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Finance, Politics and Brexit

Abstract:

• Budget to have limited direct impact on arable farming, but economic outlook is downgraded.
• Sources suggest that the PM will make a financial offer ahead of the EU summit (14-15th December) which it is hoped will unblock the jam in the 'first phase' of the Brexit negotiations. The figure is thought to be £40bn.
• The EU wants the UK to pay its share (12.5%) of the outstanding liabilities that it committed to when joining the EU and when agreeing to the current long-term budget (the MFF, or multi-annual financial framework, 2014-2020). This could be as high as £70bn.
• One way of softening the blow might be to maintain the UK's EU membership through a transition period which lasts through the MFF period. Options for the 'implementation (transition) period' are discussed but could include the UK staying in the CAP after March 2019.
• Another 'free-market' think tank promotes the New Zealand model for post-Brexit UK agricultural policy without appreciating the differences between its sparse population and the densely populated, highly-regulated UK.

The Budget

Little of direct impact on arable farming as economic performance sags.

The Chancellor, Philip Hamond, delivered his first autumn Budget on the 22nd November. There was little in the way of excitement, constrained as he was between a deteriorating economic situation and a still significant budget deficit. However, the Chancellor did try and pull some policy rabbits out of the hat, with his most eye-catching measure being the removal of Stamp-Duty for some first-time buyers.

The background to the speech was a sharp cut in the forecasts for UK economic growth from the Office of Budget Responsibility (OBR). Previously it was thought the UK economy would expand by 2% in 2017. This has now been cut to 1.5%. For the coming four years the forecasts are now 1.4%, 1.3%, 1.5% and 1.6% - well below the 2% average growth seen in recent years. Part of the reason for the downgrade is uncertainty over Brexit. However, just as important is the continued low productivity of the UK economy.

Some of the other main policy measures announced include;

• The removal of ***Stamp Duty*** for first time buyers on the first £300,000 of houses costing up to £500,000.

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• Under ***Income Tax***, the Personal Allowance (PA) will increase to £11,850 and the Higher Rate Threshold (HRT) to £46,350, in line with inflation. The Government has reaffirmed its commitment to raising the PA to £12,500 and the HRT to £50,000 by 2020. The lifetime allowance for pensions will rise to £1,030,000 for 2018-19.
• The ***National Living Wage***, for those over 25, will rise to £7.83 per hour (currently £7.50) from April 2018 - an increase of 4.4%. ***National Minimum Wage*** rates will also increase from April 2018. From £7.05 to £7.38 for 21 to 24 year olds, £5.60 to £5.90 for 18 to 20 year olds, £4.05 to £4.20 for 16 and 17 year olds and the Apprentice rate rises from £3.50 to £3.70.
• Despite much pre-Budget speculation, the threshold for ***VAT*** will remain at £85,000.
• ***Business Rate*** rises will now be calculated using the CPI inflation measure rather than RPI - likely to make increases around 1% lower on average.
• Various measures were announced to boost ***house-building*** and meet the Government's target of 300,000 new houses per year.
• The Government has set aside an additional £3bn of funding for ***Brexit*** preparation including the possibility of a 'no deal' Brexit. This is to cover the cost of setting up new systems for immigration, customs etc.

Government to move on money

The Prime Minister is to make a financial offer on the eve of the EU Summit of 14-15th December, according to media sources. The Brexit "war cabinet" committee met on 20th November to discuss the offer, thought to be in the region of £40bn, which it is hoped will unblock the jam in the 'first phase' of the UK/EU Brexit negotiations.

Once the first phase has made 'sufficient progress', negotiations on the future trade relationship, including any transitional arrangements, will start. The agricultural sector will then have more clues about the likely trading relationship between the UK and EU (and non-EU countries) – so vitally important for the future of farming.

If a deal on the divorce bill is not done at the December Summit, policy officials and corporate big wigs on both sides of the channel are expected to accelerate their contingency plans for a 'no-deal' Brexit. These include planning for 'miles of queues' at ports and budgeting for more computers, parking spaces, customs officials, and lawyers to cope with the UK crashing out of the EU Single Market.

How much does the EU want?

The EU presented its position on the financial settlement in a paper published in June 2017, in which it lists Member States' financial commitments and proposes a methodology to calculate the UK's share of these liabilities.

The EU argues that the financial settlement should include payment for the UK's share of the EU budget as well as the UK's share of costs of running EU bodies (for example the European Investment Band, the European Central Bank or the European Development Fund). Generally, the EU expects the UK to pay for the Budget commitments according to its share of financing the EU budget (taking account of the UK rebate) which is approximately 12.5%.

Specifically, there are 5 lines of EU budget that the UK is committed to contributing to:

1. Outstanding budgetary commitments or 'RAL' (*Reste à Liquider*). These have been authorised in past EU annual budgets but not paid out by the time of Brexit. This is referred to by the French acronym, RAL, and amounted to €238.3 billion at the end of 2016/17. Assuming the RAL increases at the end of the MFF, this implies that at least €29.7 billion could be payable by the UK at the time of withdrawal from the EU.

2. Financial programming for the period between the withdrawal date and the end of the MFF. The EU also wants the UK to contribute to the payment of EU spending obligations in the 2014-2020 multi-annual multilateral financial framework (MFF) which is long term spending not yet committed in an annual EU budget.

The Government can be expected to push back against this bill, arguing that if the relevant items are not included in annual budgets, they can be amended and need not be spent. The European Parliament's report on the 'possible impact of Brexit on the EU budget' estimates this bill to be approximately €37.2 billion.

3. EU liabilities which are not balanced by corresponding assets such as pensions and other employee benefits, payables or financial liabilities. In 2016, liabilities from pensions and other employee benefits amounted to €63.8 billion overall (British share: €7.9 billion) and payables amounted to €40 billion (British share: €5 billion).

4. Contingent liabilities are potential liabilities that may or may not fall due depending on the outcome of an uncertain event in the future. The EU is asking for a lump-sum payment upfront to cover them in case they materialise in the future, and to reimburse the UK over time if they do not. The UK will argue that it could share the costs from contingent liabilities as and when they arise in future.

5. Specific costs related to the withdrawal process such as the costs of moving EU agencies located in the UK.

The Commission's initial position has toughened in recent months, supported by various Member States, and it is thought that the total ask for all these items could be in the region of €80bn (£70bn plus). This needs to be compared with the annual shortfall of €10.2 billion in the EU budget and €3bn in the CAP when the UK leaves. These gaps can be filled either through higher national contributions, spending cuts, or a combination of both. But the higher the divorce bill paid by the UK, the less will be the pressure on the EU budget.

An alternative approach to soften the blow may be an 'ad hoc' continuation of the UK contributions during the current MFF through a two-year UK-EU transitional agreement, involving the payment of UK net contributions in 2019 and 2020, which could remove the bulk of the outstanding commitments under item 2 above.

Transition: in or out of the CAP?

There are a number of 'models' for the future long-term trade relationship between the UK and the EU27. These include the 'Canada', 'Turkey', 'Ukraine', 'Swiss' and 'Norway' models. The UK government seems to have ruled out the Canada, Turkey and Norway models, but it has not defined where it might like to end up between the Ukraine and Swiss models. The EU27 is unlikely to make the Swiss model available because of its complexity, according to a European Parliament report on 'Possible Transitional Relationships related to Agriculture'. The Ukraine model is implemented through an Association Agreement with the EU.

Even if the UK and the EU27 were to conclude an agreement on the withdrawal conditions and on the nature of their future relationship by 29th March 2019, the agricultural industry could still face a 'cliff-edge' situation because of the lack of preparedness of customs administrations and other relevant authorities on both sides to manage border controls; the lack of knowledge on the part of the large number of new businesses that will face the need to seek customs clearance for their exports and imports; and the almost certain congestion at major ports of entry and exit because of the extra time required for these controls.

The more likely situation is that both parties will not conclude a deal on their future relationship in time. In the absence of a trade agreement, tariffs would be re-imposed on bilateral UK-EU27 trade. The tariffs applicable to UK exports would be those in the EU's Common External Tariff (CET). The tariffs that the UK may apply to EU exports are not yet known, but the farming industry must hope that they are at comparable levels to the EU's – e.g. the CET level (rather than at a lower level, which would depress UK farmgate prices).

Customs clearance costs would be an additional cost for firms exporting or importing from the UK. These costs would be increased for certain agricultural and food products because of the need for additional border checks to ensure compliance with EU27 food safety, plant and animal health regulations. Additionally, in the absence of an agreement covering road transport services, hauliers travelling between the UK and EU27 could face additional costs because of the need to secure licences with individual Member States.

So, we need a transition whether a deal is done or not. Both parties have indicated a willingness to consider a transition period. The options for the Government, in declining order of 'softness', are to:

1. **Remain a Member State of the EU for a further time-limited period**, either by including a withdrawal date later than 29th March 2019 in the withdrawal agreement or by unanimously agreeing to extend the Article 50 deadline for the negotiations.
2. **Agree to a temporary Customs Union with the EU** and follows the relevant Union rules and regulations (*acquis)* as a Non-Member State for a time-limited period after 29th March 2019. However, negotiating a complete - if temporary - trade agreement, at the same time as negotiating a withdrawal agreement and the framework for their future relations, will be virtually impossible in the time available.
3. **Seek temporary membership of EFTA and the EEA**. The main argument for this solution is that the EEA is an already existing 'off the shelf' trade agreement with non-EU countries and thus should be relatively quick to establish. *However, existing EFTA Member States are unlikely to be keen on the UK joining its organisation on a temporary basis as it would cause some upheaval for them.*
4. **Establish a tariffs-only FTA,** with the aim that both sides would continue to discuss how to deepen and extend that FTA in the future.

Whichever transition option is followed, consideration will have to be given as to whether the UK remains in the CAP and whether the protection of Geographical Indications will continue to be recognised. This would be the case for option 1 above, but poses difficulties in terms of the other options.

New Zealand model 'opportunity'

A market orientated post-Brexit agricultural policy, as followed in New Zealand and Australia, should be followed to allow the UK to benefit from global free trade, according to the think-tank Chatham House.

Its report on 'the implications of Brexit for agricultural reform', looked at four policy options:

1. Sector protection as in Japan, Norway and Switzerland
2. Decoupled subsidies as in the EU
3. Insurance as in the US
4. Market orientation as in New Zealand and Australia

The report finds that there is a strong case for liberalizing the agricultural sector due to lower prices for consumers, ensured food security through diversified trade, and a rise in the sector's productivity. These benefits "*outweigh those of preserving any particular farming system*" although it is not clear which 'particular farming system' the author thinks have been preserved by the CAP.

The report points out that consecutive UK governments have accepted and argued this case in the EU. However, "*vested interests, often in the receipt of subsidies*," have so far resisted change. *The report does not believe that the current global outlook of potentially lower prices, climate change and higher disease risk alters the claimed benefits, but it does accept the need for other policy shifts to ensure that public goods are delivered and that negative externalities such as pollution are dealt with.*

The report states that agricultural spending should be reduced and refocused on R&D, on incentives to manage the environment better, mitigate climate change and build resilience to disease and climate shocks.

It will mean that some farm businesses will fold, or substantially change, but it believes that these costs to the economy 'can be exaggerated'. This is because jobs that are lost will move to other sectors: the report gives the example of the manufacturing sector, which has typically shed 100,000 jobs per year. Any jobs lost that fall onto the social support system can be paid for from the savings made by the reduction in agricultural subsidies, according to the author. He recommends that the Government takes note of the risk of residual unemployment and that it proactively addresses the costs of transition costs. But it warns that "*The political challenge of implementing such reform should not be underestimated*."

Crop Markets

Abstract:

• Global production up slightly, trade showing stronger growth.
• UK wheat exports are significantly lower than last year. Barley output has risen with animal feed absorbing the extra volumes.
• UK grain prices gradually trending down, although malting premiums are strong for product meeting specifications.
• Oilseeds trade is also slower due to strong supplies, weakened demand and a gradually strengthening Sterling.
• Agriculture received limited attention during Chinese Communist Party Congress with more focus on the environment which could affect UK inputs industries, including pesticides.
• Russia looks set to continue posting grain production records which will mean more competition in animal feed sector.
• Potato growers are philosophical about 'barn busting' harvest, as contracts will save many growers from significant losses.

USDA WASDE forecast update

USDA world production forecasts for November show a relatively slight (1.38Mt) increase on last month. In previous months, revisions have been much higher. There has been a noticeable increase in trade, up 2.76Mt on October. Exports from the US being a significant contributor to this primarily due to recent sales of hard red winter wheat to Iraq. Exports from Russia are also up due to an abundant crop (see below).

Consumption is projected up by 0.45Mt on last month but remains around 3.6Mt lower than last year. Stocks are 0.66Mt lower on last month on foot of increased trade and output. In comparison with 2016/17, they are 17Mt lower but are still at relatively high levels when the 5-year average is considered.

Total global grains supply & demand at 9 November 2017 (Mt)				
	Output	Trade	Total use	Cl. stocks*
2015/16	2,467.97	376.49	2,434.40	625.98
2016/17	2,605.76	430.93	2,576.41	655.34
2017/18 Oct forecast	2,554.34	409.98	2,572.35	638.91
2017/18 Nov forecast	2,555.72	412.74	2,572.80	638.25

*closing stocks Source: USDA

Global wheat production is revised up by 0.79Mt, primarily due to a 1Mt increase in Russia, whilst EU production is also up by 0.5Mt. Pakistani output is projected down by 0.5Mt whilst Australian exports are lowered by a similar amount. Global usage is forecast up by 0.42Mt. On the face of it, rising consumption and decreasing supplies should exert a positive influence on prices, but as mentioned above, stocks remain at near record levels and increased competition from Russian wheat. A recovery in French production will signify a more competitive environment for British wheat exports in the coming months.

Wheat supply & demand at 9 November 2017 (Mt)				
	Output	Trade	Total use	Cl. stocks*
2015/16	735.26	172.84	711.66	241.36
2016/17	753.89	182.86	739.63	255.61
2017/18 Oct forecast	751.19	180.04	739.63	268.13
2017/18 Nov forecast	751.98	180.68	740.05	267.53

*closing stocks Source: USDA

Currently, the focus of the oilseeds sector is on South America as soybean plantings are taking place. At a global level, USDA projections suggest a 1.83Mt increase in output. Brazil is a major driver of this with a projected 1Mt increase due to higher planted areas in Parana and Rio Grande do Sul. US soybean production is down due to lower yields whilst sunflower output is also forecast down in Argentina, South Africa and Ukraine. Argentina has a particularly influential role on oilseed market movements at this time of year and earlier on in November, wet weather had been restricting planting progress. Latest indications are that planting has recovered and is now at the same levels of progress as last year.

Oilseeds consumption is projected up by 1.06Mt, partly driven by increased soybean imports from China. Global prices are up as a result with soybean meal prices for instance up by approximately $5/t. On the face of it this is positive for UK OSR producers, especially as imports of Australian rapeseed into the EU are likely to be lower this year. However, it must be balanced against increased pressure from Argentinian biodiesel imports which now benefit from reduced import duties into the EU. This is expected to have a stronger influence in Southern Europe, but is likely to affect OSR demand in Northern Europe as well.

World oilseeds supply & demand at 9 November 2017 (Mt)				
	Output	Trade	Total use	Cl. stocks*
2015/16	521.45	153.20	446.12	90.98
2016/17	572.95	171.03	469.41	108.54
2017/18 Oct forecast	576.99	173.91	488.09	107.90
2017/18 Nov forecast	578.82	175.81	489.15	109.32

*closing stocks Source: USDA

UK grain, oilseeds and pulses update

It takes HMRC two months to collate and publish data that captures the trade of goods from or to UK shores. Thus, the official trade statistics seldom make a major impact on market values when they are published as they generally come as no surprise to those trading serious quantities of grain. Yet, we can tell from them, that the wheat exports from the UK are substantially lower than last year.

The crop size is 800,000 tonnes larger than last year, but the stocks carried over into this year are a million tonnes lower. Furthermore, we should take note that overall consumption of wheat in the UK has been rising steadily since 1991 and has taken another surge in the recent 6 years, meaning that the UK should now consider itself a net importer of all-wheat. Surpluses still need to be exported mind, and because much of what we import is high protein hard wheat (so could be considered a separate commodity to our home-produced wheat), so a slow export campaign might still prove bearish on prices if enough is not shipped. DEFRA has published its first balance sheet table this month for the 2017/2018 marketing campaign, showing a smaller export surplus than last year (by 300,000 tonnes) at 1.16 million tonnes.

The total barley crop is three quarters of a million tonnes larger than the previous year, but that is largely because last year's crop was quite small. Consumption of barley by the animal feed industry is seen rising so the export surplus is in fact smaller than last year. This seems to be holding true from the grain consumption statistics June to September 2017, showing a rise of barley in retailed feed by 42%.

The news of an early closure of the Ensus bioethanol factory pushed the wheat (and barley) market down this month. Grain prices are not moving violently this season, but are gradually drifting in the wrong direction for long-holders. The slow rise of the pound has contributed to this. However, the malting premium continues to surprise, with levels quoted at over £30 per tonne in some regions for the right specification.

Oilseed prices have been influenced by weather, trade and currencies this month. The generally good soybean growing weather in South America has played a bearish card on the entire oilseed price matrix. Slow global trade of oilseeds has played another, with US sales down on the year, and the Indians (who consume vast amounts of vegetable oils), have imposed an import tax on palm oil. Whilst this is a different oil, it still affects the entire price matrix. Thirdly, as mentioned with cereals above, the start of the resurgence of sterling is losing value for oils priced in pounds.

Demand for pulses is slow and almost closed until 2018 now. Those still holding pulses should be aware that come the New Year, Australia will enter the market with large tonnages of largely clean beans. That might affect our export opportunities.

Exports to China

Last month, the Chinese Communist Party held its five-yearly congress which is seen by many as a key indicator of the country's growth and development plans in the years ahead. President Xi Jinping's speech was closely followed across the world, although his marathon three-hour speech generated 66 transcribed pages, which would test the attention span of even his most avid followers.

Agriculture was covered, although not in as much detail as one might expect, although it was noted that Chinese grain production now surpassed 600Mt. Food security was also highlighted as was the need to continue to exercise control over food supply. President Xi also emphasised the need to speed-up the modernisation of agriculture, a theme introduced during the previous 5-year plan where upskilling the labour force, improving efficiency and productivity were identified as priorities.

Environmental issues received a lot of attention throughout the speech. There was a clear step-change in emphasis towards *stronger environmental governance to tackle pollution and climate change. From a crop protection perspective, this is already having an influence because China produces around 80% of the active ingredients and its clampdown on factories that cause pollution is having an effect on supply, demand and prices.*

From a UK perspective, given the development that continues to take place in China including the growth of the middle class and the emergence of the interior regions, there will be opportunities to grow exports. However, China should not be regarded as a panacea, as gaining a foothold in this market takes time and effort from all stakeholders, including a commitment from the highest levels of Government.

Accordingly, UK agriculture and particularly the arable sector needs to carefully consider how it can realistically exploit opportunities in China whilst taking account of the infrastructural developments taking place in Asia, including the reinvigoration of the Old Silk Route from East to West which might place countries such as Russia and the Ukraine in a more advantageous position as regards exports.

The UK's arable exports to China are minimal. Instead, exports of meat and dairy products dominate and within this offal products play a critical role. Taking pigmeat for instance, offal exports (£50 million) represent just under half of total exports (£103 million) and it is a similar situation for other meat categories. Given the dominance of meat and dairy exports, the UK arable sector (i.e. animal feed companies) should examine how it can work more closely with the livestock sector so that their competitive position in export markets such as China is further improved. Examples could include plant variety selection for better nutrition, feed conversion and reduced waste thus enhancing the quality and efficiency of UK livestock.

Targeting opportunities in this way might end up adding significantly more value without having to incur resource and time costs which are a necessity when establishing a foothold in China.

UK agricultural exports to China and Hong Kong (2016)

Product category	Exports (£M)	% of Sub-Total
Cereals & milling products	2.19	0.8%
Oilseeds	0.37	0.1%
Beef	21.73	8.3%
Sheepmeat	6.92	2.6%
Pigmeat	103.47	39.5%
Poultry	17.70	6.7%
Dairy	109.89	41.9%
Sub-Total selected products	**262.7**	

Source: HMRC analysed by *Inside***Track**

Enigmatic Russia continues to set records

Guest article by Brendan Dunleavy, Russia and Ukraine expert

At the outset of World War II, Winston Churchill observed that *"Russia is an enigma, wrapped in a puzzle, enclosed in a maze. But there is a key: That key is Russia's national interest."* He could just as easily have been speaking about Russia today, particularly as far as its agricultural and food markets are concerned.

As recently as five years ago, Russia was still importing the vast bulk of the country's food & agricultural commodity requirements. However, next year (2018), Russia looks set to produce a record grain crop for the fifth year in-a-row. Precisely how Russian farmers can reach this target on a national wheat yield that tends to be in the region of 3 tonnes per hectare, is a puzzle for many.

That said, farming in Russia is a very high-risk and unprofitable occupation. Climate extremes mean a very short growing season in most regions. Specifically, over most of the country, soil temperatures do not support agricultural seed germination and plant growth until mid-May to early June.

Current reports suggest that the country is again on-track to surpass last year's record grain harvest. Total wheat area is projected to be 25.2 million hectares with 12 million hectares of this being winter wheat. In autumn 2017, Russian grain crop sowings were estimated projected to produce up to 130 million tonnes from the 2017/2018 crop. That is well above this year's (2016/17) record harvest of 114.2 million tonnes. Wheat is forecast to account for 80Mt of this total, a 10% increase on this year's harvest (72.5Mt). However, it needs to be emphasised that statistics which estimate Russian grain production have frequently been unreliable and there is a cultural tendency to overestimate.

That said, on the above basis, Russia is expected to have 41.8Mt of grain available to export next year, a new record. This will be well up from the 2017 Russian grain export of 36.2Mt. Feed wheat accounts for almost 77% of total grain exports.

Russian grain exports are boosted by four main factors:

1. low Russian land prices & land rental rates
2. weakness of Russian Rouble
3. low farm management & labour rates
4. low prices & applications of fertilisers & agrochemicals

These factors combine to ensure that Russia's has the lowest costs of producing grains in the world; the current cost of Russian grain production is as low $80 per tonne. This extraordinarily low cost of production is likely to hold for many years to come. It will also continue to put enormous pressure on American, Canadian, British, and other European grain producers, particularly in animal feed markets.

'Barn busting' potato crop lowers prices

The 2017 potato harvest has proved to be a 'barn buster,' with yields averaging 50 t/ha and some crops achieving more than 70 t/ha. Finding potato boxes and storage was a challenge for many growers and those with vulnerable crops will be keen to move them as quickly as possible. This abundance has lowered free-buy market prices, with many packing prices averaging less than £90/t and some processing material at less than £30/t.

The high proportion of crops sold on contract and the extra yield will save many growers from making large losses this season, but most growers will be happy if they break-even, although a few with high quality potatoes of certain varieties could see a reasonable return. After two years of strong prices, most growers will be philosophical that a low-priced season is an inevitable part of the potato cycle that sees large crops and low prices one year and reduced output and higher prices another.

The AHDB has yet to formally announce a GB harvest estimate, but it could be above 6Mt for the first time since 2011. Large crops are also being reported in other key European potato countries. France is reporting a record crop of 6.2Mt and Belgium a record 5.1Mt. Surpluses in those countries have driven processing potato prices down to €25/t or even less for vulnerable crops that growers are keen to move.

Surveys and Reports

Abstract:

- Long-term crop area trends show that whilst wheat has risen strongly in since the 1970s, barley appears to be staging a recovery due to more spring cropping.
- UK oilseed rape area projected up by 7% on last year with several GB regions posting growth in excess of 10%.
- New research suggests that for every £1 spent by UK food consumers on food there is a further £1 in hidden costs due to pollution, unhealthy diets etc. which taxpayers pick up the tab for.

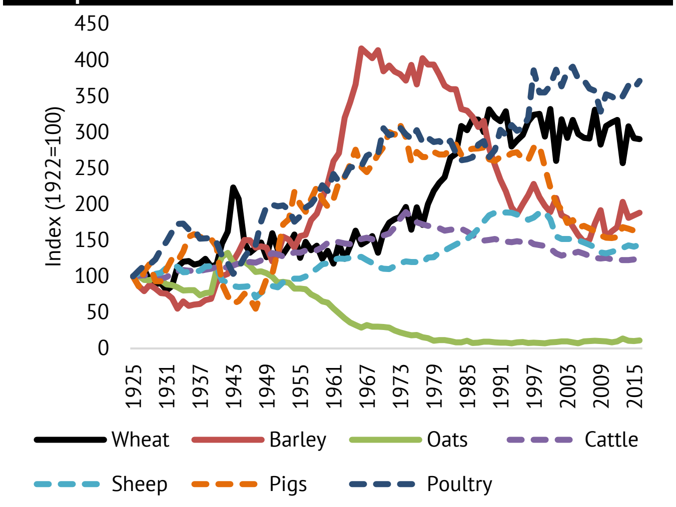
Structure of UK agriculture

DEFRA recently released its annual statistics on the structure of the agricultural industry. Some of the data (e.g. crop areas) were examined in last month's edition. The dataset also contains historic statistics for the UK going back over 90 years.

The indexed chart below depicts crop area and livestock numbers trends going back to 1925, long before CAP and the Agriculture Act of 1949 for that matter. Whilst it must be noted that the dataset ignores productivity in the sense that yield and carcase weight are not considered, the results are still informative.

Wheat has increased three-fold over this period, assisted by the development of winter cropping, yield improvements and the UK's membership of the EU which made exports to the continent more attainable. In contrast, the fortunes of oats have plummeted, going from 1.26 million ha in 1922 to 140,000 ha in 2016. The rise of wheat and the boom in barley production from the 1950s to the 1970s were the key reasons for this as oats could not compete with the yield improvements in other cereal crops. Barley's decline from the 1970's was partly due to the emergence of winter cropping. There are signs that it could be staging a recovery as spring cropping has grown in favour in recent years due to disease issues and bad weather.

UK crop area and livestock number trends since 1925



Source: DEFRA

The livestock trends are also educational and confirm the strong growth in poultry numbers in the past century. Whilst poultry numbers appear to have stagnated since the 1990s, yields have continued to improve so overall production has still trended upwards. Poultry growth contrasts with stagnation of sheep and cattle, with the latter appearing to have suffered since 1973 which heralded the removal of deficiency payments and increased competition from Europe. Pig numbers declined significantly since the late 1990s, but now appear to have plateaued at around 4.8 million pigs per annum.

The next 10 years are likely to see some of the most significant change that the UK has seen for several decades. What is apparent for the above chart is that if the UK pursues a cheap food policy similar to the 1920s, then crop and livestock numbers will fall substantially. A more protectionist policy similar to the 1950s and 60s will have positives for some sectors, although export-dependent industries such as sheep meat would still suffer.

For the arable sector, it points towards the need to have a more tightly-knit supply-chain, where feed producers are closely integrated with poultry units for example so that both segments are as competitive and productive as possible, and waste is minimised. Although the world population is projected to increase to 9 billion in 2050, that is no guarantee of a boom for agriculture. Looking back over the past 30 years, populations have increase from 5 billion in 1985 to 7.2 billion today. In that time, agriculture has experienced several periods of depressed prices. With volatility, there is no evidence that this will change any time soon.

Further information is available via:

https://www.gov.uk/government/statistical-data-sets/structure-of-the-agricultural-industry-in-england-and-the-uk-at-june

OSR planted area projected up

United Oilseeds' projections suggest that the UK OSR planted rea has risen by just over 7% on the previous year, from 563,000 Ha in 2016 to 602,783 Ha in 2017. The findings were based on its own customer survey and indicate increases surpassing 10% in four regions as shown below. Plantings in Eastern England were also up by 9.6%, with no region reporting a decline.

The findings reveal a recovery in planted area which suffered in recent years due to the ban on neonicotinoids. Chris Baldwin, Managing Director of United Oilseeds, stated that this recovery "shows that farmers have come back to oilseed rape as a break crop, following a year which saw some growers having to cope with elevated disease pressure and a lacklustre market."

United Oilseeds is predicting that UK OSR production will reach 2.11Mt in 2018, based on a 3.5t/ha yield, this would be 3% lower than 2017. However, they also pointed out that should yield reach 2017 levels (3.87t/ha), then production would be higher (in the region of 2.33Mt).

United Oilseeds also reported a 14.4% increase in bagged seed sales this year with Django, a new conventional variety, being a strong seller. Conventional seed sales are estimated to be 10.9% higher on last year, hybrid sales are 7.7% higher.

GB OSR planted area for 2017/18 (ha)

	2016/17 (DEFRA)	2017/18 (United Oilseeds)	% ch.
North East	22,000	22,596	+2.71%
North West	5,000	5,000	+0.00%
Yorkshire	75,000	83,707	+11.61%
East Midlands	143,000	143,614	+0.43%
West Midlands	49,000	49,088	+0.18%
East of England	100,000	109,610	+9.61%
South East	80,000	90,136	+12.67%
South West	50,000	55,390	+10.78%
Wales	3,000	3,000	+0.00%
Scotland	36,000	40,640	+12.89%
Total	**563,000**	**602,783**	**+7.07%**

Source: Defra and United Oilseeds; data is provisional

United Oilseeds also shared results from its pools marketing, with members of its Carte Blanche Pool receiving circa £340/t ex-farm in 2016/17, with some growers receiving £375/t when additional premiums and bonuses were included. Oil content also appears to be up slightly on last year based on tonnages moved up to 1st November.

Hidden costs of UK food

New research from the Sustainable Food Trust estimates that for each £1 spent on food by UK food consumers in the shops another £1 is incurred in hidden costs within the food system – a tab which is primarily picked up by taxpayers.

The study published on 21st November estimates that UK consumers spend around £120 billion annually on food, but the additional £120 billion in hidden costs is around 30 times higher than previous estimates. It is claimed that the damaging impacts of intensive production methods including environmental pollution, soil degradation, biodiversity loss and some health impacts account for 50% of these extra costs. Food-related healthcare costs, linked with poor diets account for an extra 37%.

Farm subsidies were surprisingly low, estimated at 2.5% of the extra hidden costs. The authors advise that support to farmers should continue post-Brexit, but funds need to be directed towards incentivising more sustainable production methods.

The report also argues that by failing to account for these hidden costs, the UK food economy has created perverse incentives within the food system. It claims that food businesses minimise their expenditure by passing on the cost burden of environmentally damaging practices to public sector, funded by taxpayers.

This report recommends that the government should introduce taxes on the most harmful aspects of intensive agriculture, such as the use of nitrogen fertiliser. It is claimed that this would provide revenue to the state, and that this could be used to pay farmers to adopt food production approaches which have positive rather than negative impacts, such as practices to increase soil carbon sequestration.

This report is useful because it quantifies the 'external' costs of food production i.e. those which are not included in retail prices. Such costs are not confined to food. Other sectors such as oil and gas have similar issues. Its call for being able to cost all externalities (both positive and negative) so that different systems or methods can be comprehensively compared sounds sensible.

The report is available via: http://sustainablefoodtrust.org/wp-content/uploads/2013/04/HCOF-Report-online-version.pdf

CAP & Rural Dev.

English Payment Rates 2017

An improvement of 7% over last year's values.

The RPA has set the payment rates for the 2017 BPS. These are shown below, along with the 2016 and 2015 rates for comparison.

BPS payments before financial discipline (€/ha)

	Non-SDA	SDA	Moorland
Basic	180.46	178.90	49.63
Greening	77.69	76.92	21.32
Total 2017	258.15	255.82	70.95
2016	252.98	251.16	66.36
2015	248.02	246.24	65.06

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*
2017	*0.8947*	*1.388419%*	*?*
2016	*0.85228*	*1.353905%*	*1.368%*
2015	*0.73129*	*1.393041%*	*1.3%*

Source: DEFRA RPA)

All this means that it is possible to calculate the payments English claimants will receive from the start of December. These are 7% higher than the payment levels under the 2016 BPS and a sizeable 27% higher than two years ago.

BPS payments

	Non-SDA	SDA	Moorland
2017	227.76	225.70	62.60
2016	212.69	211.16	55.79
2015	178.85	177.57	46.92

Source: InsideTrack

RPA Communication

The announcement of the 2017 payment rates formed part of a wider communication from the RPA. The document, 'An Update on the Basic Payment' can be found at - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/659111/An_update_on_the_Basic_Payment_Scheme.pdf. In addition to the payment rates it covers the following points;

• ***Payment timing***. The payment window opens, as always, on the 1st December. The RPA only commits to make payments 'as soon as it can' with no specific targets. It highlights that the usual categories of commons, cross-border claims and those who have been inspected, will probably be paid later. *Despite the lack of formal targets, the RPA will almost certainly be trying to beat last year's performance of paying 91% of claimants by the end of December.*

• ***Greening.*** A reminder of the rule changes for 2018 (covered in previous editions of Inside Track).

• ***Cross-compliance.*** The full cross-compliance guidance for 2018 is to be published 'soon'. The update simply highlights some issues around rule changes or checking of the rules on NVZ, Soils and Cattle & Sheep ID.

• ***BPS 2018.*** The document provides some pointers ahead of the 2018 claim year. This includes checking maps online to ensure any changes made as part of the Proactive Land Change Detection (PLCD) process are correct (see previous Editions).

The BPS Blog is also back. This can be found at https://ruralpayments.blog.gov.uk/. It aims to provide hints and tips on the application process for the BPS, and immediate updates on any rule changes.

Grants update

DEFRA appears to be continuing with its push to get as much money allocated from RDPE funds before we leave the EU. Since the last edition of *Inside***Track** it has announced an extension to the deadline for applications to the Growth Programme and new funding for the Countryside Productivity Scheme.

Applicants now have until 31st May 2018 to submit Expressions of Interest under the Growth Programme; previously 31st

January 2018. The Growth Programme provides funding for projects in England which create jobs and help grow the rural economy. The funding is delivered through Local Enterprise Partnerships (LEPS) who have developed local strategies and priorities. There are 39 LEPs in England. Funding is available in three areas; Business Development, Food Processing and Rural Tourism Infrastructure. More information can be found on the Government website at https://www.gov.uk/government/publications/rdpe-growth-programme

In addition, an extra £40m has now been committed to the Countryside Productivity Scheme (CPS) for farmers in England to improve productivity and add value to their farm produce. This funding stream was already open for forestry and water management projects, but has now been extended further. Examples of the type of productivity investments that will be funded under the CPS are;

- robotic equipment and systems to aid production including robotic harvesters
- equipment to increase the use of renewable energy produced on farm (but not equipment for energy generation). Includes heat distribution systems and battery storage for renewables
- LED lighting for crop production
- slurry and digestate management equipment

Grants of 40% are available, with the minimum grant level being £35,000 and the maximum £1m under the productivity strand. It had been hoped that this second 'release' of funding under the CPS would have been targeted towards smaller scale projects. It seems a bit of a missed opportunity to have set the minimum grant level so high. The scheme will continue to only be available for large scale projects but those interested in smaller schemes should look towards LEADER grants.

Funding for processing to add value is available for most farm produce including milk, eggs, meat grain, fruit and vegetables. Applicants for these grants have to submit an Expression of Interest (EOI) before being selected for a full application. The deadline to submit EOI is 29th June 2018. Under the Productivity strand, there is a single-stage application process with a deadline of 3rd December 2018. For more details see - https://www.gov.uk/guidance/countryside-productivity-scheme

Environment

New agency proposed

Michael Gove sets out plans for an environmental watchdog.

The DEFRA Secretary, Michael Gove, has announced that a new independent body for environmental standards will be set up. The European Commission has been the ultimate arbiter of environmental compliance, including holding the Government to account for its performance. Following Brexit, this will no longer be the case, and a new body is required. This will also act as an advisor to the Government on environmental matters. A consultation on the 'scope and powers' of the independent body will be launched early next year. EU policy is based on core principles such as polluter pays and sustainable development. The consultation will also look into the content of a new policy statement to ensure these environmental principles underpin future policy making in the UK.

Climate change and agriculture at COP23

Agriculture is in focus at the climate change (COP23) negotiations which recently took place in Bonn. In what some see as a breakthrough, negotiators have agreed to new future negotiation processes to "jointly address" a number of agricultural topics which have proved problematic in recent years.

These consist of a Subsidiary Body for Science and Technological Advice (SBSTA) and the Subsidiary Body for Implementation (SBI) to jointly review complex agricultural issues via workshops and technical expert meetings. Previously, technical discussions taking place within these bodies had proceeded separately.

It is now anticipated that this joint process will be used to more effectively examine an array of agricultural issues including soil health, soil carbon, water management and nutrient management – issues which have attracted significant attention in the UK recently. These issues will be examined at a global scale and the findings will be reported back in three years at COP26, with the aim of giving countries much clearer knowledge and guidance on how they should tackle challenges.

Through this joint process, commentators believe that all parties have now reached a level of trust and common understanding regarding each others' views, which should enable them to work successfully together in the future.

Progress such as this is to be welcomed but the parties are not proceeding quickly enough to tackle the immense challenges which lay ahead. Implementation needs to start happening now and not to wait for three more years for another report.

EU organic areas

On 16th November, Eurostat reported on organic land area across the EU. It shows that in 2016 there were 12 million hectares certified or under conversion to organic which represents around 6.7% of the EU's total utilised agricultural area (UAA). This is an increase of almost 2 million hectares on 2012.

Organic uptake varies widely across Member States and is most prevalent in Austria where 21% of the land is farmed organically. Estonia, Czech Republic, Latvia and Finland also have strong penetration of organic.

The data show that organic farming is not strongly developed in the UK where 2.8% of the UAA, or 490,000 ha, is organic. Unsurprisingly, organic farming is much stronger in Germany where uptake (6.8% of UAA) is just above the EU average (6.7%).

How organic farming will fare within a future UK agricultural policy framework remains to be seen. Minister Gove is certainly keen on promoting the environment but as with so many other issues at present, trade policy will have a major influence.

Further information is available via: http://ec.europa.eu/eurostat/fr/web/products-eurostat-news/-/DDN-20171116-1?inheritRedirect=true&redirect=%2Feurostat%2Ffr%2Fhome

Crop Protection

Glyphosate

Yet again, Member States have failed to reach a majority decision on Glyphosate and the future of the key herbicide remains in the balance. On 9th November, EU Member States, meeting within the Standing Committee on Plant Animal Food and Feed (SCOPAFF), failed to either approve or reject the latest proposal for a five-year licence. Fourteen countries, including the UK, backed the proposal. But nine Member States voted against, including the heavyweights France and Italy. Both Germany and Poland abstained. Therefore, neither side achieved the necessary qualified majority. With the authorisation for Glyphosate in Europe due to expire on the 15th December, the question is where do we go from here? Time is getting very short, but the Commission has said that it is determined Member States should make the decision. Having failed to reach a majority in the Standing Committee, the decision may be referred to the EU Appeals Committee, or the EU Commission may come back with a three-year authorisation proposal to try and gain the approval of countries such as France and Germany.

Further concerns on neonicotinoids

There is further concern over the future of neonicotinoids (neonics). In 2013 the EU restricted the use of three neonicotinoids, Clothianidin, Imidacloprid and Thiamethoxam on a range of mainly flowering plants, such as OSR following a possible link between these pesticides and the decline in bees. Earlier in 2017, the Commission proposed further restrictions which would mean these pesticides could only be used on plants which spend their entire life cycle in permanent greenhouses.

The Environment Secretary, Michael Gove, has now said the UK supports these further restrictions on the use of neonicotinoid pesticides. This announcement comes after the UK government's advisory body on pesticides (The UK Expert Committee on Pesticides (ECP) said scientific evidence now suggests that the environmental risks posed by neonicotinoids are greater than previously thought.

The proposals are expected to be debated by EU Member States in the Standing Committee on Plant Animal Food and Feed at its meeting on the 12th and 13th December. If there is sufficient support, then the Commission may put the proposals to the vote. With Germany and France already looking like they will be in favour of extending the ban to cover all crops, the decision by the UK to join them will add further weight to the proposals being agreed.

If the proposals are adopted the UK would be able to consider emergency authorisations but has said it would only do so in 'exceptional circumstances' where there is a real need for the products and the risk to bees and other pollinators is 'sufficiently' low.

Data

Spray prices – selected products

On-Farm Spray Prices - w/c 20th November 2017

Active Ingredient (AI)	Example Brand(s)	Pack Size (L; KG)	Price (£/pack)	Price (£/L)
Cereals - General Herbicides				
Diflufenican	Hurricane	1	21.00	21.00
Flufenacet + diflufenican	Liberator	5	285.00	57.00
Flufenacet + Pendimethalin	Crystal	10	121.00	12.10
Mesosulfuron iodosulfuron	Atlantis; Pacifica	2	185.00	92.50
MCPA		10	36.00	3.60
Cereals - Insecticides/Molluscicides				
Ferric Phosphate	Sluxx, Ironmax Pro	20	60.00	3.00
OSR - Herbicides				
Metazachlor	Butisan S	5	59.50	11.90
Propyzamide	Kerb	5	80.00	16.00
Clomazone (<60g/l)	Metric, Linzone	5	101.00	20.20
Potatoes - Herbicides				
Diquat	Retro / Generic	10	61.00	6.10
General Sprays				
Glyphosate	Roundup	20	40.00	2.00

Spray prices refer to on-farm spot trade (ex. VAT) quoted across the Midlands, East Anglia and South East of England and do not include additional service costs (e.g. field walking etc.). Example brands are given for reference purposes only, alternative brands also available.

Fertiliser prices – selected products

On-Farm Fertiliser Prices – w/c 20th November 2017

Fertiliser Type (all prices in £/tonne)	This month	Last month
Compound Fertilisers		
00:24:24	263	251
20:10:10	255	242
Straights and Others		
34.5% N (UK)	235	234
Urea – 46%N	276	285
Ammonium Sulphate and Ammonium Nitrate (granular) (27%N:30%Sulphur)	250	240
Triple Superphosphate (46%P)	285	265
Muriate of Potash (60%K)	260	262

Prices are based on delivery during December 2017 / January 2018

Crop prices

Futures prices (per tonne)	Latest (23/11)	Last month (27/10)	Last year
Feed wheat (London – Nov '18) (£)	£143.75	£147.00	£137.80
Feed wheat (London – Nov '19) (£)	£144.40	£147.20	N/A
Milling wheat (Paris – Dec'17 (€))	€158.25	€161.75	€174.50
Milling wheat (Paris – Sep'18 (€))	€169.75	€173.75	€179.25
Oilseed rape (Paris – Nov'18 (€))	€363.50	€368.50	€370.50
Oilseed rape (Paris – Nov'19 (€))	€365.25	€373.25	N/A

Source: AHDB

Exchange rates

Daily Rates	Present (24/11/17)	Last month (w/e 27/10/17)	12 months ago (w/e 25/11/16)
Euro vs Sterling	£0.8912	£0.8863	£0.8518
Sterling vs Euro	€1.1221	€1.1282	€1.1740
Sterling vs Dollar	$1.3327	$1.3093	$1.2435
Dollar vs Sterling	£0.7504	£0.7637	£0.8042

Source: European Central Bank (ECB)

Annual average Euro value to date €1 = £0.83258

Interest (Base) Rates - %

Geographic Area	Present (22/10)	Last month (21/09)	Last year
UK	0.50	0.25	0.25
EU	0.0	0.0	0.0
US	1.25	1.25	0.5

Sources: Bank of England, ECB, US Federal Reserve

Inflation Rates - %*

Geographic Area	Latest (Oct '17)	Prev. month (Sept '17)	Last year (Nov 2016)
UK	3.0	3.0	1.2
EU	1.7	1.8	0.6
US	2.0	2.2	1.7

* Based on Consumer Price Index (CPI) Source: OECD

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 and goats
EF8	All	31 Dec	Creation of skylark plots to be completed by this date.
CAP		1 Jan	Beginning of BPS year (until 31 December)
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	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
Sources: RPA and Natural England

UK cereals usage is up again

DEFRA estimates that homegrown wheat used for milling, starch and bioethanol production was 1.56Mt from June to September, a 1.6% increase on last year. When imported volumes are also considered (0.24Mt), the total volume used is up by 2.7%. Usage of barley and wheat by brewers, maltsters and distillers is up by 4.3% and 19% respectively over the same period. Further information is available via: https://www.gov.uk/government/statistics/cereal-usage

Agricultural policy's role in soil health

The Institute for European Environmental Policy published a briefing paper examining the role of agricultural policy in soil protection and how soil could be linked to land-use related climate goals. It includes a range of recommendations on how both agricultural and rural development policy could be leveraged to promote soil health. The briefing paper is accessible via:
https://ieep.eu/uploads/articles/attachments/abb8da81-78e4-48d4-b4f6-0944bd63ea87/iSQAPER%20Joining%20the%20Dots_briefing%20paper_FINAL.pdf?v=63677188318

Latest edition (85th) of ABC book

The latest edition of the Agricultural Budgeting and Costing Book, which is updated every 6 months, is now available. It costs £48+VAT. See www.abcbooks.co.uk

Consultations relevant to arable sector

Consultations announced

Description	Department & deadline
Code of practice for the welfare of laying hens and code of practice for the welfare of meat and breeding chickens https://consultations.gov.wales/consultations/code-practice-welfare-laying-hens-and-code-practice-welfare-meat-and-breeding-chickens	Welsh Government 12 February 2018

Consultations reported or Government responses

Description	Department & deadline
Water abstraction licensing: changes to exemptions in England and Wales https://www.gov.uk/government/consultations/water-abstraction-licensing-changes-to-exemptions-in-england-and-wales	DEFRA
Water industry: strategic policy statement to Ofwat 2017 https://www.gov.uk/government/consultations/water-industry-strategic-policy-statement-to-ofwat-2017	DEFRA

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