scroll to the bottom) and will be phased-in from March. Claimants will be able to do the following online:

- Identify the high priority Mid-Tier options for their land
- Apply for the Hedgerow and Boundaries Grant Scheme
- Apply for a Woodland Management Plan
- Claim for agreed CS annual/revenue payments
- Claim for agreed CS capital works
- View and download live CS agreement documents and maps

The following will remain paper-based:

- Supplying evidence and supporting documents (in most cases these will need to be sent to the local NE office)
- All Environmental Stewardship Scheme (ESS) activities
- Applications for Mid or Higher Tier
- Applications for Woodland Creation Grants
- Amending a CS Agreement
- Transferring a CS Agreement

Environment

Agri-environment climate scheme Scotland

The Scottish Government launched its latest round of its flagship environmental scheme, the Agri-Environment Climate Scheme (AECS) in late January. Applicants only have until 31st March to apply for funding. Applications are made online via Rural Payments and Services. Further information and full scheme guidance can be found at: https://www.ruralpayments.org/publicsite/futures/topics/all-schemes/agri-environment-climate-scheme/. In brief, the scheme is aimed at promoting low carbon farming and protecting the environment. More than 60 options are available to help improve water quality, protect land and support organic farming. The scheme is competitive and applicants are scored against set criteria, support is also 'geographically targeted' so claimants need to check which options are available in their area via spatial targeting maps.

UK waste recycling down in 2015

The recycling rate for UK households declined from 44.9% in 2014 to 44.3% in 2015 according to Defra. UK household waste production is estimated at 26.7 Mt in 2015 which is slightly below the 2014 level (26.8 Mt). However, recycling is more than 0.2 Mt lower at just over 11.8 Mt. Recycling rates declined in England and N. Ireland, but were up in Scotland & Wales.

Waste statistics for commercial and industrial sectors are not yet available for 2015, but an estimated 27.7 Mt of such waste was generated in the UK during 2014, a decline of over 5 Mt on 2012 levels. Waste from agriculture, forestry and fishing also declined during this period, from 0.67 Mt in 2012 to 0.66 Mt. Of this, around 60% is classified as non-hazardous waste (395 Kt) consisting primarily of plastics (138Kt), slurry (127 Kt). Chemical wastes (170Kt), classified as hazardous, are a significant contributor to agricultural waste in the UK.

In brief...

Key dates for coming weeks

Key dates* for Cross Compliance and ELS – main options

Rule/ option	ELS edn.**	Date	Action
GAEC 2		31 Mar	Expect annual bill for water abstraction licence (or first charge if two part tariff)
GAEC 6		1 Apr	You must not burn heather, rough grass, gorse or vaccinium on land other than in upland areas from this date (until 31 October).
GAEC 2		1 Apr	Abstraction return forms available from Environment Agency for winter or all year water abstraction licences - 28 days to complete.
EK2,3	All	1 Apr	You must not cut, harrow or roll from this date (until 31 May for EK2 and 30 June for EK3).
EK4	All	1 Apr	You may not harrow or roll from this date (until 30 June).

*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

EU-Canada trade deal (CETA) update

CETA was approved by MEPs in February, although several national parliaments including the UK still need to ratify the deal. As previously reported, CETA includes a tariff rate quota (TRQ) for cheese (18,500 T) from the EU and greater access for EU processed products such as wine, biscuits, pasta and chocolates. In return, the EU accepts a TRQ (50,000 T) for Canadian beef.

RPA chief executive to stand down

Mark Grimshaw is to step down and Paul Caldwell will take over as Interim Chief Executive. Paul joined the RPA in 2001, became Operations Director in 2010 and was appointed BPS Operational Delivery Director in late 2016.

New food and farming head at the NFU

The NFU has appointed Philip Hambling, currently senior agricultural manager with Sainsbury's, to replace Phil Bicknell in the head of food and farming role. Mr. Hambling starts in mid-April and has previously worked with Defra, Randall Parker Foods and the British Meat Processors Association. Mr. Bicknell left the NFU in December to join the AHDB.

US Farm Secretary still unconfirmed

Despite being announced as the nominee several weeks ago, the confirmation hearing to appoint Sonny Perdue has still not taken place. Delays with processing paperwork (e.g. financial history, ethics, FBI checks) have been cited as possible reasons. The US farming sector is concerned as decision-making within the USDA has ground to a halt on a number of key issues.

UK carbon footprint

Data released by Defra at the end of February estimates that greenhouse gas (GHG) emissions rose by 3% between 2012 and 2013. The increase has been attributed to increased imports and household emissions although 2013 emissions (1.05 billion tonnes of CO_2 equivalent) are 19% below the 2007 peak.

Consultations relevant to arable sector

Consultations announced

Description	Department & deadline
Consultation on the design and implementation of the discretionary business rates relief scheme https://www.gov.uk/government/consultations/discretionary-business-rates-relief-scheme	Department for Communities & Local Government 7 April
Talking "Fracking": A Consultation on Unconventional Oil and Gas https://consult.scotland.gov.uk/energy-and-climate-change-directorate/fracking-unconventional-oil-and-gas/	Scottish Government 31 May
Consultation on a Draft Onshore Wind Policy Statement https://consult.scotland.gov.uk/energy-and-climate-change-directorate/draft-onshore-wind-policy-statement/	Scottish Government 30 May
Consultation on a Scottish Energy Strategy: The future of energy in Scotland https://consult.scotland.gov.uk/energy-and-climate-change-directorate/draft-energy-strategy/	Scottish Government 30 May
Consultation on Fees for Seed Testing, Seed Certification & Associated Seed Functions https://consult.scotland.gov.uk/agriculture-and-rural-communities/ees-for-seed-testing-certification-and-functions/	Scottish Government 26 May

Consultations reported or Government responses

Description	Department & deadline
None this month	n/a

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