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Business

Autumn Statement 2016

The Autumn Statement, delivered on the 23rd November by Chancellor Philip Hammond, contained few big announcements, other than a far gloomier forecast of UK economic prospects following the Brexit vote. Specific measures that may be relevant to the UK arable sector include;

- A rise in the National Living Wage to £7.50 per hour (from the current £7.20) as from 1st April 2017. National Minimum Wage rates will also increase.
- Employer and employee thresholds for National Insurance will be aligned at £157 per week from next April. It was also confirmed that Class 2 NI (for the self-employed) will be scrapped from April 2018.
- The Income Tax personal allowance will increase to £11,500 from April 2017 as announced in the spring Budget. The Higher Rate threshold will rise to £45,000. There remains a commitment for the threshold to reach £12,500 by the end of the current Parliament in 2020.
- It was confirmed that Corporation Tax rates will drop from 20% to 19% as from April. It will remain at this level before reducing to 17% as from April 2020. The Chancellor stated that the Treasury will look at the 'growing cost to the Exchequer of incorporation' and aims to ensure taxation is fair between different individuals. This may herald more restrictions in the future.
- A freeze on Fuel Duty for the 7th year running
- An increase in Insurance Premium Tax from 10% to 12% (but a clampdown on whiplash claims)
- Rural Rate Relief in England to rise to 100% (this is only applicable to rural shops, pubs etc.)
- An increase in flood defence spending – although it is not clear how much, if any, new money is being allocated above previously-announced plans.
- Changes to the VAT flat-rate scheme
- A £23bn National Productivity Investment Fund to help deliver new housing, better transport, and improved digital communications. Again, it is not clear how much of this is new money, and how much is 'recycling' of previous commitments.

Finally, Mr Hammond announced that this would be the last Autumn Statement. There will be a spring Budget next year, and then the budget will move to an autumn date. There will then be a 'Spring Statement' responding to the latest set of economic forecasts, but this would not include policy announcements.

Inside Page

Trade Agreements

Abstract:

- The EU-Canada free trade deal (CETA) was signed last month despite being almost scuppered by Wallonia, a Belgian region.
- Deal still needs to be ratified but should be provisionally applied in 2017 when elements relating to agriculture would also start to be implemented.
- CETA will remove over 90% of tariffs upon entry into force but for some sensitive agricultural commodities (e.g. wheat, beef) full liberalisation will take several years. In the interim, tariffs are to be progressively lowered and tariff rate quotas increased.
- Poultry products including chicken, turkey, eggs and egg products are excluded from the tariff reductions.
- Opportunities for UK exports will mainly centre on value added products. This is also where the Canadians see the greatest export potential.
- Non-tariff barriers will remain an issue.
- UK's situation complicated by Brexit but CETA could provide a template for an eventual settlement between the UK and EU.
- EU study on potential effect of 12 trade deals shows a balanced impact for agriculture. Some gains possible for arable and dairy, particularly with respect to a deal with Turkey. Sugar, poultry and beef are vulnerable.

EU-Canada trade deal finally signed

Despite almost collapsing at the last minute, due to an initial rejection by the Belgian region of Wallonia, the Comprehensive Economic and Trade Agreement (CETA) was signed by EU leaders, Jean-Claude Juncker and Donald Tusk, as well as the Canadian Prime Minister, Justin Trudeau, on October 27th. Whilst the deal is still subject to a vote by the European Parliament, anticipated by early 2017 and ratification by EU Member States, it is expected to provisionally come into force next year. This deal is the most ambitious free-trade agreement that the EU has completed to date and it cited by some as a potential template for a UK-EU arrangement post-Brexit. So what are the implications for CETA for the UK arable sector? This article examines the key areas of CETA of most relevance to UK farming and how Brexit fits into this equation.

Under CETA, Canada will eliminate duties for 90.9% of all its agricultural tariff lines upon entry into force. After 7 years, this figure will rise to 91.7% with the remainder being sensitive products, which will either be offered as a tariff rate quota (e.g. dairy) or excluded altogether from liberalisation obligations (e.g. chicken and poultry meat, eggs and egg products). For its part, the EU will eliminate 92.2% of its agricultural tariffs at entry into force with this figure rising to 93.8% after 7 years. The remainder include:

- Products to which an entry price system applies
- Sensitive products for which zero duty but quantitatively limited tariff rate quotas (TRQ) are offered (e.g. beef, pork and canned sweetcorn)
- Sensitive products excluded from tariff reductions (chicken and turkey meat, eggs and egg products).

Implications for the arable sector

Wheat will be the commodity most affected. The current 38,853 tonnes of low and medium quality wheat allocated to Canada under the EU WTO TRQ will increase to 100,000 tonnes. This volume will become available as CETA enters into force. The in-quota tariff rate (currently at €12/tonne) will be phased out after 7 years. The quota will expire once the tariffs for common wheat (including high quality wheat) are fully phased out under CETA. After which point, wheat would be traded freely.

The following table sets-out EU-27 and the UK's imports from Canada for selected arable commodities. EU and UK arable exports to Canada are negligible. With the 61,147 tonne increase in TRQ for low and medium quality common wheat from Canada, this may exert some competitive pressure on the EU wheat market. But this amount is small especially in comparison with the 3.2MT of wheat import TRQs that the EU has in place globally. Canadian oilseed rape is primarily exported to France and soybean imports are likely to exert more of an influence on the UK market as trade is liberalised.

Canadian Exports to EU and UK 2015 (Tonnes)

Selected Commodities	EU-27	UK	EU Total
Common wheat	343,030	320,958	663,628
Durum wheat	1,622,001	0	1,622,001
Soybeans	864,714	34,251	898,965
Oilseed rape	262,726	0	262,726
Maize	171,087	61,871	232,958

Source: EU Commission, Eurostat (COMEXT)

A recent European Commission study on the economic impact of future trade agreements on EU agriculture forecasts that the increase in arable crop imports brought about by CETA would be less than 1%. The effect at a commodity level is therefore likely to be minimal. Canadian sources suggest that the greatest export opportunities exist in the value added segment and cited pulse products (e.g. pulse flour) as a growth area for Canada.

CETA also increases the TRQ for Canadian beef by 45,838 tonnes, of which 30,838 tonnes are fresh beef. The TRQ for Canadian pork will also be increased by 75,000 tonnes. However, it should be noted that Canada has difficulty in filling its current TRQ for beef and pork to the EU as it cannot produce meat at hugely discounted rates compared to the EU producers. Furthermore, CETA will not change the EU's ban on hormone-treated beef. In total, the volume of tariff free beef and pork that Canada could export to the EU equates to 0.6% and 0.4% of EU consumption respectively. Therefore, it is unlikely that CETA will have a significant impact on EU meat markets. This, in turn, should mean that there will negligible impact on European feed grain markets from increased market access for Canadian beef.

Opportunities for UK exporters

For the EU (and the UK), agricultural exports to Canada primarily consist of dairy products with meat exports being negligible as the following table shows. Imports into Canada are also governed by TRQs and the EU's quota will more than double to 32,000 tonnes per annum as a result of CETA with 16,000 tonnes of this increase being for high quality cheese which includes cheddar. Ireland, in particular, sees this as a significant opportunity but with the weak Sterling, it should also present opportunities to the UK.

EU and UK Exports to Canada 2015 (Tonnes)

Selected Commodities	EU-27	UK	EU Total
Cheese	13,360	1,029	14,389
Butter	1,676	688	2,364
Milk powder	299	50	349
Beef	5	0	5
Sheep meat	55	11	66

Source: EU Commission, Eurostat (COMEXT)

The main value of CETA for the EU relates to the opportunities it creates for processed agricultural products (PAPs) including wines and spirits, processed cereal products (e.g. pasta and biscuits) and confectionary. As the vast majority of PAP tariff lines will be liberalised, EU sources claim that this could present considerable opportunities. Below is an overview of UK trade with Canada for selected products of relevance to the arable sector. With the removal of tariffs across most PAPs, there is scope to increase this trade significantly, at least while the UK is still a member of the EU.

UK and Canada Trade – Selected Products 2015 (£M)		
Selected Commodities	**Imports**	**Exports**
Bread, pastry, cakes and biscuits	19.2	22.4
Whiskies	0.3	77.6
Beer and associated products	1.8	41.5

Source: HMRC

It is also noteworthy that, according to the 2011 Canadian census, there are approximately 600,000 UK and Irish born citizens in Canada. Furthermore, over 16.2 million people in Canada claim either British or Irish origin, which equates to 48 per cent of its population (33.5 million). This represents a substantial opportunity for UK companies, particularly for products such as whisky which have strong country of origin associations.

Non-tariff barriers also addressed but issues remain

Despite the substantial trade liberalisation, attention must still be given to the rules that Canada imposes for imports as these remain untouched by CETA. These include sanitary or phytosanitary rules and food safety and labelling requirements.

The rules of origin set out in CETA are primarily based on EU rules, although for some agricultural and processed agricultural products, the rules have been relaxed in areas where Canadian exporters would have had difficulties in meeting the more stringent EU rules. These exceptions are not expected to have a significant impact on arable products.

With regards to technical regulations, both sides have agreed to improve transparency and foster closer cooperation in terms of standard setting, testing, certification and accreditation. There will also be a 'conformity assessment' protocol by which EU bodies will be able to certify for the Canadian market and vice versa. The aim of this is to reduce testing costs (e.g. avoid double-testing) which should benefit small and medium sized enterprises particularly.

In terms of plant health, CETA contains new procedures to facilitate the approval process of plants, fruit and vegetables by Canada. In future, an EU-wide assessment and approval process for fruits and vegetables is planned. These initiatives aim to reduce time and costs and create a more predictable environment for exporters.

CETA also seeks to simplify, and make more transparent, the customs clearing process by setting common principles and enhancing information exchange between the EU and Canadian authorities. This includes applying automated procedures where possible for the expedited release of goods and simplified documentation requirements in some areas (e.g. low value goods).

CETA and Brexit

The big question for the UK with respect to CETA is what happens once the UK leaves the EU. The UK accounts for a significant proportion of EU imports of Canadian wheat. It remains to be seen what would happen to Canadian TRQs after Brexit. Some argue that the TRQs would revert back to the EU-27, however, it is likely that the EU would push for the UK to take on a proportion of the TRQ in return for concessions elsewhere.

Last month, *Inside***Track** discussed the possibility of the UK adopting the CETA agreement to govern its trade with the EU and Canada, thus providing access in both directions. Such an agreement is limited compared with current UK access to the EU and would maintain a number of restrictive phytosanitary measures. That said, CETA provides a possible basis for future trading relationships with the EU and Canada. It is also noteworthy that CETA includes an agreement on the possibility of a future rule of origin *'cumulation'* for third countries that have a free trade agreement with both the EU and Canada. This would allow material of the third country to be taken into consideration when determining whether a product is originating under CETA. For example, if the UK agreed a trade deal with both the EU and Canada, ingredients produced in the UK could count towards the originating status of food products produced in the EU or Canada. Such an arrangement would certainly support existing supply chains.

EU study – impact of trade deals

As mentioned above, the EU Commission recently published a study on the impact of 12 future trade agreements on agriculture. These include the US, Canada, Mercosur, Australia, New Zealand, Japan and Turkey. It included an overall analysis of agri-food trade flows as well as a detailed analysis at a product-specific level under two scenarios:

- **Ambitious:** 98.5% liberalisation of tariff lines, and a partial (50% reduction) on the remainder
- **Conservative (CONS):** 97% liberalisation, and a 25% tariff cut on the remaining tariff lines.

Overall results suggest a relatively balanced impact for the EU agricultural sector as a whole (i.e. gains in some areas broadly mitigate losses in others). However, significant differences exist at a sub-sector level. Prospects for dairy products and pig meat are generally viewed as favourable. The arable sector could benefit from trade opening with opportunities cited for wheat and higher value products such as wines and spirits in particular. Sectors reported as being vulnerable to increased imports include beef, poultry and sugar.

The following tables set-out the projected cumulative impacts of the FTAs, under a conservative scenario, on the imports and exports arable crops (i.e. wheat, other cereals and oilseeds) respectively in 2025. Wheat exports (including soft and durum wheat) could increase by 307 thousand tonnes under a conservative scenario, mainly to Turkey. Potential export increases in an ambitious scenario are projected at 957 thousand tonnes. Barley exports are also forecast to grow. Domestic prices could increase by 1% in a conservative scenario driven by exports and increased internal feed demand. The study also forecast a reduced rapeseed price for EU farmers as a result of increased soybean meal imports.

Projected EU arable crop imports by FTA partner, (2025, €M)			
Country	**Base**	**CONS scenario**	**% change**
USA	1,411	1,416	+0.4%
Canada	643	647	+0.6%
Mercosur	2,812	2,831	+0.7%
Australia	350	352	+0.6%
Turkey	64	65	+1.6%
Other FTA	42	43	+2.4%
FTA total	5,322	5,354	+0.6%
ROW	2,529	2,543	+0.6%
Overall total	7,850	7,898	+0.6%

Source: EU Commission, Boulanger et al (2016)

Projected EU arable crop exports by FTA partner, (2025, €M)			
Country	**Base**	**CONS scenario**	**% change**
USA	54	58	+7.4%
Canada	3	3	0.0%
Mercosur	4	6	+50.0%
Australia	3	3	0.0%
Turkey	332	612	+84.3%
Other FTA	69	90	+30.4%
FTA total	465	772	+66.0%
ROW	7,865	7,798	-0.9%
Overall total	8,330	8,570	+2.9%

Source: EU Commission, Boulanger et al (2016)

Whilst such studies give a useful indication of the future trajectory of trade flows in a more liberalised environment, they need to be treated with significant caution. A lot can change between now and 2025, especially with a Trump presidency. This study did not take into account the potential impact of Brexit which will have major implications for how trade-flows develop.

Brexit and Politics

Abstract:

- The Government's right to trigger Brexit, without consulting Parliament, has been blocked by the High Court. Its appeal to the Supreme Court is expected in December. If it loses, the Article 50 trigger date of end of March could be delayed.
- This judicial delay is the first obstacle of many which threaten to challenge and delay the Brexit process. Others include the 'Great Repeal Bill' and, in Europe, negotiations with the other 27 EU States and the European Parliament.
- Of greater concern is the apparent lack of clarity within Cabinet of its Brexit strategy and the resource to execute it within the Civil Service. The lack of coherence and resource also threatens the creation and delivery of a new UK agricultural policy (UKAP) following Brexit.
- Speaking at a recent conference, George Eustice (the Farming Minister) was limited in his vision for a UKAP. He side-stepped questions on the future of direct payments, agri-environment schemes and labour availability after the UK exits the EU.

Article 50: the first obstacle

The High Court has ruled that the Prime Minister does "not have the power" to trigger Article 50. This intervention by the judiciary is important as it provides the first evidence that Brexit will not be as simple or as easy as some predict, meaning that UK agriculture could still be governed by the CAP beyond 2019 (the current expected date for the conclusion of Brexit).

The senior judge who vetoed Theresa May's attempt to trigger the European Union withdrawal, without a vote in Parliament, fired a string of damning verdicts of the Government's actions in court. The Lord Chief Justice Lord Thomas branded the government's legal arguments as "*divorced from reality*" and "*flawed at this basic level*". His ruling centred largely on the Government's use of prerogative powers, reserved for the Crown, as against the legal powers of Parliament. He also thought the Government's understanding of EU law as it applies in the UK was 'flawed'.

While Theresa May continues to insist that her plan to trigger Article 50 by the end of March will not be affected by the ruling, it is likely that it will be significantly delayed if the Government loses its appeal in the Supreme Court. Most lawyers who have studied the High Court judgment expect the Supreme Court to concur with it. There are arguments that the Government could use to strengthen its case but these could lead to an embarrassing referral to the European Court of Justice.

The appeal is expected to take place on 7 and 8 December. If the appeal is lost, an Act of Parliament will have to pass through both Houses of Parliament before Article 50 can be triggered. That process could offer countless opportunities for pro-EU MPs and peers to table motions and amendments to delay the process far beyond the March 2017 timetable Theresa May announced last month.

While most MPs and Lords backed the Remain side in the referendum, they are unlikely to want to incur the wrath of their constituents and block Article 50 altogether. What the Government is worried about is that MPs attach conditions that the government dislikes. These could include demands for more clarity over negotiating goals, a commitment to stay in the EU's single market, a special arrangement for devolved administrations (Scotland's government, particularly unhappy about Brexit, has said it may file a brief in the Supreme Court case) or a demand that an eventual Brexit deal must be approved by a further referendum.

The most time-consuming scenario, which is highly unlikely but still possible, is that the Prime Minister calls a General election to increase her majority in a Commons vote. This is because the Conservatives only have a working Commons majority of 14 (and no majority at all in the Lords), and – given the Tories strong polling lead currently – they could increase their majority significantly by a snap election. But under the Fixed-term Parliaments Act, the Government would still need two-thirds majority of MPs to vote in favour to call an early election.

Given the inaccuracies of the polls recently (for example following Mr Trump's victory in the US Presidential elections), calling a General Election would be risky for the Government. So an election is unlikely but the current intervention from the judiciary is likely to lead to a dilution of the Government's flexibility in achieving its objectives, seen by many as being a 'hard' Brexit. A clear trade-off exists between the goals of maximising market access and adopting tougher controls on migration. Almost all economic analyses have found that the costs of Brexit to the economy will be far higher if unfettered access to the single market is lost.

If the proponents of a 'soft' Brexit had less to fear from the Government's opaque strategy, their demands for Parliamentary involvement – via the Courts – might be lessened. However, the Government insists that to give more clarity over its objectives would be to tie its hands in its exit negotiations in Brussels.

Brexit will be a long game, and it may be that the talk of a 'hard' or 'soft' Brexit should be replaced by the concepts of a 'long' or 'short' Brexit. The longer it takes, the more the process plays into the EU's hands. Currently, the power is with UK as it decides when to trigger Article 50 but after that the power will revert to the EU institutions, particularly the 27 EU Member States who will have to unanimously agree on the exit deal, and the European Parliament, which will have the right of veto on the final settlement. This will take time, leading possibly to an extension (with their unanimous agreement) to the 2 year exit process. The French elections next spring and the German elections next autumn will provide a sounding board for how the two most powerful EU states want to play their hands during the negotiations.

In the meantime, the Government will look to a vote next year on the 'Great Repeal Bill' so as to formally revoke the EU legislation and incorporate it into UK law. This will be another showdown, with further opportunities for procrastination and delay.

Brexit will be a long, hard and grinding process. Many analysts argue that a 'long' Brexit will provide a 'softer' Brexit; for agriculture, this could be the optimal outcome.

Still no Brexit strategy

Most MPs and commentators believe that the government, riven by internal arguments, has not yet thought through its Brexit strategy. A leaked memo from an external consultant to the Cabinet Office seems to confirm that Government is nowhere near prepared for Brexit.

Cabinet divisions are hampering preparations with the "three 'hard' Brexiteers" – Boris Johnson, David Davis and Liam Fox – in one corner, fighting it out with Philip Hammond and Greg Clarke (the Business Secretary) in the other. Tellingly, the Chancellor's comments at the Conservative Party Conference that "*the British people did not vote on June 23 to become poorer*" have hit home. There is a majority view in the Cabinet that the economy, rather than ideology, should be guiding force for delivery.

Even if the Cabinet can agree, there are doubts whether the Government has enough resource to work up the strategy. Government Departments, including Defra, are working through 500 Brexit-related projects and require an extra 30,000 civil servants to handle the workload, according to the leaked memo. The Treasury is reported to have provided an extra £412 million of funding to three Brexit-related Departments (Dept. for Exiting the EU, Dept. for International Trade and the Foreign Office) over this parliament, as part of the Autumn Statement. However, recruiting additional, and suitably qualified, staff will be a major challenge, particularly in the trade policy sphere.

A delay in triggering Article 50 due to the Courts may give the Government the necessary time to create Cabinet consensus on the strategy, and its civil servants the time to work up the required plans. Even after Article 50 has been triggered, and a 'long' exit process delivered, civil servants will need even longer to consult on a new UK agricultural policy (UKAP).

Theresa May's stated objective is to deliver Brexit in this Parliament, nothing more. This means that, assuming that there is not a general election before 2020, the next Government will be tasked with gradually changing EU law into UK law in the next Parliament from 2020-2025.
Depending on the speed of this legislative process, a UK agricultural policy (UKAP) may not be in place until 2025.

Eustice reticent on UKAP

Speaking at conferences in November, George Eustice – the Minister responsible for Agriculture – opined that both the EU and the CAP had failed but was limited in his vision for the CAP's replacement.

As a leading Brexiteer during the Referendum campaign, he pledged that a Brexit Government would maintain the same levels of support under a UKAP as under the CAP. But since his reappointment as Agriculture Minister by Theresa May, his rhetoric has become a little more circumspect. For example in October, in answering a Parliamentary question asking him to guarantee that CAP funding in Wales would be "*replaced pound for pound by the UK Governmen*t", his response was "*We intend to work very closely with all the devolved Administrations as we devise a new agriculture policy for after we leave the European Union"*.

During last month's EPIC Conference, he told his audience that he was "starting with a clean piece of paper" to create a new agricultural policy and that Defra is working hard to devise a scheme that can manage risk while maintaining income support objectives. The reference to 'risk management' for farmers and tools to manage risk, commonly referred to in both the US and the EU policy debates, are discussed further below.

With regards to agri-environment policy, he believes that environmental objectives on farms would be best managed on a water catchment basis. UK agri-environment schemes under the CAP have largely been devised by the UK's competent authorities, with sign-off from the European Commission, so the policymaking process for these need not change significantly as a result of Brexit.

Eustice was also reticent to discuss the issue of EU sourced labour availability post-Brexit. In response to questions, he sidestepped a little by saying that immigration was a lead issue for the Home Office, but reassured the audience that Defra is working hard with the Home Office to allow work permits for certain skills and for certain industries; for example, he claimed that much analysis was going on to make sure that Brexit negotiating scenarios allowed for labour access. He also claimed that there would be a 'balanced' policy, ensuring that agriculture would have the labour it needed.

US-style Crop Insurance for the UKAP?

Eustice's talk of risk insurance as a form of income support reminded some of the 2014 Farm Bill in the US. At that time the US replaced its decoupled direct payments with a new set of counter-cyclical payments. At the same time, it expanded the scope of its federal crop insurance programmes by introducing a new programme to cover 'shallow losses' not normally covered by crop insurance.

Civil servants in Defra and in the European Commission are looking at these US developments with interest, for both the CAP and the UKAP. Given that British Agriculture could well be in transition between a CAP to a UKAP for a significant amount of time, a brief explanation of the US policy may be relevant.

The US farm safety net has three pillars: federal crop insurance, farm commodity programmes, and disaster assistance. Under the 2014 Farm Bill, the projected annual cost of these three pillars is $8.8 billion, $4.2 billion and $0.5 billion, respectively. Federal crop insurance is overtaking commodity programmes in the US and thus is the focus of our attention here.

Subsidised crop insurance is made available to producers who purchase a policy, protecting them against losses in yield, crop revenue, or whole farm revenue. Federal crop insurance is managed by the US Department of Agriculture's Risk Management Agency.

Yield policies protect against agricultural production losses due to unavoidable natural causes such as drought, flooding, hail, wind, hurricane, tornado, lightning, and insects. Revenue policies protect against revenue losses resulting from changes in prices and/or yields. The producer selects a coverage level which can range from 50% to 85% of market revenue. The producer absorbs the initial loss through a deductible (like an excess). For example, a coverage level of 70% has a 30% deductible (totalling 100% of the expected value prior to planting the crop). Policies pay on a loss determined by an insurance company loss adjuster.

Producers pay a portion of the premium which increases as the level of coverage rises. The federal government pays the rest of the premium (62%, on average, in 2014) and covers the cost to insurance companies of selling and servicing the policies. The government also absorbs some of the losses of insurance companies in years when pay outs to farmers are particularly high.

Around 1.2 million policies are purchased annually, providing nearly US$110 billion in insurance coverage. More than 120 commodities are insurable. For major crops, more than three-quarters of the US planted area is insured under this programme. Over time, revenue insurance has displaced yield insurance as the most popular type of insurance policy. Revenue insurance may also be the most appropriate policy for the CAP and/or the UKAP.

The EU has tried to introduce crop insurance into the CAP but with limited success. The 2008 CAP Health Check gave member states the discretion to use up to 10% of their direct payment ceilings to support crop and livestock insurances, but Defra showed little interest in this option at the time.

At the last CAP reform in 2013, the EU moved support for insurance products into the revamped rural development regulation. It also extended the toolbox to include support for mutual funds which set up income stabilisation insurance for their members. Again, the uptake of this measure in the 2014-2020 rural development programmes submitted by Member States was very limited.

In the US, market price variability has led to more frequent pay-outs and thus correspondingly much larger premiums. Administrative costs are high and the cost efficiency of the US insurance programme is poor. It has been estimated that every time an American farmer receives one net dollar through the insurance system, it costs two dollars to the American taxpayer. Unless insurance products are very heavily subsidised as in the US, most farmers would probably continue to prefer to self-insure against market risks, through building up savings in good years and drawing these down in bad years.

Following Eustice's reference to risk management products in recent speeches, it must be assumed that Defra is looking at this insurance options for the UKAP. However, it will be remain to be seen how successful it is with the Treasury in bringing some 'subsidy' into the design.

Trump's election – impact on agriculture

After some jitters in the immediate aftermath of the US election, the situation has calmed and the Dollar has since strengthened to its highest level in over a decade. That said, gold prices have also edged higher. Bond yields and oil prices have increased on the expectation that Trump's economic policies will contribute to inflation. For agriculture, putting all of the campaign hyperbole to one side, Trump's election, presents a number of potential positives for UK farming.

In terms of exchange rates, as most crops are priced in US Dollars, agricultural commodity prices are projected to remain favourable, at least in the short term due to a weaker Sterling. However, as with Brexit, and given Trump's questionable temperament, volatility in the coming months should be anticipated. Much will depend on how well the incoming administration gets to grips with the numerous challenges facing it.

A weaker Sterling-Dollar exchange whilst broadly advantageous to UK farming also presents challenges. Input prices have already been rising, and further prices rises for fuels, fertiliser and crop protection products should be expected.

Longer term, US domestic agricultural policies will have implications for the UK. Trump has been especially vocal in promising reduced regulation, particularly regarding the environment. He has threatened to slash the budget for the US Environmental Protection Agency (EPA) due to its over-regulation. This is likely to result in a more liberal stance on the use of agro-chemicals. Such stances have been popular amongst US farmers, most of whom voted for Trump. Added to this, Trump is supportive of the US Farm Bill and the US biofuels industry. A stronger biofuels industry helps to maintain a floor on corn prices, which in turn, supports grain prices generally. So the initial signs are that there will be a more pro-farmer environment for US agriculture. However, what Trump says and what Trump does could well be two very different things, and it remains to be seen how much extra support farmers will receive.

A tougher stance on migration is likely to affect US farming which relies heavily on migrant labour. This, combined with Trump's promises to invest heavily in labour-intensive infrastructure and building projects, could make access to cheap labour challenging for US farmers. As a result, productivity is likely to be restricted to some degree.

From a trade perspective, several experts believe that the proposed US-EU trade deal (TTIP) will, at best, be stalled but it could also be ditched altogether. Trump has already stated that the US will pull-out of the Trans-Pacific Partnership (TPP) on his first day in office. He has also threatened to pull out of other trade deals, including the North American Free Trade Agreement (NAFTA). That said, the prospect of a bilateral trade deal between the UK and the US, post-Brexit should not be ruled out. Such a deal could create significant opportunities for UK agriculture, especially in the export of high-end dairy and meat produce. On the other hand, it would likely bring increased competition from low-cost US agricultural commodities which would impinge on the UK arable sector.

It remains to be seen which policies the Trump administration will enact and what their eventual effect will be. Much will depend on who becomes Agriculture Secretary and the extent to which this person is pro-trade. There are several names in the running for this position. Overall, a significant degree of uncertainty remains. However, for UK farming, a Trump presidency could well present more opportunities than threats.

Crop Markets

Abstract:

- Global grain and oilseeds production up on last month, dominated by increases in the US, particularly in maize. Consumption not keeping pace.
- Bearish outlook for prices generally but UK is sheltered from much of this due to weaker Sterling, tighter domestic stocks and substantially lower production in neighbouring France.
- Forecasts suggest that while stocks of vegetable oil and protein meal are below those of last year, the increase in oilseeds stock is sufficient to replenish these two components. However, both would still be below 2014/15 levels
- Malaysian palm oil production is showing an erratic recovery following the end of El Niño in May.
- Malaysian palm oil prices are low but full production recovery would create additional downward pressure.
- Support change for soybean in China and Argentina create additional uncertainty.
- Quality survey shows highest proportion (45%) of UK wheat meeting the high quality bread milling specifications (nabim Group 1) for 13 years. UK milled wheat usage also up.
- Potato prices are higher due to lower European supply.
- European sugar beet yields projected up, prices trending lower.

USDA supply and demand forecasts

The latest USDA WASDE forecasts, released on 9th November, are dominated by larger-than-expected increases in US soybeans and maize production which was already at record levels.

In comparison with last year, global grain output has increased by over 92 Mt whilst closing stocks are up by almost 19 Mt with wheat production up by over 9.2 Mt. The US has been a major contributor to this increase (6.7 Mt) but production has also risen in Argentina (by 3.1 Mt), Australia (3.8 Mt), Russia (2.6 Mt) and the Ukraine (4.7 Mt). Wheat consumption has also risen significantly (by 24.9 Mt) with increases in China (5 Mt), India (7.6 Mt) and the EU (3.5 Mt) being significant factors behind this.

On a month-by-month basis, wheat output is up slightly (0.3Mt) on last month and the overall supply and demand picture remains relatively unchanged.

World total grains supply & demand at 9 November 2016 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	2,513.07	393.74	2,455.86	576.97
2015/16	2,456.05	375.66	2,430.34	602.67
2016/17 Oct	2,542.49	397.63	2,525.77	618.33
2016/17 Nov	2,548.16	397.45	2,529.41	621.43

*closing stocks Source: USDA

World wheat supply & demand at 9 November 2016 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	728.26	164.42	705.74	217.20
2015/16	735.48	172.19	711.65	241.03
2016/17 Oct	744.44	174.68	735.73	248.37
2016/17 Nov	744.72	174.23	736.52	249.23

*closing stocks Source: USDA

The most significant increases on last month have emanated from maize (4.9 Mt) and global maize production now stands at a record 1,030.5 Mt. US maize production is projected up by 4.3 Mt to 386.8 Mt with production in Brazil and Argentina remaining relatively stable. That said, Brazilian maize production is still up 16.5 Mt on last year when droughts severely affected output. It is also worth noting that if recent years are anything to go by, the USDA estimates for Latin America have been unreliable. So, major revisions in the lead-up to harvest (Q1 2017) are possible.

World coarse grains supply & demand at 9 November 2016 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	1,306.13	185.74	1,272.00	245.19
2015/16	1,248.46	163.75	1,248.32	245.33
2016/17 Oct	1,314.79	181.73	1,311.88	249.26
2016/17 Nov	1,319.65	182.23	1,314.50	250.47

*closing stocks Source: USDA

Implications for UK prices

All of the above presents a bearish outlook for prices as global production surpasses demand and stocks continue to rise. Both Chicago and London futures markets have trended downwards. From a UK perspective, the recent gains in Sterling against the Dollar, which although slight, have been a factor in this decrease. That said, wheat prices are up £20-25 per tonne versus June and with French production is down significantly (see below) this should present opportunities for the UK, particularly in North Africa, provided it has capacity to serve these markets.

Oilseeds supply and demand

The 2016/17 USDA projections for US soybean production have risen to 118.7 Mt, up by 2.5 Mt on last month. This was the primary driver behind the 2.9 Mt increase in global production which is now projected at 333.2Mt. USDA estimates for Brazil, the second largest producer globally, remain unchanged at 102 Mt. However, estimates from the Brazilian Statistics Institute (IBGE) project production to be slightly higher (103.4 Mt). Forecasts for Brazil are likely to be revised further in the lead-up to harvest. Global oilseeds production is projected at 551.2 Mt, driven primarily by soybeans. Trade is also up 0.5 Mt globally and increased rapeseed exports from the EU have contributed to this. Global rapeseed production is raised to 67.8 Mt, mainly due to projected increases in China.

World oilseeds supply & demand at 9 November 2016 (Mt)

	Output	Trade	Total use	Cl. stocks*
2014/15	536.87	147.05	439.37	93.26
2015/16	522.07	153.17	448.03	88.93
2016/17 Oct	548.10	159.24	463.86	88.13
2016/17 Nov	551.23	159.74	463.56	92.87

*closing stocks Source: USDA

How oilseeds supply and demand influences prices

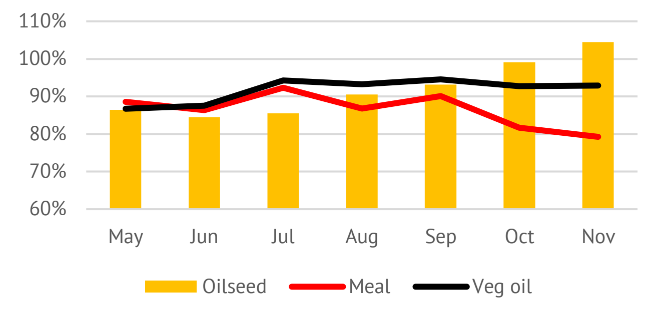
Guest article by Simon Ward, Increment Limited and The Policy Group.

The influence of supply and demand on the price of oilseeds is particularly complex since:

- The vegetable oil and protein components trade in separate markets, with different supply and demand relationships.
- USA and Brazil soybean exports are now approximately equal at around 55 Mt, and together account for over 80% of the soybean trade (and 70% of all oilseed trade).
- Soybean is a short season crop, with Brazil and USA harvests approximately six months apart. This allows planting to respond to changes in price resulting from changes in the other parties' production.
- Most oilseeds can be stored, enabling some buffering of the oil and protein supply. However, demand for either component can increase supply of the other, potentially even if in surplus.
- While soybean is the major traded oilseed, palm oil supplies the largest proportion of traded vegetable oil at 60% of the total.
- Palm oil is perennial and harvested throughout the year, with little scope to store in times of glut.

The USDA forecasts since June shown how the oilseed complex supply and demand has developed over the year:

USDA global oilseed complex stock forecast for 2016/17 as a percentage of current estimate for 2015/16



Source: USDA

The forecast oilseed closing stock levels have shown a steady increase since the first USDA forecast in May 2016. Stocks of oilseeds are now forecast to be above those expected at the end of the 2015/16 marketing year. While the vegetable oil and protein meal stocks are still estimated to be below those of last year, crushing the additional oilseed surplus would comfortably bring meal and vegetable oil stock levels back up to 2015/16 estimated levels. Thus demand appears to be weak.

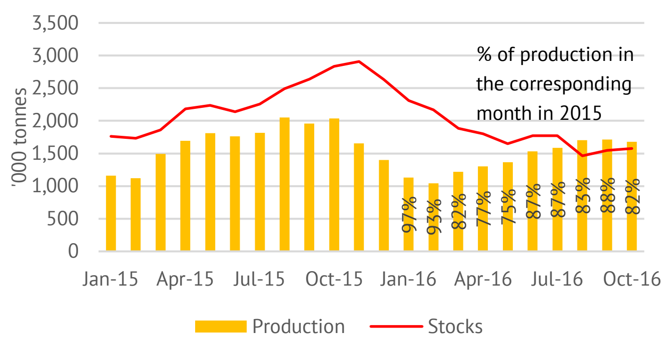
However, oilseed closing stocks, and in particular, vegetable oil and meal stocks are estimated to be well below 2014/15. The USA harvest is barely over (97% complete on 13th November) and there could still be some adjustment to estimated production. US early season prices are higher than had been expected, with soybeans and soybean meal up about 2% compared with the October estimate. More importantly for oilseed rape, vegetable oil prices are expected to be 6% higher than forecast.

Indications are that the change in UK oilseed rape price is almost entirely due to currency movement (i.e. Sterling against the Dollar) and not a significant change in supply and demand. However, supply looked tight in June leading to the small price increase – which was masked in the UK by the strengthening of Sterling as the pre referendum polls suggested that the Remain vote would win the referendum. Subsequent weakening of Sterling and, to a lesser extent, the Euro against the Dollar more than made up for the subsequent higher stock estimates and as demand weakened against supply.

Miscellaneous global influences

It is always worth keeping an eye on palm oil production and stocks. These show a different picture:

Malaysian palm oil production and stocks together with % monthly production 2016 compared with 2015 ('000t, %)



Source: Malaysian Palm Oil Board

Since palm oil is a perennial crop, Malaysia cannot turn the tap off as easily as an oilseed rape or soybean grower. Production occurs all year round but there are seasonal peaks and troughs. Production was hit in 2015/16 by El Niño which ended in May 2016. El Niño is often followed by a La Niña event which can also damage but this is beginning to look unlikely. Production is low and stocks have been absorbed. Some recovery is forecast in 2016/17 but, so far, production is still well below

2015 and the recovery is erratic.

The Malaysian Palm Oil Board considers low fuel oil prices to be a significant factor in the low vegetable oil price. US and EU ethanol inclusion mandates have at least partially decoupled the relationship between biofuel demand and oil price (e.g. US ethanol production was high when fuel oil prices fell). However, palm oil is usually the lowest priced vegetable oil so is more exposed to oil price than other vegetable oils. Malaysia is developing a biodiesel industry and this may increase the linkage.

There are a number of other significant changes. Argentina has announced a deferred the removal of their soybean export taxes until January 2018. The current 30% tax will be reduced by 0.5% per month from then until complete removal in December 2019. The deferral will squeeze global supply by maintain Argentinian stocks, particularly if the Argentine currency is stable, or strengthens, and interest rates are low until the full tariff is removed. Interestingly, the Argentinian government has also introduced some support for producers and it would appear at least possible that the extraordinary level of Argentine soybean stocks, as a percentage of production, will remain.

Countering this, a change in Chinese policy has removed support for maize. This is likely to increase Chinese soybean production reducing demand for soybean imports. China announced plans to increase the soybean area to 9.3 Mha by 2020, from the current 6.5 Mha.

2015 harvest AHDB Cereal Quality (final)

The final results of the AHDB cereal quality survey for GB are now available. A substantial 45% of samples have hit the nabim group 1 specification for high quality bread wheat, the highest in 13 years. The average specific weights for wheat are lower than the past 3 years, although are very consistent across all regions. Protein content is higher than average as is the Hagberg Falling Number (HFN). According to the AHDB, such results may encourage UK millers to use more domestic wheat with early indications suggesting some displacement of imported wheat is taking place.

AHDB 2016 GB Quality Survey (final) – wheat, nabim groups 1 and 2 by region

	Specific weight kg/hl		Hagberg Falling Number		Protein % dry matter	
Nabim group:	**1**	**2**	**1**	**2**	**1**	**2**
South East	77.3	76.4	314	329	13.3	12.6
South West	77.3	76.4	304	317	13.1	12.7
Eastern	77.4	77.2	325	330	13.2	12.6
Midlands	77.8	77.6	319	340	13.2	12.5
North	77.7	78.2	316	343	12.9	12.4
GB Total	77.4	77.0	316	330	13.2	12.6

Source: AHDB

The table below illustrates the range in wheat quality over the past 10 years.

AHDB GB Quality Survey (final) – wheat, nabim groups 1 and 2, results 2007 to 2016

	Specific weight kg/hl		Hagberg Falling Number		Protein % dry matter	
Nabim group:	**1**	**2**	**1**	**2**	**1**	**2**
2016	77.4	77.0	316	330	13.2	12.6
10-year average	77.2	77.1	294	303	12.8	12.3
Highest	79.8	79.9	339	337	13.3	13.0
Highest year	2011	2015	2013	2014	2012	2012
Lowest	70.7	71.3	245	258	12.0	11.5
Lowest year	2012	2012	2012	2008	2008	2008

Source: AHDB

The final barley figures are given below. The grain size is also smaller in barley which suggests that higher volumes may be required by the malting industry. Nitrogen levels, whilst up on 2015 are below average. According to the AHDB, this is partly due to an increased proportion of samples from Scotland and Northern England which are mainly spring-grown for distilling markets, thus requiring lower nitrogen levels.

AHDB GB Barley Quality Survey (final)

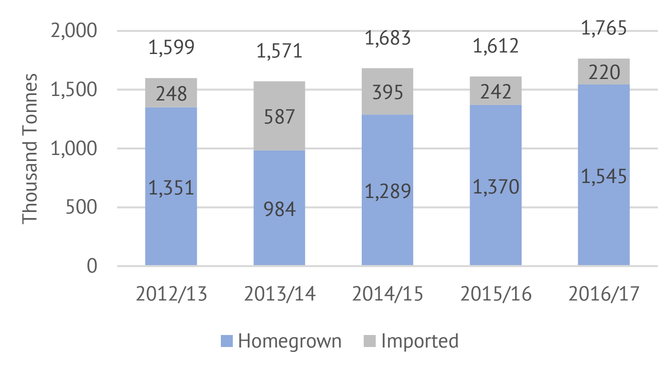
	Specific weight kg/hl		Nitrogen content % dm	
	2015	**2016**	**2015**	**2016**
Venture (winter)	66.7	63.3	1.52	1.53
Pearl (winter)	-	66.0	1.56	1.62
Flagon (winter)	-	62.9	1.71	1.48
Average Winter Barley	**66.7**	**63.9**	**1.55**	**1.57**
Concerto (spring)	65.2	63.8	1.41	1.48
Propino (spring)	67.0	64.7	1.65	1.68
Irina (spring)	-	62.9	1.49	1.67
Average Spring Barley	**66.2**	**64.2**	**1.51**	**1.57**

Source: AHDB

UK milled wheat usage

Latest DEFRA data on UK milled wheat usage (July to September) shows that the milling, starch and bioethanol industries used 1,765 thousand tonnes in the last quarter (July to September), a 9.5% increase versus the same period last year. Home-grown wheat (1,545 thousand tonnes) accounted for 88% of this total. This represents a 13% increase on last year. Imported usage (220 thousand tonnes) was down 9.3%. Over the same period, flour production (1,382 thousand tonnes) was also up 8% on last year. Milled wheat stocks (231,000 tonnes) are down 9% on last year. Increased usage has contributed to a lower cereals stocks generally but also highlights the extent to which wheat quality has improved on last year.

Milled Wheat Usage 2012/13 – 2016/17 (Jul to Sept)

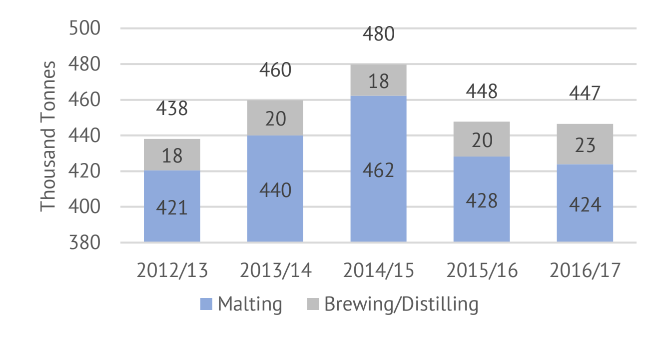


Source: Defra

UK malting barley usage

DEFRA estimates that malting barley usage is down slightly, by 0.3% on last year. This is primarily due a 1% decline in malting usage (424,000 tonnes) whilst brewing and distilling usage (22,600 tonnes) rose by 15%. Milled oats (125,000 tonnes) was down 1.5% on last year.

UK Non-Feed Barley Usage 2012/13 – 2016/17 (Jul to Sept)



Source: Defra

French cereals output down substantially

Latest estimates from France AgriMer show an "unprecedented" decrease in cereals production versus last year with total wheat and barley production (39.7 Mt) lower than last year's soft wheat production alone (40.9 Mt). This decrease is primarily due to adverse weather conditions as the French soft wheat area (5.3 Mha) was up by 1.3% on last year. Average yields are estimated at 5.38 t/ha, 32% down on last year (7.93 t/ha).

French cereals production 2015/16 and 2016/17 (Mt)

Estimates / Forecasts	2015/16	2016/17	Variation
Soft wheat	40.9	28.1	-12.8 (-31%)
Hard wheat	1.8	1.6	-0.2 (-11%)
Total wheat	**42.7**	**29.7**	**-13.0 (-30%)**
Barley	13.0	10.0	-3.0 (-23%)
Wheat and barley	**55.7**	**39.7**	-16.0 (-29%)
Maize	13.1	11.8	-1.3 (-10%)
Total cereals	**71.9**	**54.1**	**-17.8 (-25%)**

Source: France AgriMer, SSP

Unsurprisingly, French exports are severely affected with soft-wheat shipments from French ports to non-EU countries down by 28% for July and August versus last year. Shipments to Algeria (894Kt) are down 44%, with Germany, Poland and Latvia being the primary beneficiaries of this shortfall. Sub-Sahara Africa shipments (477Kt) are 40% lower. Normally, with a lower Sterling, one would expect the UK to be well-positioned to capture some of these markets as the season proceeds. However, the UK's tight supply-demand balance limits this potential somewhat.

Potato supply lower, prices higher

Due to the late harvest, official yield estimates are not yet available from North-West European Potato Growers (NEPG) countries, consisting of the UK, Belgium, France, Germany and the Netherlands. However, previous estimates suggest that total production would be 2% lower than last year. Industry experts believe that further downward reductions to this figure are inevitable. This is despite a 4% increase in the UK planted area to 116,000 Ha according to AHDB Potatoes. Crop area increases are also reported Belgium where processing capacity has grown significantly.

Lower output is positive for UK prices which are up significantly on last year. Added to this, a weaker Sterling means that UK prices are trading at a discount to continental prices. Normally, this situation is reversed.

EU sugar beet yield forecast higher

According to the EU Commission, the 2016/17 sugar beet yield is forecast to average at 73.82 t/ha across the EU. This is up slightly on the September forecast and is almost 2 t/ha higher than the 5-year average (71.83 t/ha). UK yields are projected at 71 t/ha which is comparable to average. Projected yields in Germany (74.9 t/ha) and Spain (97.7 t/ha) are up on previous years. Yields in France, Belgium and the Netherlands are broadly consistent with average. As of 24th November, LIFFE white sugar futures prices stood at \$560.30/t (£448.84/t), approximately 6% lower on last month.

UK Surveys

2017 harvest Early Bird Survey (EBS)

The AHDB has published the results of its Early Bird Survey of planting intentions for the 2017 harvest.

The EBS is the earliest public survey to assess planting and planting intentions for the next harvest that covers Great Britain. It is undertaken by the AICC and The Andersons Centre, and examines rotation changes at farm level on anonymous data covering a quarter of a million hectares of arable land submitted by agronomists. It has been running for a decade now and its track record is enviable for that time of year, but crops covering smaller areas will have fewer hectares in the survey so reliability falls as does the spring cropping figures, being only intentions to plant. That said, they have proven to be a clear guide of planting outcomes.

Wheat area is slightly down on last year, and notably many agronomists are identifying it is being drilled later too. Whilst there is no data to record it, it is thought spring wheat is on the increase. Winter barley is again forecast to be in decline (possibly by as much as 9%) in all areas except the East, but being compensated for by the large increase in spring barley intentions. If the rise in spring barley is as large as the survey suggests, it will represent the second highest spring barley area in the UK since 1987, second only to the extreme year in 2013 following the heavy autumn rainfall. The survey suggests that oat area is in decline this year.

EBS estimate of UK crop areas for harvest 2017, % change from 2016 harvest

	Defra June Survey 2016	EBS forecast harvest 2017	% change
Wheat	1,824	1,799	-1%
Winter barley	438	397	−9%
Spring barley	685	799	+17%
Oats	141	130	-8%
Other cereals	41	44	+7%
OSR	579	557	−4%
Pulses	230	216	-6%
Other crops on arable land*	361	418	+16%
Arable-fallow	251	214	-15%
Total	**4,550**	**4,574**	

Source: Defra /The Andersons Centre
*sugar beet, potatoes, maize, vegetables, roots, other oilseeds

Oilseed rape area is a contentious topic, with many having expected a 10% decline in cropped area, but the survey identifies only a fall of about 4% nationally. This is very regional, with the Eastern regions showing a decline of as much as 30% with other areas actually increasing in area. The area of pulses is seen reducing for 2017 harvest, falling 6%. Over the last few years, the area changes of pulses and oilseed rape have opposed each other and this year, the data suggests this trend is being broken.

The 'other arable' is a catch-all for non-listed arable crops. It is suggesting an increase this year, possibly from higher sugar beet land, a continued rise of maize or possibly forage crops. The survey suggests arable fallow land will fall this year.

Farm business income – harvest 2015

Income figures for English farms collected in the Farm Business Survey (FBS) have been published for the 2015 harvest. (Forecasts for the 2016 harvest year will be published in January 2017.) Farm Business Income (FBI) makes an allowance for all unpaid labour but does not make any adjustment for tenure and aligns closely with the aggregate measure of Total Income from Farming (TIFF). Agricultural diversification income is included.

Overall, average FBI in 2015/16 was lower than in 2014/15 across most main farm types except general cropping, horticulture and grazing livestock farms in the Less Favoured Area (LFA). On cereal farms, lower commodity prices, due to the strong Sterling last year, declining demand and abundant global supplies, drove the fall in incomes. For general cropping, these price falls were mitigated by improved yields and prices for potatoes.

Average Farm Business Income at current prices – England, selected farm types, £/farm, % change 2015–16/2014–15			
Farm type	2014–15	2015–16	% change
Cereals	45,000	35,600	–21%
General cropping	52,000	62,900	+21%
Mixed	21,600	17,900	–17%
Horticulture	31,500	35,100	+11%
All types	39,600	31,400	–21%

Source: Defra Farm Business Survey

Cash income (revenue less total cash costs, i.e. excluding imputed costs and depreciation) provides a better indication of the short-term income position – see table below.

Average cash income – England, selected farm types, % change 2015–16/2014–15				
Farm type	2013–14	2014–15	2015-16	% change
Cereals	87,200	76,800	75,600	–2%
General cropping	102,200	101,800	105,800	+4%
Mixed	58,500	45,800	48,800	+6%
Horticulture	48,200	49,100	50,300	+2%
All types	67,200	65,700	65,700	–6%

Source: Defra Farm Business Survey

For general cropping especially, these final figures for harvest 2015 were substantially different from the forecasts published at the beginning of the year (see below). The higher final results are attributed to higher than expected yields and the aforementioned higher prices for potatoes.

Farm Business Income in England 2015–16 compared to income forecast (£/farm)			
	Jan 2016 forecast	Oct 2016 out-turn	% difference
Cereals	34,000	35,600	+5%
General cropping	43,000	62,900	+46%

Source: Defra Farm Business Survey

Composition of farm income

Data on the composition of farm income have also been published. The breakdowns show how dependent farms, especially livestock, are on non-agricultural income (including diversification) where average incomes are lower than the Single Payment.

Farm Business Income 2015–16 by cost centre for selected farm types in England (£/farm)					
		General		Lowland	
	Cereals	cropping	Dairy	grazing	All types
Agriculture	-16,900	100	12,700	-10,900	-5,500
Agri-environment etc.	6,000	8,400	3,700	4,200	5,500
Diversification	15,600	17,600	5,500	5,800	10,300
Single Payment	30,900	36,700	20,300	12,900	21,100
Farm business income	35,600	62,900	42,300	12,000	31,400
Single Payment %	87%	58%	48%	108%	67%

Source: Defra Farm Business Survey

BPS and Policy

English payment rates set

The RPA has set the payment rates for the 2016 BPS. These are shown below, along with the 2015 and 2014 (SPS) rates for comparison.

BPS payments before financial discipline (€/ha)			
	Non-SDA	SDA	Moorland
Basic	175.27	174.01	45.97
Greening	77.71	77.15	20.39
Total 2016	252.98	251.16	66.36
2015	248.02	246.24	65.06
2014 (SPS)	251.39	201.32	35.26

Source: DEFRA (RPA)

The exchange rate for converting these payments into Sterling was confirmed at the start of October – based on average £/€ rates during September. The other element in calculating payments is financial discipline (FD). This is a deduction on any payments above €2,000 to ensure the BPS remains within budget and also to fund the EU's 'crisis reserve' to deal with market disruption. The funds deducted through FD, or part of them, can be paid back as a rebate in the autumn of following year if they are not required.

BPS exchange rate and financial discipline rates			
	Exchange rate	FD deduction	FD rebate
2016	0.85228	1.353905%	?
2015	0.73129	1.393041%	1.3%
2014 (SPS)	0.77730	1.302214%	2.4099%

Source: Defra (RPA)

All this means that it is possible to calculate the payments English claimants will receive from the start of December.

BPS payments based on a 300 Ha farm (£/ha)			
	Non-SDA	SDA	Moorland
2016	212.77	211.24	55.87
2015	178.92	177.63	46.77
2014 (SPS)	192.23	154.52	27.12

Source: InsideTrack

Accountable People

The RPA has confirmed that the requirement for claimants to provide details of all 'Accountable People' has been dropped completely for the 2016 BPS. Previously, the RPA had planned to stipulate that payment would not be made until 'Accountable People ' details had been supplied. It has now confirmed that Accountable People details will not be required before 2016 BPS payments are made. It is not clear whether the provision will be enacted for 2017 claims.

Online land and entitlements transfers

The RPA has also confirmed that the functionality to carry out online land transfers for BPS 2017 claims should be available from late January 2017 (together with the ability to edit the Land Use table). However, the ability to transfer entitlements remains unavailable until mid-February. For those wishing to make transfers, it is probably better to wait until this functionality is available where possible as paper RLE1 forms are unlikely to be processed until after May 15th deadline. Although the 'Entitlements' section is currently not available online, whilst it is being 'revamped', it is still possible to view a business' entitlement position through the 'Business Summary' page located from the 'Business Overview' page. Users can 'Generate' and 'Download' a summary which includes the number of entitlements the RPA has registered to the business, plus an overview of each land parcel.

RDPE: value for money projects only

The Treasury continues to 'normalise' the functioning of the Rural Development schemes following the suspension of project approvals in July as a result of the Referendum. It has been a gradual process: In August, the Chancellor guaranteed funds for projects signed up until the Autumn Statement, and last month the Chancellor extended this guarantee to the point at which the UK departs the EU.

This guarantee offered by Philip Hammond on 3rd October confirmed that EU funding for structural and investment fund projects, including agri-environment schemes, signed after the Autumn Statement would continue after Brexit. This means that while the UK is an EU member, farm and rural businesses are *nearly* guaranteed EU funding.

It is only *nearly* because there is a caveat: Funding for projects will only be honoured by the government if they meet the following conditions:

- they are good value for money
- they are in line with domestic strategic priorities

At the same time, the Treasury confirmed that the current level of agricultural funding under CAP pillar 1 will be upheld until 2020 as part of the transition to new domestic arrangements.

The Chief Secretary to the Treasury, David Gauke, has since written to Defra to confirm these arrangements. The RPA, in turn, has written to Local Enterprise Partnerships (LEPs) and LEADER groups (LAGs) earlier this month to clarify that the administering authorities for these schemes can:

- Proceed with processing applications and agreeing contracts without reference to the previously-announced Autumn Statement deadline.
- Resume publicising the scheme and continue to accept new applications where calls are already open.
- Issue new calls in line with their stated local plans, and receive and process applications arising from these calls in the normal way.
- Agree applications arising from open or new calls.

However, where administering authorities consider that there is a risk that expenditure under individual projects will arise after 30th September 2018, they have to refer the application to their local Defra/RPA team to ensure that the projects meet the new conditions relating to value for money and fit with national priorities. Defra claims it is working closely with the Treasury to establish the precise meaning of these new conditions and how they will apply to all RDPE schemes. Once this is received, the RPA regional teams will communicate it to LAGs and LEPs. In the meantime, LAGs/LEPs have been told to give priority to applications that will create jobs and generate economic growth.

Defra is seeking a further steer from Ministers on the focus of RDPE funding going forward and will confirm whether there will be any further adjustments.

Pesticides

Combatting blackgrass resistance

Beating blackgrass resistance was highlighted as one of the key challenges facing scientists by Professor Rob Edwards (Newcastle University) at a recent keynote address on "The Changing Face of Crop Protection" given at Easton & Oatley College as part of Agri-Tech week. He stated that agriculture could learn a lot from healthcare with respect to crop protection by thinking in terms of 'prevention' rather than 'cure'. This involves preventing contaminated equipment spreading the blackgrass problem elsewhere. However, the key to success in his view is to beat the resistance mechanism and he outlined research that Newcastle University has been involved in that has isolated the protein (AmGSTF1) that is present in all resistant populations of blackgrass. Furthermore, they have also identified a chemical that can be applied dry with herbicides which initial research has shown can knock down resistance. Whilst this is not all of the issue, Professor Edwards believes that it is a big part of the eventual solution.

Several challenges remain however. Most notably, the chemical used (a failed hair dye) is quite toxic and the regulatory process will be challenging. Added to this, given that blackgrass is chiefly a UK problem and hence a relatively small market, there is some reluctance amongst ag-chemical companies to invest vast sums to conduct research into this area. This is particularly pertinent given the likely challenges that UK organisations will face in terms of accessing future EU funding. That said, it is noteworthy that the BBSRC has been active in funding research on blackgrass.

There were also calls during the event for the UK to have an 'Ag Champion' similar to Dr. Jim O'Neill in the health sector as there are big problems around pesticide resistance and agriculture is in danger of not getting its voice heard in the higher echelons of government. *Inside***Track** believes that such a champion could play a useful role and that there is also a great opportunity for government to show its commitment to agriculture, post-EU referendum, by devoting adequate research funding to address a challenge that is in the UK's national interest to overcome.

EFSA study on pesticide residues in food

According to a European Food Safety Authority (EFSA) study, published in late October, 97% of food samples collected in the EU are free of pesticides or contain residues that are within legal limits. This study analysed almost 83,000 food samples, recorded in 2014, from across the EU, Iceland and Norway.

Of the 97% that were within legal limits, 53.6% were free of quantifiable residues and 43.4% contained residues that were within legal limits. An estimated 1.6% of samples originating in the EU/EEA contained residues exceeding the legal limits whilst the corresponding figure for third countries was 6.5%. Organic products were also included in the study and 98.8% of such samples were either residue-free or within permitted limits. In terms of baby food samples, 91.8% contained no quantifiable residues.

The EFSA also assessed whether current dietary exposure to pesticide residues presents a risk to health from both a long-term (chronic) and short-term (acute) perspective. In both cases it concluded that exposure is unlikely to pose a threat to human health.

The report also published findings from the UK portion of the study and found that of the 3,615 samples tested, 68 (1.9%) contained samples above the maximum residue limit (MRL). Such samples mainly consisted of fruit and vegetables including beans in pods (both speciality and non-speciality varieties), okra and pre-prepared food. High incidences of *benzalkonium chloride* (BAC) and *didecyldimethylammonium chloride* (DDAC) residues over the statutory MRL of 0.01 were noted in pre-packed salad leaves.

The report also made a number of recommendations including:

- Reducing analysis of animal products and shifting the monitoring focus to animal feed e.g. soya bean, rapeseed and barley
- Including mandatory analysis of glyphosate in the above crops
- Extending the scope of the monitoring programme to include small fruits, berries and tea which frequently contain residues
- Improving communication of changes to permitted residue levels to importers from outside the EU.

As with previous years, these findings again illustrate that the risks associated with pesticides in food are relatively low and some of the most significant challenges involve imports from outside the EU. That said, it is unlikely to detract advocates of a hazard-based regulatory system that currently carries favour across Europe.

For further information on this report, click here.

In Brief...

Key dates for coming weeks

Key dates* for Cross Compliance and ELS – main options

Rule/ option	ELS edn.**	Date	Action
GAEC 2		30 Nov	If you have a two-part tariff agreement for your water abstraction licence, expect to receive your second part charge after this date.
SMR 8		1 Dec	Carry out annual inventory of sheep
EF8/AB4	All	31 Dec	Creation of skylark plots to be completed by this date.
CAP		1 Jan	Beginning of fallow period for EFA (until 30 June)
SMR 1		1 Jan	You may apply organic manure with a high readily available N content to grassland and tillage land on shallow or sandy soils from this date (until 31 August - grass/31 July - tillage). Restricted amounts until end February.
SMR 1		1 Jan	Beginning of year for assessing annual amount of livestock manure applied to land
EB3/BE3	2013	1 Jan	For one management option you may cut hedgerows from this date (until 28 February).

*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

Latest edition (83rd) of ABC book

The latest edition of the Agricultural Budgeting and Costing Book, which is updated every 6 months, is now available. It costs £47. See www.abcbooks.co.uk

EU glyphosate assessment 2017

The EU's Chemicals Agency (ECHA) plans to table its scientific assessment by summer 2017. This will have a major influence on whether glyphosate approval, which was extended by 18 months in July, will receive a new license at EU-level.

Paris climate agreement takes effect

This agreement officially entered into force this month and has also been ratified by the UK Parliament. It commits countries to take action to keep temperature rises below 2°C above pre-industrial levels and strive for greenhouse gas emissions to fall to net zero during this century. The NFU has been prominent in highlighting the efforts being made by UK farming to reduce emissions during the 'COP22' talks in Marrakech. However, frustration was expressed regarding the lack of progress towards implementing the targets set. Whilst further initiatives to reduce agricultural emissions should be expected, a Trump presidency could scupper potential progress in the years ahead.

Release of GM wheat for R&D purposes

Rothamsted Research has applied to DEFRA for consent to perform a deliberate release of GM wheat for R&D purposes. DEFRA is inviting representations (by 21st December) on any risks to the environment that could be potentially caused. Further information is available by clicking here.

Consultations relevant to arable sector

Consultations announced

Description	Department & deadline
Nitrate vulnerable zones in Wales consultations.gov.wales/consultations/nitrate-vulnerable-zones-wales	Welsh Government 23 Dec 2016
Improving air quality: reducing emissions from medium combustion plants and generators https://www.gov.uk/government/consultations/improving-air-quality-reducing-emissions-from-medium-combustion-plants-and-generators	DEFRA 8 February 2017
HS2 Crewe to Manchester, West Midlands to Leeds: Route Refinement Consultation 2016 https://www.gov.uk/government/consultations/hs2-crewe-to-manchester-west-midlands-to-leeds-route-refinement-consultation-2016	High Speed Two (HS2) Ltd 9 March 2017
HS2 Crewe to Manchester, West Midlands to Leeds: Property Consultation 2016 https://www.gov.uk/government/consultations/hs2-crewe-to-manchester-west-midlands-to-leeds-property-consultation-2016	High Speed Two (HS2) Ltd 9 March 2017
Groceries Code Adjudicator: extending its remit https://www.gov.uk/government/consultations/groceries-code-adjudicator-extending-its-remit	Department for Business Energy & Industrial Strategy and Groceries Code Adjudicator 10 January 2017
Groceries Code Adjudicator: statutory review https://www.gov.uk/government/consultations/groceries-code-adjudicator-statutory-review	
Improving transparency in land ownership in Scotland: a consultation on controlling interests in land https://consult.scotland.gov.uk/land-reform-and-tenancy-unit/controlling-interests/consult_view	Scottish Government 5 December 2016

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