THE ANDERSONS CENTRE Farming In Focus

A monthly briefing for UK farmers - April 2018

- The UK could be operating its own Domestic Agricultural Policy as early as the 2020 year. This is one of the implications of the draft Brexit ***'transition deal'*** agreed by the UK and EU on the 19th March. The transition period (or 'implementation period' as the UK Government likes to refer to it as), will last for 21 months until 31st December 2020. During this period the UK will have no say in setting the rules of the EU, but will have to abide by them – including any new legislation. But in terms of farm support, there appears to be a specific opt-out from the normal requirement that the UK follows all EU rules and regulations during the transition. The text states that '[the BPS] shall not apply in the United Kingdom for claim year 2020'. *The opt-out only appears to refer to the BPS. Therefore, it seems possible that other parts of the CAP such as market support and Rural Development could still apply in 2020.*

- Welsh Cabinet Secretary for Energy, Planning and Rural Affairs, Lesley Griffiths, has announced five 'core principles' to underpin future agricultural policy in Wales:
  - ***Keeping land managers on the land*** – seen as pivotal to maintaining communities and the rural economy
  - ***Food production*** – remains 'vital'; future policy gives the chance to advance an already thriving food and drink industry, there is no need to choose between food production and public goods. Targeted support will be available for sustainable and economic production to help Welsh farmers compete in a global market place.
  - ***Delivering public goods for all the people of Wales*** – the Welsh landscapes is key to the Welsh brand, vital for food and tourism
  - ***Land managers must have access to support*** – farmers must be able to continue to make a living from the land, but there will be no 'automatic payment' and they will be asked to do 'different things' in return for support. *This seems to suggest that direct payments will be removed. This is the first clear indication that Wales might follow the lead of DEFRA in this respect.*
  - ***The delivery of support will need to be changed*** – it is recognised that current support, provided by the Basic Payment Scheme, needs to be changed to ensure the agricultural sector can be 'prosperous and resilient' post Brexit.

- The ***2018 BPS*** application window is now open. All the guidance for England can be found on Gov.UK at https://www.gov.uk/guidance/bps-2018 For applicants in Wales guidance can be found at https://beta.gov.wales/rural-grants-payments Contact your TAC consultant in good time if you require help with your 2018 application. The deadline is the usual May 15th.

- Global ***arable markets*** firmed overall during March. Latest International Grain Council (IGC) figures show a small fall in wheat stocks, not large enough to affect markets, but the reduction in maize could serve to tighten all grain markets. Favourable conditions could lead to another large Black Sea crop which could exert pressure on European prices post-harvest. UK prices have also firmed a little; domestic wheat was already uncompetitive on export markets, but a shift in currency has made this even more so and with current prices, imports are more likely. An upturn in bioethanol production is keeping domestic demand strong. The weather is delaying spring drilling, but is unlikely to affect markets for 2018 yet.

- In a significant boost to the ***dairy industry***, Arla has announced it will not be cutting its conventional co-op milk price in April. In fact, due to the April-to-June 'currency smoothing' mechanism the April price will actually increase by 0.32ppl. Commentators believe Arla's next price movement will be upwards. *As Arla is usually a 'trend setter' this should mean fewer (if any) price cuts for May.*

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Farming In Focus

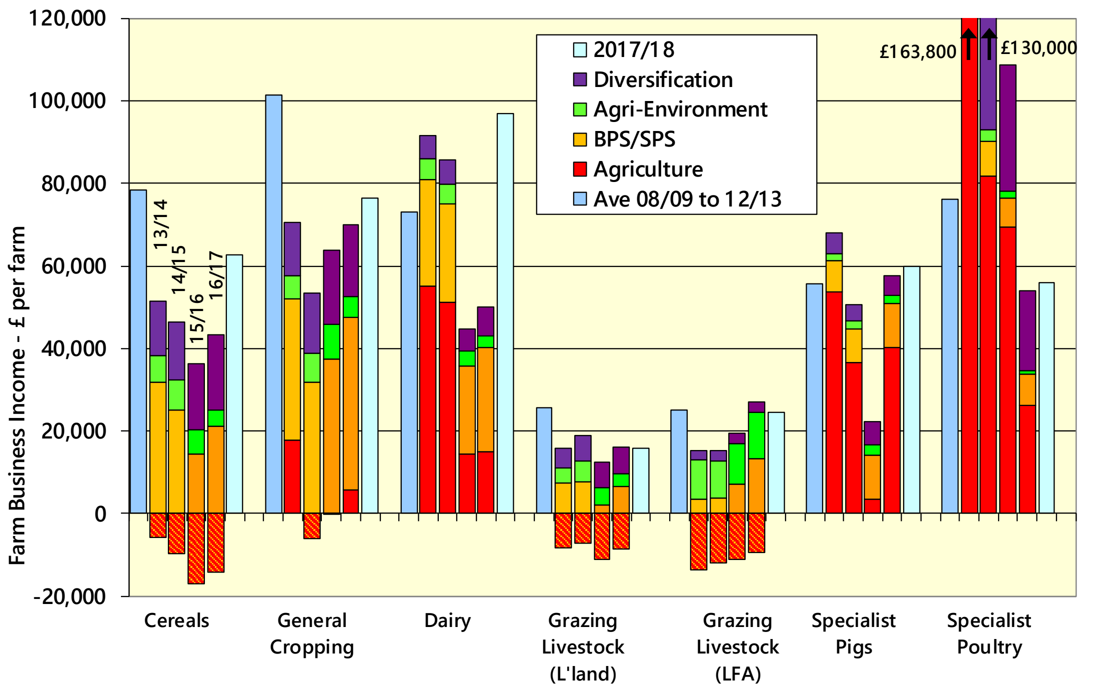
Spotlight on Farm Incomes

DEFRA has released its provisional forecasts for Farm Business Income (FBI) for the 2017/18 year which show profitability across almost all farm types in England rose in the past year. The figures are for the year ending Feb/March 2018 and include the 2017 harvest and Basic Payment. Although titled 'income', what the series shows is profit at the farm level. The current figures are initial estimates, and will be updated in October, but the overall trends are clear. The fall in the value of the Pound has once again supported the increase in FBI. Not only did it make domestic commodities more competitive, leading to price rises for most, it also meant the 2017 Basic Payment was in the region of 6% better than in 2016 for all sectors.

The largest increase is in the dairy sector, where an increase in milk price and production is expected to see average incomes nearly double compared to 2016/17, to £99,000. The average farmgate milk price, in the UK, was about 27% higher in the period March 2017 to January 2018, compared to the previous year. Input costs are also expected to be higher. These are driven by higher feed costs, due to an increase in consumption and stronger cereal prices. Higher machinery running costs and straw values are also expected to have increased input costs.

The other farm type which is expected to show a significant improvement, is cereals. Better prices and yields for cereals and oilseed rape means average cereals farm income is expected to rise by 48% to £64,000; the highest value since 2012/13. Input cost increases have largely been only at the level of inflation, although machinery depreciation and fuel costs are expected to have seen higher increases. Specialist pig and poultry producers are both expected to see a modest 5% increase compared to year earlier levels to £61,000 and £57,000 respectively.

FARM BUSINESS INCOME (ENGLAND), *REAL TERMS 2016/17 Prices* **–** Source: Farm Business Survey



Even so, as the chart illustrates, not all sectors saw an increase. Both grazing livestock categories have seen small declines and from low baselines. Lowland grazing livestock farms are forecast to be similar to last year as firmer cattle and sheep prices are offset by higher input costs, mainly feed. Average income on LFA grazing livestock farms is expected to decline by about 8% to £25,000. *The chart above splits returns into four 'profit centres' for the previous four years. This split of data is not yet available for 2017/18.*

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