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# General Election


## Abstract:

• The Conservatives' manifesto has extended its guarantee of maintaining the current agriculture budget from 2019 (Brexit) to 2022 (end of Parliament)
• Fighting against a 'hard' Brexit is the focus of the Liberal Democrat manifesto. Regarding direct support, it is committed to capping payments to large farm businesses.
• The Labour manifesto brings back the Agricultural Wages Board, a ban on neonicotinoids and the possibility of a Land Value Tax.


## Conservatives commit support to 2022

**The Conservative party manifesto offered up a golden nugget with the commitment to extend farm support funding beyond the expected Brexit date of March 2019 until 2022 (the end of the Parliament). This will be a welcome development for most farmers, many of whom would be anticipating gradual cuts in direct support post-Brexit from 2019.**

The manifesto, launched on 18th May, said: "*We will continue to commit the same cash total in funds for farm support until the end of the parliament*" which, barring another early election, should be in 2022. Other farm policy commitments of interest to agriculture include:

- "We will work with farmers, food producers and environmental experts across Britain and with devolved administrations to devise a new agri-environment system";
- Helping Natural England to expand technical expertise to farmers to deliver environmental improvements "on a landscape scale";
- "We will protect the interests of Welsh/Scottish farmers as we design our new UK farming policy and work with devolved administrations to ensure the strength of the Welsh brand is maintained".

*Northern Ireland is clearly not worth mentioning given the size of the Tory vote in that devolved nation. Or perhaps, it is a reflection of the added complexity that will be associated with formulating a new agricultural policy whilst maintaining a 'frictionless border' with the Republic of Ireland.*

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Responding to some of the concerns outlined in the House of Lords report (below) regarding Brexit, the Conservatives stated that:

- "*We will seek to replicate all existing EU free trade agreements and support the ratification of trade agreements entered into during our EU membership*"
- "*Lodge new WTO schedules in line with the EU schedules to which we are bound whilst still a member of EU"*
- Create a network of nine new regional overseas Trade Commissioners
- Reconvene the Board of Trade to ensure increase in domestic trade within the United Kingdom
- Pay for parts of the EU membership that Britain may wish to retain but confirm that the UK would not be members of the Single Market or the Customs Union.

With regard to immigration, the manifesto said that:

- A Migration Advisory Committee would make recommendations on aligning the visa system with the industrial strategy
- The immigration skills levy is to be doubled from its current level of £1,000 to £2,000
- "*Reduce immigration to sustainable levels, by which we mean annual net migration in the tens of thousands, rather than the hundreds of thousands we have seen over the last two decades.*" It is unlikely that Brexit will make achieving this ambition any easier.

## Lib Dems want to limit support

**The Liberal Democrats' manifesto contains the usual assurances about supporting farmers, 'rebalancing' support away from direct subsidies towards public goods and so on, but has few tangible commitments. Specific pledges which catch the eye include:**

- Capping support "away from large landowners" to protect "smaller farmers"
- *"Encourage new and younger entrants to farming by championing different forms of ownership including longer tenancies, share farming and community ownership'*
- "*Increase the powers of the Groceries Code Adjudicator and extend its remit to include … farmers..*"

Arguably the greatest value to domestic agriculture from the LibDems' manifesto is its commitment to fight against a hard Brexit. This stated that the positives from this would be to:

- Unilaterally guarantee the rights of EU nationals in the UK, maintaining the existing EU sourced workforce on farms and in processing/packing centres; and freedom of movement so that EU workers can move back and forth between the UK and other EU Member States.
- Maintain membership of the Single Market and Customs Union so that trade can continue without customs controls at the border, and can make use of a common 'rule book' for trade with regard to non-tariff barriers.

## Labour to ban neonicotinoids

The Labour Party manifesto was formally launched on 16th May, following heavy leaking in the media the previous week. It claimed that Labour would "*champion sustainable farming, food and fishing by investing in and promoting skills, technology, market access and innovation*."

With regard to Brexit, Labour will:

- Allow EU Workers employed across farming, fishing, and food manufacturing to remain in the UK and reinstate the Seasonal Agricultural Workers Scheme'
- Protect farmers and the rural economy by ensuring Britain continues to set the highest standards in food quality and welfare. "*We will not allow Brexit to be used as an excuse to undercut our farmers and flood Britain's food chain with cheap and inferior produce*"
- Create a "Minister for England" to create a 'relationship of equals with the devolved administrations'. There would also be "Presumption of devolution" – devolved powers transferred from the EU will go straight to the relevant region or nation.

Labour's specific commitments impacting farming and rural businesses include:

- A ban on neonicotinoids *'as soon as our EU relationship allows us to do so';*
- The Fire and Rescue Services to be given statutory duty to coordinate flood response;
- Reinstate the Agricultural Wages Board;
- Reconfigure funds for farming and fishing to support smaller traders, local economies, community benefits and sustainable practices;
- Consider new tax options such as land value tax;
- Lower small profits rate of corporation tax for small businesses while increasing tax rate for higher earners.

# Crop Markets


## Abstract:

• 2016/17 output up again; declines projected in 2017/18 but production still ahead of recent averages.
• US crop progress behind last year but improved weather in the past week has helped farmers to get back on track.
• Global oilseeds production is also up but 2017/18 consumption looks promising. 7% decline in Brazilian Real as well as abundant supplies have resulted in short-term price declines.
• Lack of rain causing issues for UK growers but prices look positive.


## 2016/17 world update 2017/18 forecast

### Global grain production continues to rise

The monthly USDA grain and oilseed world supply and demand estimates and forecasts are especially important in May as it is the first month of each year when they publish their entire thoughts on the forthcoming global grain crop.

For 2016/17, global grain production has, once again, been revised up by 14 Mt to almost 2,593 Mt. However, 2017/18 output is forecast to decline by nearly 62 Mt. Although this 2.7% decline may appear to be slight in percentage terms, it is almost three times that of UK cereals production (22 Mt). That said, it must be remembered that the 2017/18 forecast is nearly 64 Mt ahead of 2015/16.

**Total global grains supply & demand at 10 May 2017 (Mt)**

| | Output | Trade | Total use | Cl. stocks* |
|---|---|---|---|---|
| 2015/16 | 2,467.12 | 377.07 | 2,439.19 | 606.93 |
| 2016/17 est April | 2,578.58 | 413.12 | 2,555.41 | 628.36 |
| 2016/17 est May | 2,592.72 | 416.95 | 2,566.25 | 633.40 |
| 2017/18 forecast | 2,530.95 | 406.45 | 2,564.91 | 599.44 |

*closing stocks Source: USDA

World wheat production (737.8 Mt), although projected to be the second highest on record, is forecast to decline by 15 Mt in 2017/18. This estimate is heavily influenced by the US (down by 13 Mt to 49.5 Mt) and helped to rally the markets. Early US survey estimates suggest that winter wheat production is down sharply with the lowest harvested area in a century and lower yields. April snow storms affected large portions of the US winter wheat crop, especially in Kansas, and the US spring wheat area is also projected to decline. *But, with global wheat consumption forecast to fall and stocks increasing, the outlook for prices remains rather bearish for 2017/18.*

**Wheat supply & demand at 10 May 2017 (Mt)**

| | Output | Trade | Total use | Cl. stocks* |
|---|---|---|---|---|
| 2015/16 | 737.00 | 172.85 | 712.08 | 242.42 |
| 2016/17 est April | 751.36 | 180.68 | 740.84 | 252.26 |
| 2016/17 est May | 753.09 | 179.74 | 740.16 | 255.35 |
| 2017/18 forecast | 737.83 | 178.35 | 734.89 | 238.29 |

*closing stocks Source: USDA

Coarse grains (feed grains) output is more than double the total wheat crop around the world and 75% of them are maize. Coarse grains production (1,312 Mt) is projected to fall by 3.4% (46 Mt) in 2017/18 vis-à-vis 2016/17 (1,358 Mt). *This decline is significant and leads to a 38 million tonne fall in stocks, a 15% decline which is also substantial. This is far more bullish news.*

### US crop progress report

The latest USDA crop progress report published 15th May, shows spring wheat slightly ahead at 78% planted when compared with the 73% five-year average, however emergence (40%) is behind the 2012-2016 average (44%). Winter wheat is also ahead with 63% headed compared to the five-year average of 57%. Quality is somewhat behind with 51% of the crop rated good to excellent which is 11 percentage points behind last year (62%). Barley and maize plantings are both broadly in-line with long-run averages. However, emergence is slightly behind with maize at 31% compared to the average of 36%. Barley is at 42% emergence somewhat behind the long-run average of 50%. *However, at this early stage there is still time to catch-up and other US sources suggest that farmers are getting back on track with regards to planting.*

### French grains supply and demand balances

France AgriMer released its latest supply and demand estimates for the 2016/17 season on 19th May. As expected, wheat production was down substantially, by over 30%, and came in lower than the estimates previously reported by *Inside***Track** in December. Domestic demand for common wheat is forecast to rise slightly to just over 16 Mt and it is no surprise that imports almost doubled on account of lower domestic production. Of course, exports are also significantly lower this year, which has helped to support UK prices.

Similarly, maize production in France from the 2016 harvest showed a marked decrease on the previous year as both poor weather and a 10% decline in area curtailed domestic production significantly. Although human and industrial use was up slightly, overall domestic demand was 11% lower on the previous year. French maize exports which account for a notable amount of UK biofuels production were also down (by 23.5%).

Looking ahead, one would expect a recovery in French production in 2017/18. Growing conditions thus far have been quite favourable, although a lack of rainfall in recent weeks is causing soil moisture deficits across Western Europe. A recovery in French production could exert some pressure on UK prices due to more competition in export markets, however, the projected decline in global wheat production should mitigate this effect.

**French wheat and maize supply and demand estimates 2016/17**

| Thousand Tonnes | Common Wheat (16/17) | % ch vs 16/15 | Maize (16/17) | % ch vs 16/15 |
|---|---|---|---|---|
| **Market Supply** | | | | |
| Opening stocks | 3,346 | +17.4 | 2,485 | -16.3 |
| Marketed production | 25,733 | -30.5 | 9,779 | -18.9 |
| Imports & adjustments | 900 | +96.1 | 600 | +45.6 |
| **Total Market Supply** | **29,979** | **-25.8** | **12,864** | **-16.7** |
| **Market Use** | | | | |
| Human and industrial | 9,228 | +0.9 | 2,875 | +0.5 |
| Animal feed | 5,500 | +13.3 | 2,300 | -17.0 |
| Seed and other uses | 1,286 | -18.8 | 688 | -29.8 |
| Exports | 11,555 | -46.2 | 4,845 | -23.5 |
| **Total Market Use** | **27,569** | **-26.1** | **10,708** | **–17.3** |
| **Closing stocks** | **2,410** | **-22.2** | **2,156** | **-13.2** |

Source: France AgriMer

## Grain markets commentary

The EU has exported considerably less wheat this year than last. This is partly because France had a very poor harvest in 2016, production falling to 28 Mt from 41 Mt in 2015 due to severe drought at exactly the wrong time. This means the EU had a smaller crop. In addition, more competition from other parts of the world has had an impact.

Old and new crop prices always converge as the two crops' marketing campaigns meet. New crop values have started rising, closing the spread. If physical grain stocks are low and dearer than new crop, buyers are likely to be keen to get their hands on the newly harvested grain fairly quickly. Not much grain remains unsold in the UK, less than usual in fact because old crop prices have been higher than new crop for some time now, so there is no reason to hold any over.

UK crop production is too small to impact on world market prices, but of course affects UK local values and the farm performance. Rain over the past week has been desperately needed but it may have been too late to recover full wheat yield potential. Tillers have failed in some areas and others have lost crops completely from drought. Irrigators have been spotted from East Anglia to Scotland.

With this in mind UK wheat production has been forecast with average yields to be in the region of 14.2 million tonnes. It will probably now be lower. This means consumption will outpace supply and the UK will be a net importer of wheat. Four out of the last six years the UK has been a net importer of wheat. Prior to the 2001 crop failure this had been unprecedented in recent history. In some UK regions, farmers are selling feed wheat forward at £140/t and are projecting cost of production at approximately £120/t, thus indicating that 2017/18 looks positive.

The relatively high area of spring barley in the ground, whilst being given ample dry spells for drilling, lost time post drilling until rain fell recently to develop the crop. Current rains will help the developing plants to grow and, hopefully, catch up. It is early to tell whether quality will have been affected yet. At present, the price spread between barley and feed wheat stands at £25/t.

There is also some evidence that black-grass control appears to be improving versus previous years as farmers are getting more disciplined in spraying infected margins and patches within fields. In addition, some farmers in East Anglia are looking at introducing more livestock (e.g. sheep and outdoor pigs) to help to achieve better control. However, there is a long way to go in the black-grass battle and farmers will need a wide array of tools to address the issue, as opposed to relying on *'silver bullet'* solutions.

## Oilseeds markets commentary

USDA estimates for 2016/17 oilseeds production (566 Mt) edged up slightly on last month whilst 2017/18 outputs is forecast to rise by 8.3Mt to surpass 572 Mt. Global oilseed demand is predicted to rise by 17 Mt in the year ahead, led by robust growth in China's soybean crush, which is projected to rise 4 percent. Soybean demand is expected to increase, with consumption rising above production, thereby reducing stock reserves. Consumption of other oilseeds is expected to increase as well, especially in cottonseed, palm kernel, and rapeseed. However, the USDA has projected 2017/18 rapeseed production to reach a record 72.8 Mt, although stocks (5.1 Mt) are lower than the five-year average (6.3 Mt).

**USDA oilseeds supply & demand at 10 May 2017 (Mt)**

| | Output | Trade | Total use | Cl. stocks* |
|---|---|---|---|---|
| 2015/16 | 521.40 | 152.99 | 446.41 | 90.37 |
| 2016/17 est April | 563.42 | 164.74 | 469.36 | 99.56 |
| 2016/17 est May | 566.02 | 166.93 | 469.02 | 101.71 |
| 2017/18 forecast | 572.08 | 172.74 | 486.04 | 100.79 |

*closing stocks Source: USDA

Global soybean prices which were already trending downwards due to heavy supplies and improved planting conditions in the US have now been affected by the 7% fall in the Brazilian Real against the dollar. This has meant that Brazilian farmers have effectively received a raise and has sparked some selling. However, it is worth noting that Brazilian exports have been behind recent years thus far, and whilst previous shifts in the Brazilian Real have resulted in similar declines, these were often reversed fairly quickly.

Paris rapeseed futures stood at €368/t on 16th May, down €5/t on the previous week. In the UK, physical OSR prices are achieving circa £335/t in East Anglia, approximately £25/t lower than December but still some £45/t higher than last year, due mainly to exchange rates.

*The above trends, whilst challenging in the short-run, suggest scope for oilseed prices to rise in the longer term. Furthermore, from a US perspective, if coarse grain production is falling, oilseed production often rises. This is because the US Midwest is the main region of the world for both maize and soybeans. However, this is not foreseen by the USDA which bodes better than they might have done for OSR prices this year.*

## Sugar beet – yield, prices and prospects

The dry weather has meant germination has been patchy in many spring crops, and sugar beet is no exception. Some crops have been re-planted, but the number of these is very small. Most growers have been hoping that some rain (which has now arrived) will be enough to recover the situation. Whilst many beet crops are undoubtedly behind where they might normally be, there is still enough of the growing season left that overall yields will not necessarily be affected. The final 2016 crop yield was 71.4 adjusted tonnes per Ha.

The contracted area for the 2017 has grown significantly. After two years in 2015 and 2016 where the total area was down to 80,000 hectares, this year's plantings are up to 105,000 hectares. British Sugar has offered extra Contract Tonnage Entitlement (CTE) as its own stocks have reduced whilst EU and world markets have improved.

On the subject of markets, the EU sugar price was around €495 per tonne up to March this year (EU price reporting is a little slow). This is above the €475 per tonne threshold level for bonuses to be paid under the new 2017 pricing mechanism. However, since the start of the year world sugar markets has declined and this may soon start to impact the EU price. The reference period for the calculation does not begin to operate until October this year, so none of the current market movements are actually affecting the price that growers will receive.

## Lack of rain causes potato uncertainty

The dry spring has meant that potato growers have been able to plant at record rates, but the crop is now suffering from lack of water. Growers who can are irrigating, but many rivers in potato growing regions are at very low levels raising the possibility of extraction restrictions later in the season. Added to this, there is also evidence that due to the recent highs in prices, potatoes are being grown on land that has not been used for such purposes in a long time. This poses a particular problem during low rainfall as land is less likely to be adequately equipped for irrigation. As a result, farmers lose the ability to control yield and quality. However, it is still too early to say there will be a small 2017 crop and steady rain over the next few weeks could transform prospects and still deliver very high yields.

Latest AHDB figures suggest that the use of potatoes in the 2016/17 season has been at its slowest rate since the depleted 2012/13 season. That meant that stocks were still at one million tonnes at the end of March, similar to last year. The greater than expected supply of potatoes, has impacted on old crop prices, which have dropped by 10% over the last month, although they remain above the £200/tonne mark. In contrast, old crop prices in Europe have continued to increase because of growing shortages.

*In summary, without substantial volumes of rain soon 2017 yields will be impacted and prices will inevitably rise.*

# Brexit

## Who's Who on the EU side

### Abstract:

- Michel Barnier is the EU Commission's Chief Brexit Negotiator. The Commission is the civil service which executes policy decided by the European Council and the European Parliament. Jean-Claude Juncker (Commission President) is his immediate boss.
- Confusingly, both the Council and the Parliament have their own spokespeople. Donald Tusk, as President of the Council, and Guy Verhofstadt, as Brexit spokesman for the Parliament, have – and will – make interventions which will be quoted in the media. However, they have delegated the negotiation task to Barnier (to be confirmed on 22nd May).
- Of the two decision-making institutions, the Parliament is less influential on Brexit. The Council, and the Presidents and Prime Ministers of the 27 EU Member States that make up the Council (discussing Brexit), are the principal decision-makers.
- Of those 27 Member States, Germany and France are the major players. Their leaders, Merkel and Macron, will be formidable opponents if they work together. This is already anticipated and has been called Team 'Merkron'.

**Readers following the Brexit negotiations could be forgiven for being confused about the role of the various EU spokespeople quoted in *Inside*Track and the media generally. While domestic politicians such as May, Boris and Davis are familiar names, and are likely to remain so after the General Election, names such as Barnier, Verhofstadt or Tusk may mean nothing and their significance to the Brexit process may be obscure.**

In truth many of the EU politicians and spokespeople often don't know themselves who are the real official representatives of the EU, and - rather like Departments and Ministers of a UK government – will fight amongst themselves to be seen as the lead representative.

The first point to remember in weighing up the various EU interventions is to understand that there are there are three pre-eminent EU institutions – the Council, the Parliament and the Commission. The latter is the civil service and does not have a decision-making role unless that has been delegated by the decision-making bodies – the Council and the Parliament. The Commission proposes policies to the decision-making bodies and then executes those decisions; the Commission's bureaucrats are seen as the experts in unravelling and interpreting EU legislation.

The Council consists of the elected politicians of the 28 Member States, but now referred to as the 27 (EU-27) involved on the EU side of Brexit. It is made up of the Prime Ministers, Presidents or Ministers of those States, and was the original and only decision-making body. However, more recently the European Parliament has been given more scope to share decision-making powers with the Council but that does not include Brexit and the fundamental decisions on which countries can join or leave the EU club. In that regard, the Council is the pre-eminent decision-maker. Nevertheless, the Parliament is given the rubber-stamping job which could create another hurdle for the UK in negotiating a successful Brexit.

The Commission has appointed Michel Barnier as its chief Brexit negotiator. A politician with a wealth of experience in national and European politics, the appointment of former French Minister and Commission Vice-President Michel Barnier was seen by many in the UK as a sign that the EU is prepared to adopt a tough stance during the negotiations. From an EU perspective, he was picked as an experienced negotiator who has often dealt with the UK, particularly as Single Market Commissioner (2010-2014), when he brought forward a number of legislative initiatives for the financial sector.

It is clear from statements made by Mr. Barnier that the Commission President, Jean-Claude Juncker, the Council President, Donald Tusk, and the 27 EU Presidents/Prime Ministers that make up the Council, are his bosses. So Juncker's views and those of the leading Presidents – such as from France and Germany – are vitally important.

Mr. Barnier will have to liaise with the Council's own team of bureaucrats. Didier Seeuws, the Council's Chief Negotiator, is a Belgian diplomat and Chief of Staff to previous Council President Herman Van Rompuy (2011-2014). There were concerns in the Commission that Seeuws' appointment would diminish the Commission's influence and potentially give the UK greater flexibility during the negotiations. The appointment of Michel Barnier as the Commission's lead negotiator has certainly countered that concern. Barnier has already established himself as 'top dog' and we are unlikely to hear too much from Seeuws in the future.

The final player in the EU's triumvirate of Brexit negotiators is Guy Verhofstadt, the European Parliament's chief negotiator. A veteran politician and a familiar face both inside and outside the EU, Verhofstadt's appointment made immediate waves, despite the fact that the European Parliament will have the least influence in the Brexit negotiations.

One of the few MEPs with charisma and a flair for oratory, Verhofstadt is an avowed federalist. An MEP since 2009 and Belgian Prime Minister on three occasions, Verhofstadt has been a regular sparring partner with Nigel Farage over the years. He has now turned his attention to Theresa May, mocking the Conservative party's electioneering mantra of 'strong and stable' on Twitter: "*Any Brexit deal requires a strong and stable understanding of the complex issues involved. The clock is ticking – it's time to get real.*"

Despite all the noise, it is unclear how much actual power and influence the Parliament will have in the Brexit negotiations until the very end when it must approve the final deal agreed between the UK and the Commission/Council. The Constitutional Affairs Committee will take the lead on behalf of the Parliament but other committees will also have input into the Parliament's resolution on Brexit.

On 20th March the Parliament's Agriculture Committee issued an 'informal contribution' to the resolution which mirrored the concerns raised by the House of Lords (see below) but from the EU perspective. These included asking the "*EU-27 negotiators to negotiate a comprehensive and beneficial Free Trade Agreement with the UK which maintain current export opportunities for EU-27 exporters and avoid any excessive disruptions in this very important bilateral trade*".

Much of the resolution focused on ensuring that Brexit did not take the EU's focus away from negotiating a good budget settlement and CAP reform post 2020. Interestingly, it also stressed the importance of monitoring the development of the new UK national agricultural policy to ensure it remains compatible with the WTO Agreement on Agriculture and does not create unfair competition for EU-27 agricultural producers.

As if the UK is going to provide more (trade-distorting) subsidies than EU! Little does the EU Parliament understand about British agricultural policy...

## Merkron: The Council heavyweights

The election of Emmanuel Macron as French President has raised federalist hopes that Germany and France will work together again to power the EU engine forward whilst also navigating through Brexit. The partnership had floundered during the Hollande Presidency as France reversed into socialist policies and lacklustre economic performance, resulting in Germany (and Merkel as its leader) ignoring French political initiatives.

The anticipated synergy between the Merkel and Macron has already been dubbed as 'Merkron'. Germany has always been the EU's economic powerhouse, but France has provided the political and diplomatic steer to drive the project forward (Germany's military history in Europe means that it is reluctant to be seen to take the political lead). But, without Germany's backing, France has no engine to steer the ship and Macron's recent meeting with Merkel has raised hopes that the EU ship will soon be sailing at full steam ahead.

Building bridges with Germany, rather than Brexit, will be President Macron's first priority as he begins his term of office. If he can get German support, he will try to reform the EU and the Eurozone. Having lived through the aftermath of the financial crash as an economic adviser in the Elysée Palace, he wants to work with the German government to shore up the Eurozone's governance arrangements and cement France's links with Germany. After this, his main focus will be on continuing to deal with the migration crisis across Europe and maintaining Europe's counter-terrorism effort. Brexit will come much lower down in his order of priorities.

Peter Ricketts, who was British ambassador to Paris (2012 – 2016), when Mr Macron was an economic adviser to François Hollande and subsequently French economy minister, knew Macron well. He told the Financial Times: "*With regard to Brexit, he would see it as an affront to his vision of Europe and to its place in the world. So he will want the outcome of the negotiations to protect the EU interest first and foremost. He is a pragmatist, he is an economic liberal and he is certainly not someone who will want to punish Britain for punishment's sake. He will not want Brexit to become a road crash. He is a dealmaker by instinct and will want to cut a deal, albeit a tough one. His main goal will be to see the EU working well in 2022 when the next French presidential election is held."*

Inevitably, this will mean securing a deal that works well for the EU and less well for Britain. With the Merkron team working in unison (Merkel would not have worked effectively with either the Eurosceptic Le Pen or the socialist Hollande), the odds are improving for a better Brexit deal for the EU, and a less good one for the UK.

## House of Lords report

On 3rd May, the House of Lords published a 92-page report on the impact of Brexit on agriculture. In summary, it recommended that the Government should work closely with industry to help it respond to critical challenges: forging new trading arrangements with the EU and the rest of the world; providing regulatory stability and clarity; addressing the future of funding for the agricultural sector; and ensuring access to labour.

Specifically, it called on the Government to:

- Give particular consideration to the implications of tariffs on the UK agricultural sector when establishing its own schedules at the WTO. High tariffs on imports would raise the cost to UK consumers, whereas lower tariffs could reduce the cost of food to consumers, but would undermine the competitiveness of UK agriculture.
- Avoid imposition of tariffs on trade in a UK/EU trade deal, to minimise the potential for disrupting existing supply chains;
- Maintain close dialogue with the EU over the development of UK and EU standards post-Brexit, to avoid unnecessary creation of non-tariff barriers
- Make every effort to avoid the re-introduction of customs controls on the Irish land border and reduce customs procedures and associated delays on borders generally as these would have a major negative impact on the agri-food sector, where products are often perishable and food supply chains are highly integrated across the UK and the EU
- Clarify whether or not existing preferential trade agreements with third countries (outside the EU) could be grandfathered and preserved for agri-food products. The report notes that it will not be possible to offset the loss in UK/EU trade by increased trade with third countries or by expansion of domestic markets
- Maintain the current regulatory standards to enable the export of UK food and farming products to high value markets while also reducing an influx of cheaper products produced to lower standards
- Encourage the Government to secure the inclusion of high farm animal welfare standards in any free trade agreements it negotiates after Brexit
- Agree transitional arrangements with the EU, to mitigate the potentially disastrous effects of trading on WTO terms on the agricultural and food sectors, as there is broad consensus among experts—including those on the EU side—that it will not be possible to negotiate and conclude a comprehensive free trade agreement with the EU within two years
- Pursue dialogue with the Devolved Administrations on a UK-wide framework of co-ordinated agricultural policies so as to not disrupt the UK internal market
- Ensure that former EU institutions' roles can be carried out by independent UK bodies, or negotiate enduring relationships with the EU agencies and entities to ensure high standards of food safety and quality after Brexit. The UK bodies will need additional resources if they are to take on roles currently fulfilled by EU institutions in relation to agri-food. One of these new roles will be an inspection workforce working in countries with which we have FTAs to ensure the upholding of welfare and phytosanitary standards.
- Clarify its intentions to farmers on financial support post-2020 as soon as possible to provide the certainty required to make investment decisions. Farmers will need a transitional period to adjust to any new financial support scheme, and to provide the certainty they need to invest and adjust their business practices. The duration of the transitional period should be based on consultation with the industry and reflect the magnitude of change being implemented.
- Review the needs of the agricultural sectors across the UK, and to consult with the industry, to ensure that any future support is targeted and effective
- Recognise farm and food processing skills when assessing labour needs and access to foreign labour after Brexit. Continued access to EU labour should be based on an assessment of the needs of the industry, rather than a simplistic distinction between skilled and unskilled labour
- Clarify the rights of these EU nationals to remain and work in the UK. Unless arrangements are made to preserve access to labour from outside the UK, the agri-food industry will suffer major disruption.

# UK Surveys and Reports


## Abstract:

• Decline in cereals output kept UK farm profitability flat during 2016.
• Value of inputs used in agriculture declined by 2.6% in 2016.
• UK organic land trending lower, particularly cereals, but organic vegetables area increasing.
• UK Total Factor Productivity down 2.5% in 2016.


## Farm incomes little changed for 2016

A decline in cereals output was one of the main reasons UK farm profitability remained flat in 2016. Defra published its UK Farm Income statistics at the end of April. The headline Total Income From Farming (TIFF) figure showed a very modest real-terms increase of 1.5%, from £3,904m in 2015 to £3,963m in 2016.

In the arable sector, the total value of crop output declined by 1.5%. But this masks considerable differences between crops. Wheat output in the year declined by 23%, or £473m. The planted area was relatively unchanged, yields were lower compared to the records seen in 2015. This was combined with lower prices – although values picked-up in the second half of the year, the average for 2016 as a whole was below that in 2015. Similar trends were seen in other combinable crops, for example income from barley was 15% down. Oilseed rape saw a 24% drop, but this was more to do with a lower planted area and yield rather than prices. Output from sugar beet and protein crops was also reduced compared to a year earlier.

These drops were offset by increases elsewhere. Field vegetables, plants & flowers, potatoes and fruit all showed significant increases. This was largely due to higher prices rather than greater physical yields.

**UK crop output in real terms* (£m)**

| | 2013 | 2014 | 2015 | 2016 | change 2015 - 16 |
|---|---|---|---|---|---|
| Wheat | 2,153 | 2,501 | 2,089 | 1,616 | −23% |
| Barley | 1,180 | 918 | 843 | 716 | -15% |
| Oilseed rape | 798 | 713 | 733 | 555 | -24% |
| Sugar beet | 280 | 321 | 176 | 150 | -15% |
| Other arable | 196 | 131 | 114 | 113 | -1% |
| Forage | 225 | 270 | 274 | 278 | 1% |
| Fresh vegetables | 1,391 | 1,240 | 1,285 | 1,656 | 29% |
| Plants/ flowers | 1,236 | 1,189 | 1,169 | 1,202 | 3% |
| Potatoes | 983 | 690 | 587 | 747 | 27% |
| Fruit | 625 | 634 | 702 | 789 | 12% |
| Other crops | 604 | 660 | 522 | 557 | 7% |
| **Total crop output** | **9,799** | **9,392** | **8,634** | **8,506** | **-1.5%** |
| Livestock and other | 9,480 | 9,140 | 8,807 | 8,701 | -1.2% |
| **Total output** | **26,883** | **26,365** | **24,365** | **23,548** | **-3%** |

Source: Defra *corrected for inflation

The drop in output was offset by a decrease in the value of inputs used in agriculture during the year. Large decreases were seen in spending on both fertiliser and feed. The former was almost entirely due to lower prices as a result of a fall in energy costs. Animal feed was cheaper, and less of it was used as farmers sought to make savings. Most other costs were relatively unchanged.

**Agricultural inputs in real terms* (£m)**

| | 2013 | 2014 | 2015 | 2016 | change 2015 - 16 |
|---|---|---|---|---|---|
| Seeds | 901 | 781 | 727 | 731 | +0.6% |
| Energy | 1,506 | 1,405 | 1,205 | 1,135 | -5.8% |
| Fertilisers | 1,569 | 1,491 | 1,418 | 1,144 | -19.3% |
| Plant protection | 889 | 959 | 981 | 978 | -0.3% |
| Veterinary | 464 | 466 | 462 | 457 | -1.1% |
| Animal Feed | 5,772 | 5,152 | 4,814 | 4,574 | -5.0% |
| Maintenance | 1,559 | 1,639 | 1,625 | 1,607 | -1.1% |
| Misc inputs | 3,261 | 3,227 | 3,200 | 3,175 | -0.8% |
| Contract costs | 1,093 | 1,144 | 1,110 | 1,089 | -1.9% |
| Depreciation | 4,139 | 4,147 | 4,020 | 4,058 | 0.9% |
| Wages | 2,496 | 2,453 | 2,546 | 2,541 | -0.2% |
| Net rent | 540 | 566 | 572 | 571 | -0.2% |
| Interest and fees | 344 | 406 | 427 | 426 | -0.2% |
| **Total inputs** | **24,533** | **23,836** | **23,107** | **22,486** | **-2.6%** |

Source: Defra *corrected for inflation:

The weakness of the Pound following the referendum to leave the EU helped boost support payments to the industry. Overall, subsidies rose by £255m or 9%. It can be seen that support contributed around three quarters of Total Income From Farming (i.e. profit) of the industry in 2016.

**Support and TIFF in real terms* (£m)**

| | 2013 | 2014 | 2015 | 2016 | change 2015 - 16 |
|---|---|---|---|---|---|
| Net direct support | 3,345 | 2,897 | 2,755 | 3,010 | 9.3% |
| TIFF | 5,585 | 5,323 | 3,904 | 3,963 | 1.5% |

Source: Defra *corrected for inflation

## UK organic area

The total area of organic and in-conversion land in the UK decreased by 2.6% between 2015 and 2016 to 507,900 hectares. This fall comes on top of a 5% decrease in the previous year.

The areas of organic crops have been falling steadily since 2009. In 2016, organic cereals were grown on just under 38,400 ha, equating to 1.2% of the total cereal area. Barley (12,900 ha) and oats (11,600 ha) are most prominent and organic wheat (although organic oats accounted for 9.1% of the UK oats area).

**2016 organic and in-conversion land use UK ('000 ha, % change)**

| | Fully Organic 2016 | Organic and in-conversion 2016 | % UK crop area | % ch 16/15 |
|---|---|---|---|---|
| Cereals | 36.8 | 38.4 | 1.2 | −3.2 |
| Other arable crops | 6.7 | 7.3 | 0.6 | +4.7 |
| Vegetables | 8.9 | 9.3 | 8.3 | +4.5 |
| Potatoes | 0.9 | 0.9 | 0.7 | 0.0 |
| Fruit and nuts | 1.9 | 1.9 | 5.5 | −0.4 |
| Herbs & ornamentals | 5.7 | 5.8 | 50.2 | −7.5 |
| Temporary pasture | 85.9 | 92.1 | 8.1 | −0.2 |
| Permanent pasture | 319.7 | 335.0 | 3.3 | −3.5 |
| Woodland | 7.1 | 7.4 | 0.8 | +6.1 |
| Unutilised land | 9.2 | 9.9 | | -0.7 |
| **TOTAL** | **482.7** | **507.9** | | **−2.6** |

Source: Defra

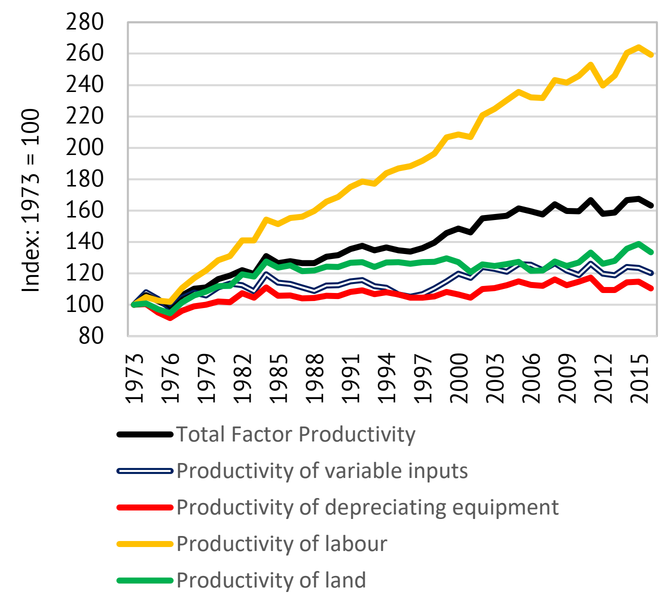
## Productivity still lags

To accompany the aggregate farm income figures, Defra also published the latest figures on the overall productivity of the UK farming industry. These have been unspectacular for some years, and the latest, 2016, figures show no signs that taken as a whole the industry is improving its performance.

Total Factor Productivity (TFP) measures how well the industry performs in turning physical inputs into physical outputs. Thus, market movements and prices are taken out of the analysis and what is left is the efficiency of the sector. The figures for 2016 show that TFP declined by 2.5%. As outlined above, the volume of outputs fell in the year. Whilst the quantity of inputs used also declined this was not enough to offset the output drop.

The average TFP improvement over the 43 years the series has been running has been around 1.5%. However, improvements in recent years have been modest, with the average for the last decade at just 0.4%. As the chart below shows, any improvement in productivity has been almost all due to using labour more efficiently. The returns from variable inputs (seed, fertilisers, sprays etc.), equipment & machinery, and land have all been flat for many years. This 'productivity challenge' will be a key issue for the farming industry over the next few years.

**Productivity of UK Farming**




Source: Defra

## Farm business statistics

We reported on the forecasts for the Farm Business Survey for the 2016/17 year back in March. The publication 'Farm Accounts in England' has recently been released by Defra. Whilst this relates to the 2015/16 year, it is the main publication from the Farm Business Survey. It provides a vast amount of information on farm profitability, outputs and costs for the various farm types. The information is categorised by farm sizes, regions and economic performance. The data can be found at - https://www.gov.uk/government/statistics/farm-accounts-in-england

# Crop Protection

## 10-year license renewal for glyphosate?

The EU Commission stated that it will propose extending its approval for glyphosate by 10 years, having taken into account the recent ECHA study's view that glyphosate should not be classified as a cancer-causing substance. The Commission decision has drawn criticism from both environmental groups and crop protection companies which were seeking a longer approval. No date has been set for when discussions with Member States will start. It also remains to be seen how the new French government will react to the proposal as green activist, Nicolas Hulot, has been appointed as environment minister. From a UK standpoint, although EU decisions will become less important from March 2019 onwards, any decisions taken before that date will be transposed into UK law via the Great Repeal Bill. Therefore, the renewal agreed at EU level will also be applicable to the UK, assuming a decision is made before 2019 of course…

## Mergers and acquisitions update

### ChemChina-Syngenta deal approved

ChemChina Syngenta got approval from shareholders on 5th May as the deal edges another step closer. The $43 billion takeover is China's biggest foreign acquisition to date and one of the main drivers from China's perspective is to secure more advanced chemical and seed patents to feed a growing Chinese population. Not only does China need increased yields to directly feed its growing population but they also demand more grain to feed livestock as meat demand rises due to a growing middle class. China accounts for approximately 19% of the world's population, yet it has only 7% of the world's arable land according to World Bank estimates. Therefore, security of food supply is of paramount importance to the Chinese government.

### Dow-DuPont merger

The Dow-Dupont merger is set to be completed in August with the deal worth a combined $130 billion in market terms. The companies will consolidate to form DowDuPont and about 18 months after the consolidation it will be broken into three separate independent businesses:

1. Agriculture (e.g. seed, pesticides)
2. Material science (e.g. construction materials, plastics etc.)
3. Speciality products (e.g. Kevlar, enzymes etc.)

This would suggest that going forward farmers will deal with one company which is highly specialised and focused on producing agricultural products, however no details will be provided until after the merger is completed. Thus far, the merger has now been approved in the EU, China and Brazil. Only Australia, Canada and the US remain before the deal can be approved.

*From a UK perspective, it will take some time for a clear picture to emerge as to how the crop protection industry will be structured once the above deals in addition to the proposed Bayer takeover of Monsanto are settled. At the farm level, it appears that prices have remained relatively steady versus last year, however, inflationary pressures are becoming more influential and one would expect that this will have a bearing on prices in the months ahead.*

### Winter oilseed rape failure

On 12th May, the results of a study conducted by Newcastle University were published which estimated that the total cost to UK farms in 2016 of the neonicotinoid ban was £18.4 million and 28,000 areas of lost crop. The study found that the ban led to a 3% reduction in area and a 2.5 fold increase in pesticide use to combat cabbage stem flee beetle (CSFB). The chemicals alone cost £4.3 million and cost of applying was estimated £8.5 million. 72% of growers used insecticides to control CSFB, with the most common being pyrethroids and pyridine azomethine. Farms in Suffolk suffered the most with a 16% crop area failing, closely followed by 13% in East Yorkshire. In February, a Kleffmann study estimated 8.3% of 2017 GB winter oilseed rape, a rise of 3 percentage points on the previous year. *Taking this finding in conjunction with the Newcastle University study suggests that this season's losses will be more pronounced. This will add further pressure on the viability of oilseed rape as a break crop in traditional rotations. Arguably, Brexit could offer scope to review the neonicotinoid ban from 2019 onwards, unless there is a Labour Government…*

# BPS and Policy

## Abstract:

- Countryside Stewardship deadline extended to 15th June.
- Although BPS claims are submitted, land eligibility and cross compliance requirements must be adhered to all year.
- Still possible to make late BPS claims until 9th June, although there is a 1% penalty for each working day late.

## CSS deadline extension

Countryside Stewardship Agreement holders with a 1st January 2017 start date have been given an extra month in which to submit their annual claim. The European Commission has given Member States the option to extend the annual submission date to 15th June 2017 for both BPS and Rural Development schemes. None of the UK regions has taken up the offer for BPS, but due to the delays by Natural England in sending out Countryside Stewardship (CS) Agreement offers with a 1st January 2017 start date, Natural England has taken up the European Commission's offer of extending the annual claim deadline for these Agreements to 15th June 2017.

Note though the extension only applies to Countryside Stewardship Agreements with a 1st January 2017 start date. For CS agreements with a 2016 start date, Environmental Stewardship (HLS, ELS etc.), English Woodland Grant Scheme, Farm Woodland Premium Scheme and Farm Woodland Scheme agreements the deadline for the annual claim remained 15th May without penalties. It is possible to make a late submission for these claims up until 9th June 2017, but this will attract a 1% penalty for each working day late.

## BPS – beware land transfers

For many it will be a relief that 15th May deadline has passed and copies of submissions will have been filed away in the hope they are not required until next year. But claimants are reminded that requirements of BPS cannot just be forgotten after 15th May. Land eligibility and cross compliance are calendar year requirements and greening dates and commitments must be adhered to. This is particularly important to consider when land is leased or sold after 15th May but before 31st December 2017, Agreements and sales particulars must be clear and the parties need to protect their positions.

If land is taken out of agricultural production (i.e. sold for building) it is possible to withdraw it from an application at any time, without receiving a penalty as long as the RPA has not notified the claimant of an inspection or of a problem with the parcel. But if a new occupier does not use the land primarily for an agricultural activity and the RPA has not been notified, crucially it is the BPS 2017 claimant on the land who will receive a reduction to their claim and penalties not the new occupier. Similarly, if a new occupier does not deliver the greening requirements that the transferor put on his 2017 BPS claim for the transferred land, it will be the transferor who will be deemed at fault and he will be liable to payment reductions and penalties not the new occupier.

For cross-compliance the rules are slightly different. The requirements have to be met until 31st December, but if land is transferred to another BPS claimant after 15th May, the new occupier is responsible for meeting the cross compliance on the land and any breaches would result in penalties being applied to the new occupier's payment. However, if the new occupier is not a BPS claimant, any breaches of cross compliance would result in penalties being applied to the transferor's payment.

## BPS – late submissions and amendments

The BPS deadline for submissions without attracting penalties was 15th May but it is still possible to make a late application up until 9th June. Applications received after midnight on 15th May 2017, but before midnight on 9th June 2017 will be accepted but will be subject to a 1% penalty for each working day late. Applications made after 9th June will not be accepted. These deadlines are also applicable for applications to the Young Farmer Payment and Young & New Farmer Entitlement applications, although for the latter the penalty is increased to 3% per working day late.

It is also possible to make some changes to an application which was submitted by the May deadline without penalties up until 31st May and between 31st May and 9th June, but a 1% penalty will apply, these include:

- Adding a land parcel;
- Increasing the eligible area of a land parcel;
- Changing the 'land use' of a parcel;
- Increasing the area required to activate entitlements.

To change an already submitted online application, claimants must 'create' a new one, complete the changes and then submit the new version. The RPA needs to be informed via an email that an amendment has been made to an application submitted by the deadline.

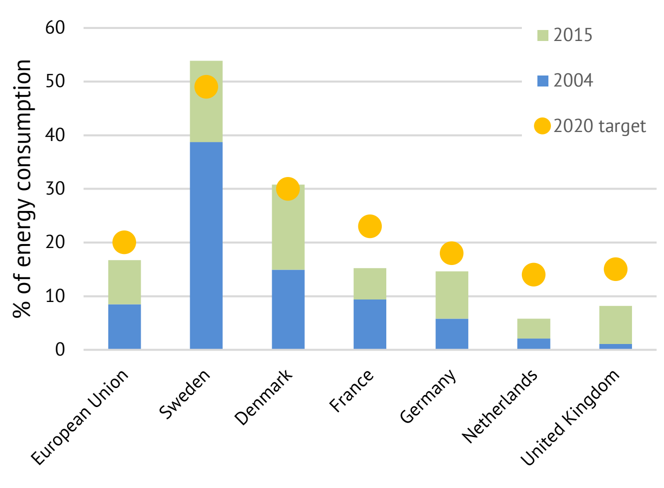
It is possible to withdraw an application or part of a claim at any time without penalty, unless the claimant has been notified of an error or of an inspection.

# Environment

## Renewable energy in the EU

Latest Eurostat data reveals the EU is on track to reach its target of 20% renewable energy by 2020. In 2015, the share of energy from renewable sources reached 16.7% in the EU, this compares with just 8.5% in 2004, when the first data was recorded. But as the chart below shows this masks large differences. The Renewable Energy Directive set individual renewable energy targets for each Member State considering their starting point, renewable energy potential and their economic performance. Eleven countries have already reached their individual targets. But the UK along with the Netherlands, France, Ireland and Luxembourg are the furthest away from their targets. The UK's target is 15% by 2020, but in 2015 its share of energy from renewable sources was just 8.2%, compared with Sweden which has a target of 49% by 2020 and is already recording 53.9% of energy being supplied from renewable sources.

**Share of energy from renewables – selected Member States**




Source: Eurostat

The EU continues to show its commitment to meeting its energy needs from renewable sources post 2020, by Member States already signing up to a further binding target of at least 27% of the energy used in the EU by 2030 should be from renewable sources.

# In Brief...

## Key dates for coming weeks

| Key dates* for Cross Compliance and ELS – main options | | | |
|---|---|---|---|
| **Rule/ option** | **ELS edn.**** | **Date** | **Action** |
| EK 20 | 2013 | 30 Apr | Take silage cut by this date (close field for at least 5 weeks) |
| EK 2 | All | 1 May | You may cut, harrow or roll from this date (until 31 March). |
| EF 4 | All | mid-Jun | Cut half the area to 20 cm to stimulate late flowering (until end of 1st week in July). |

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

## Defra approves GM potato trials

Defra has approved The Sainsbury Laboratory's application for GM potato field trials. The trials will take place at Norwich Research Park between 2017 and 2021. The aim of the trials which are conducted by TSL's potato partnership, is to produce a potato which bruises less, produces less acrylamide when cooked but most importantly is blight and nematode resistant. The project is being funded by Biological Sciences Research Council (RBSRC), BioPotatoes (UK) and Simplot (US).

## InsideTrack Customer Survey

In the next few weeks, *Inside***Track** will be undertaking a customer survey to get your views on the publication as it currently stands and how it can be further improved to meet readers' requirements. The survey will be undertaken online and we will be emailing you in the near future with further information. We look forward to receiving your feedback and integrating your suggestions into future editions.

## UK egg production up on last year

In Q1 2017, 7.4 million cases of eggs were packed in the UK a 2.8% rise on the same period last year and a 2.2% increase on Q4 2016. Farm-gate egg prices (70.9 pence per dozen) as up slightly (0.3%) on the previous quarter but remains 2.4% below Q1 2016 prices. Last year, egg prices decreased on the back of significant investment in new facilities in recent years which meant supply outstripped demand which is also growing. The latest statistics suggest that prices are starting to recover but the improvement is unspectacular. From an arable perspective, increased egg output will help to support feed market demand.

Further information is available via: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/612150/eggs-statsnotice-04may17.pdf

## Cereals usage up in the UK

Q1 2017 saw a 13% increase in wheat use by the Bioethanol, starch and milling industry when compared to 2016. A robust 1479 of this was home produced with imported wheat down 4.3%. 2017 Q1 Brewers, malsters and distillers use was also up 3.2% with wheat up 21% against the same period in 2016. *This is due to currency depreciation and imports being more expensive to home-grown stocks*

## Consultations relevant to arable sector

| Consultations announced | |
|---|---|
| **Description** | **Department & deadline** |
| This consultation is on Scottish Government's proposal to increase certain fees for seed testing, seed certification and associated seed functions. https://consult.scotland.gov.uk/agriculture-and-rural-communities/ees-for-seed-testing-certification-and-functions/ | Scottish Government 26 May 2017 |
| Guidance on Engaging Communities in Decisions Relating to Land https://consult.scotland.gov.uk/land-reform-and-tenancy-unit/engaging-communities-in-decisions-relating-to-land/ | Scottish Government 16 June |

| Consultations reported or Government responses | |
|---|---|
| **Description** | **Department & deadline** |
| None published this month | N/A |

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