ANDERSONS Seminars 2021

Prospects for UK Agriculture

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Contents

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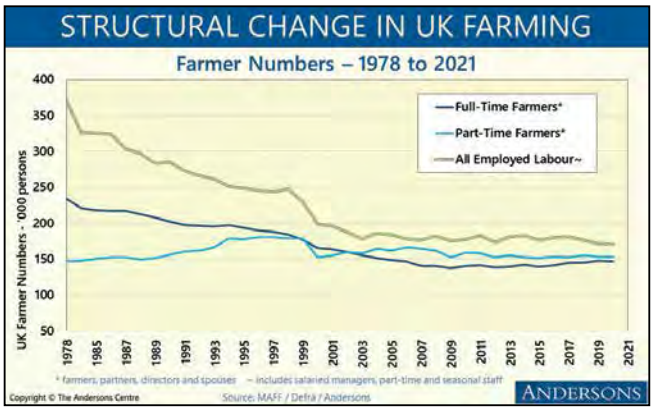
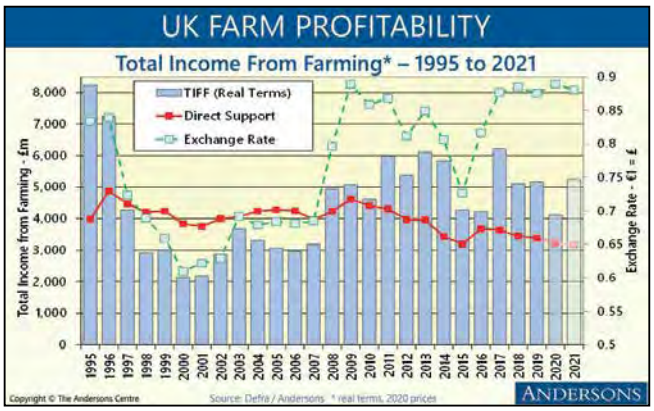
PROSPECTS FOR UK AGRICULTURE

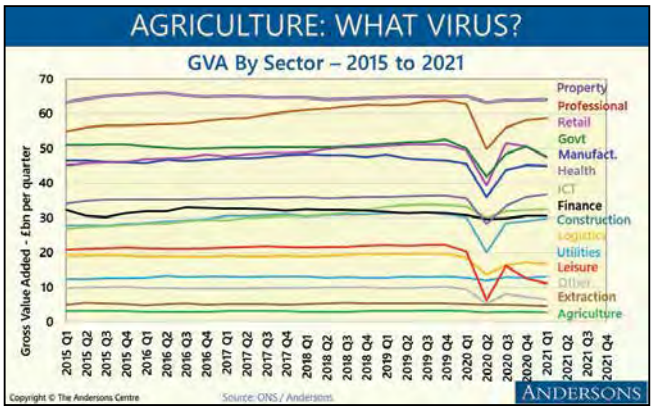
FARM PROFITABILITY AND PERFORMANCE



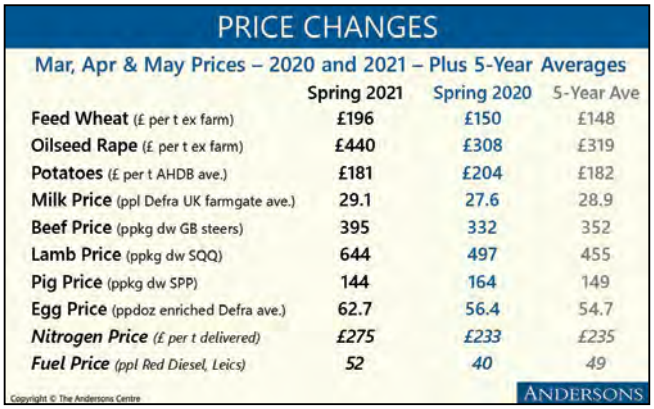
It might feel that there has been a lot of structural change in farming over the past couple of decades. This could be the result of many 'headlines' about the decline in dairy or pig farms for example. However, looking at the statistics, overall farmer numbers have been incredibly static since just after the Millennium. There has been no massive switch to part-time farming and, overall, there are still 300,000 people in the UK who are 'farmers'. Even employed labour, after showing sharp falls in the 1980s and 1990s, has been quite stable. There will be nuances in the figures – for example, the growth of joint-venture farming and the question of whether all those described as farmers are actually 'decision makers'. However, the data suggests that farming has ***not*** altered all that much in the past two decades. With significant external change on the way, as this presentation will show, we can expect greater change in the next decade.



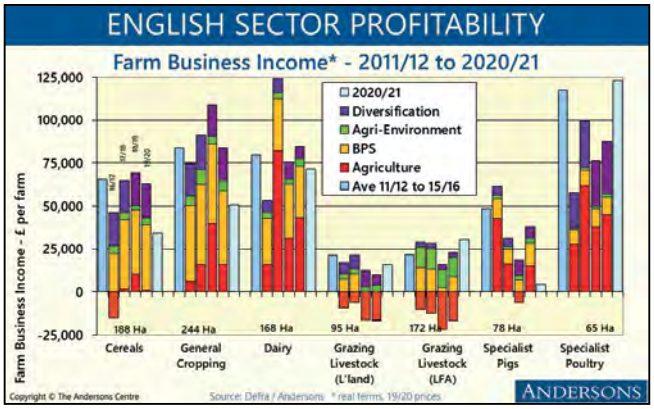
Defra's 'Total Income from Farming' (TIFF) measures the aggregate profit of the UK farming sector. In technical terms, TIFF shows the return to all the farmers in UK agriculture and horticulture for their management, labour and their own capital in their businesses. Defra's initial estimate for 2020 is for a (real-terms) drop of over 20% compared to 2019. The are two main drivers of this decrease. Firstly, a decline in crop output caused by the difficult growing season for harvest 2020. Secondly, the negative effect of Covid on farm diversifications has also been notable. Looking to the current 2021 year, the prospects are for a recovery in returns. Crops currently look in good condition and prices for both crops and livestock are generally good (with one or two exceptions). With lockdown restrictions easing, there should also be some bounce back in returns from diversification. Input prices are nudging up, but not dramatically. Overall, TIFF could recover back to over £5bn for the year.



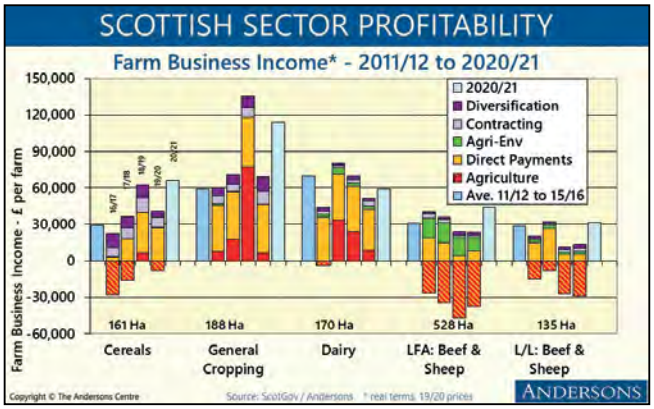
GVA is Gross Value Added – a measure of economic output. The effect of the Covid-19 outbreak can clearly be seen on business activity – especially in areas such as leisure and retail. Agriculture has come through relatively unscathed. It has been preferable to be a farmer over the last 18 months (or even in the allied industries) than running a pub or restaurant. It is also worth noting farming's relatively small share of national output (and the figures shown for 'agriculture' actually include forestry and fishing too). This may be important when it come to future trade deals, as will be seen later in the presentation.



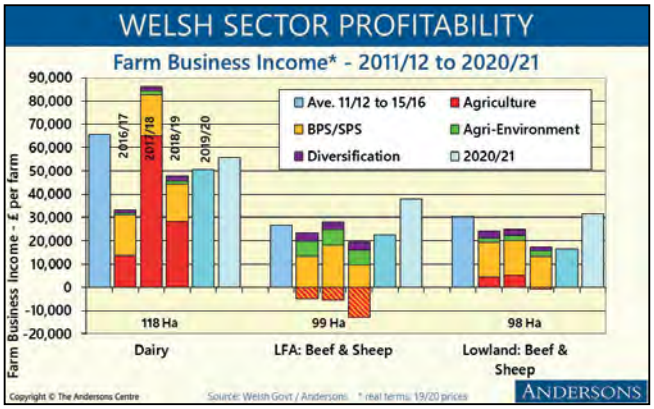
Our estimate for a recovery in TIFF is partly due to the good prices seen across a large number of agricultural commodities. This slide simply shows the prevailing market prices for commodities this spring compared to that seen last spring. For some historical context, a five-year average price has also been included (calendar years 2016 to 2020 inclusive).



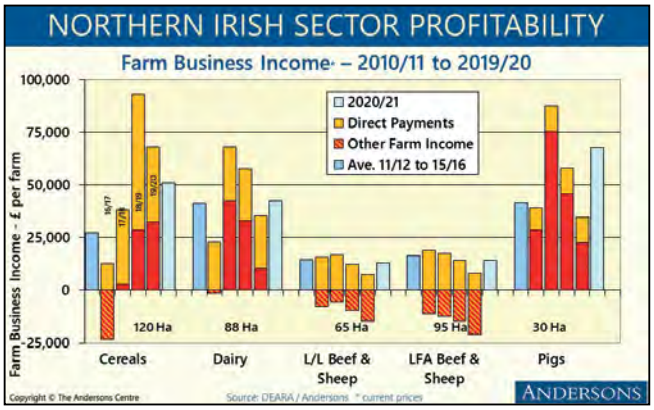
This slide gives a breakdown of profitability by sector. It shows data for England, taken from the Farm Business Survey. The figures show farm-level profits – they are averages for part and full-time farms (any business with over half a Standard Labour Unit requirement). The measure is Farm Business Income (FBI). FBI represents the financial return to all unpaid labour (farmers and spouses, non-principal partners and directors etc.) and on all their capital invested in the farm business, including land and buildings. It can, therefore, be seen as a measure of Net Profit of a farm business. An average is first given for the five years 2011/12 to 2015/16. The data for the years thereafter has been split into the contribution from each of four profit centres. It shows how important subsidy income (BPS/SPS and agri-environmental income) is to the profitability of English farming. This is especially true of some sectors such as (hill) grazing livestock farming. The final sets of columns are Defra's first estimates for 2020/21 sector incomes (the year recently ended). Included is the average farm size in each of the categories (for the 2019/20 year) so that it is possible to see what an 'average' farm in each sector looks like.



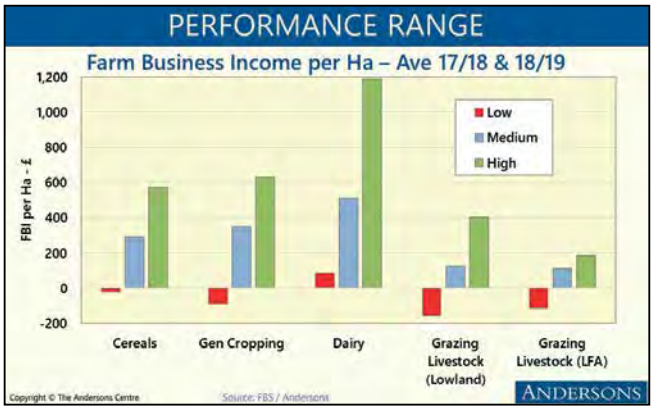
This chart shows the split of farm incomes for Scottish farms. The measure is Farm Business Income (FBI) and they cover part and full-time farms. The average farm size for each category is shown (and relates to the 2018/19 year). The first column shows the average for the five years 2011/12 to 2015/16. For the next four years the FBI has been split into the profit contribution from each of five profit centres. It shows how important subsidy income (BPS) and agri-environmental income) is to the profitability of Scottish farming. The final column is Andersons' estimates for FBI from 2020/21.



The performance of the main sectors within Welsh agriculture are shown on this slide. The measure is Farm Business Income (FBI), and covers part and full-time farms. The average farm size for each category is shown (and relates to the 2018/19 year). The first column shows the average for the five years 2011/12 to 2015/16. For the next three years the FBI has been split into the profit contribution from each of four profit centres. It shows how important subsidy income (mainly the BPS) is to the profitability of Welsh farming. Generally, Welsh farms receive less diversification income than, for example, English farms – this is primarily due to their more remote locations. The 2019/20 figures are provisional ones from the Welsh Government (there is no split of these by profit centre as yet). The 2020/21 figures are Andersons' estimates.



This slide gives a breakdown of profitability by sector in Northern Ireland, based on data from the DAERA Farm Business Survey. The figures are farm-level profits – they are averages for part and full-time farms (any business with over half a Standard Labour Unit requirement). The measure is Farm Business Income (FBI). The average farm size for each category is shown (and relates to the 2018/19 year). An average is first given for the five years 2011/12 to 2015/16. The data for the years thereafter has been split into the contribution from two profit centres i.e. direct payments and other farm income (including income from agriculture). It shows how important direct payments are to the profitability of NI farming. The final set of columns are Andersons estimates for 2020/21 sector incomes.



It is very easy to look at average figures and conclude that UK farming is not very good. However, behind the headline figures is a huge range in performance. The figures presented here simply show three performance bands in each sector, and the resulting Farm Business Income (FBI) per hectare. They are the average for the two years 2017/18 and 2018/19. There are some wide ranges (especially in dairy). It is possible for good farms in any sector to make reasonable returns.

UK FARM BALANCE SHEET

Agriculture Assets and Liabilities* – 2000 to 2021

£bn	2000	2010	2015	2018	% 00-18	2021
Land	86.3	197.9	253.8	228.5	+165%	205
Buildings & Mach	34.7	35.1	37.7	39.5	+14%	39
Breeding Livestock	5.4	8.2	6.4	6.5	+20%	7
Current Assets	12.8	14.7	15.6	16.2	+26%	15
Total Assets	139.3	255.6	313.5	290.7	+109%	266
Long-Term Loans	6.9	10.3	13.1	15.1	+119%	16
Bank Overdrafts	4.6	2.6	2.6	2.3	-50%	2
Other Credit	2.9	3.4	3.4	4.1	+42%	4
Total Liabilities	14.4	16.3	19.1	21.6	+49%	22
Net Worth	124.9	239.3	294.4	269.1	+116%	244

Source: Defra / Andersons * Real Terms 2021 prices
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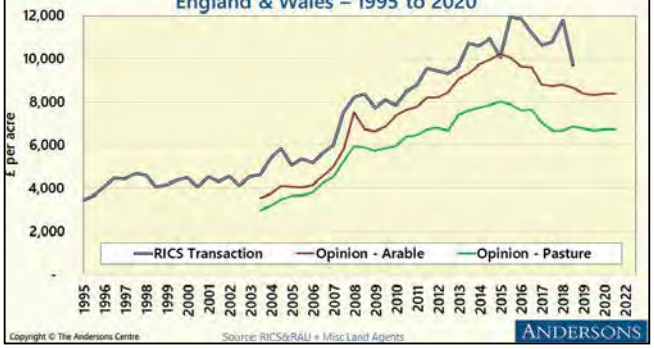
Along with profitability, it is also important to consider the capital position of farming. This slide shows the real terms change in assets and liabilities.

LAND PRICES

England & Wales – 1995 to 2020



Source: RICS&RAU + Misc Land Agents
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The chart shows trends in average land prices. Unfortunately, good data on land prices is becoming ever-harder to obtain. The benchmark RAU/RICS series has been suspended since 2018. The figures shown thereafter are Andersons' figures, based on an 'index of indices' from national Agents' figures. Looking to the future, we would expect neither boom nor bust in land values. General economic uncertainty and affordability issues will be bearish factors. The phase-out of direct payments will also be a negative – albeit support has a relatively small influence on capital values. Of more influence are the capital tax advantages of owning land. There are almost constant concerns that reliefs under Inheritance Tax (IHT) and Capital Gains Tax (CGT) will be amended to the detriment of landowners. However, we would be surprised if there are any significant changes in the short term. With borrowing costs remaining cheap and the underlying demand for land remaining, all these factors may, to a large extent, cancel each other out and values will remain stable through 2021 and 2022. There is significant variation in price at a regional and local level.

UK FARM PRODUCTIVITY

UK Total Factor Productivity – 1973 to 2020

Source: Defra / Andersons
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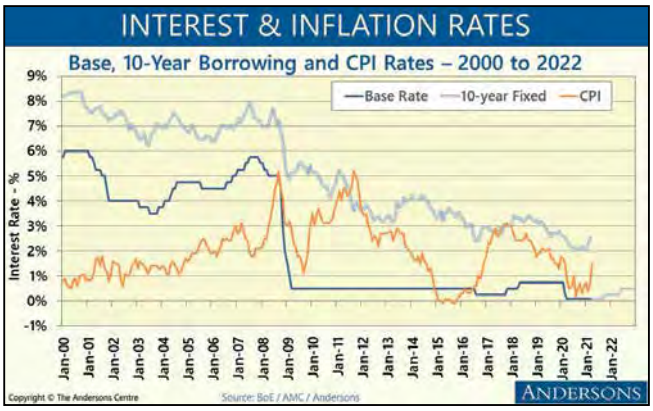
Total Factor Productivity (TFP) is Defra's main measure for looking at the productivity of agriculture. The index shows the change in efficiency in how farm businesses turn inputs into outputs. It looks at physical quantities of both, so swings in market prices do not influence the figures. The data is based on an index going back to 1973. In the 1970s and 1980's productivity rose due to increased outputs (with similar input levels). Productivity was flat through much of the 1990's before receiving another boost around the Millennium as input use fell (with only marginal impact on outputs). There has been a steady, if unspectacular, upwards trend in UK farm productivity over the past few years. If the 2020 year is discounted, (output being badly affected by the weather) the average yearly improvement since 1973 is 1.3%. In the fifteen years since 2005 it has been 0.7%.

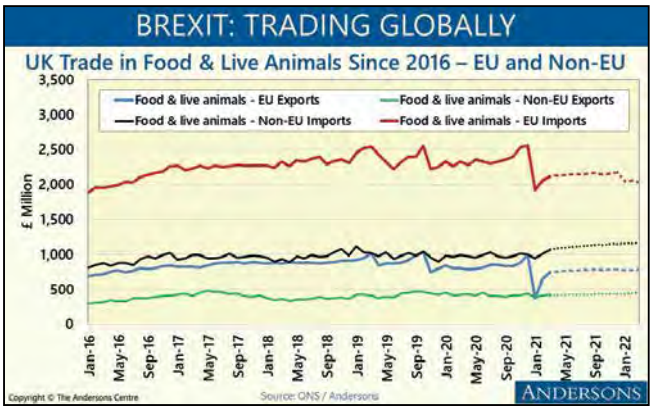
This chart was widely shown a few years ago to show the relative (poor) performance of the UK against other countries. We thought it was worth re-visiting. This Total Factor Productivity (TFP) analysis comes from the USDA and goes up to 2018. *The methodology is slightly different from Defra's so the shape of the line is not exactly the same – an example of the difficulty in accurately measuring productivity.* All figures are based on an Index with 1961 as the starting point. The UK is towards the bottom of the list – along with Ireland, France and, perhaps surprisingly, New Zealand. The data shows only changes in productivity compared to a base point, therefore, it does not give a straight comparison of productivity between nations – this would depend on their starting points. The fact that Brazil has done so well will be, at least partly, to its low starting point. But 'developed' countries such as Germany and the US have also outperformed the UK.



Base Rates are now even lower than the 'usual' 0.5% they have been since the Financial Crisis in 2007-09. They are currently down at 0.1%. They may ease up as the economy recovers post-Covid but it is difficult to see them being above 1% by the end of 2022 – the Bank of England will be wary of choking-off any economic bounce-back. Long-term borrowing rates have drifted downwards over a number of years as it has become apparent that 'cheap money' is here to stay rather than being a temporary blip. This means that it is cheap for farm businesses to finance investments if they wish. Interest rates would rise if inflation looked like going above the target of 2% for a sustained period. There are some signs of inflation within the UK economy.

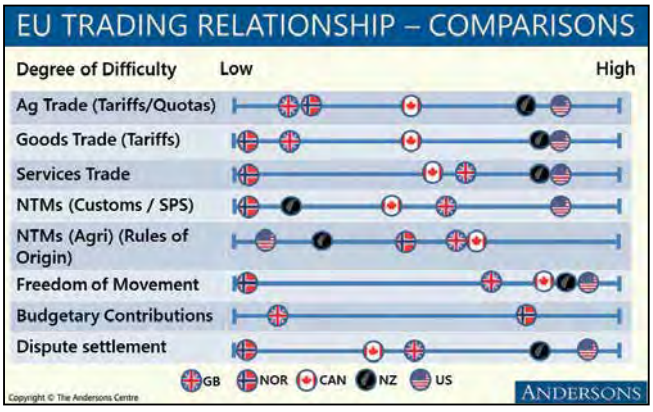
The farmer is generally asset rich and income-comfortable at the moment. The Government has provided emergency funding for businesses to cope with Covid. Not much has been available for farming, as they have been scarcely affected, and employ small numbers of staff. It is Government's short-term priority to get people back to work. This is currently going well with a bounce back in the economy. However, considerable Government debt has gathered. Will Government use a Wealth Tax? Will it include landed assets? There may be a domestic spending boom in the short-term as people 'catch up' after a Covid-enforced break. This should provide opportunities for farm tourism. 'Staycations' may be a long-term trend if concerns around climate change translate into changes in behaviour. The transition to a low-carbon economy is likely to be one of the big challenges of the next decade.

BREXIT AND TRADE ISSUES



This chart depicts monthly UK food and live animal trade with EU and non-EU countries since January 2016. The ONS data series runs until March 2021. Thereafter, the data are based on Andersons' projections (denoted by dotted lines). Trade has generally increased since 2016, particularly exports, aided by the weakened Sterling from June 2016. Due to the Transition Period ending in December 2021, a significant build-up in imports from the EU was evident as traders stockpiled ahead of potential border congestion. From January, significant decreases on trade with the EU were evident. EU exports decreased by 67% whilst imports from the EU decreased by 25%. The decrease in the latter was much lower than the former due to the UK deciding to delay the implementation of its Border Operating Model. Trade has since recovered somewhat. However, as the projections depict, trade with the EU will be lower in future. As the UK starts to phase-in its border controls during October to March, with a significant increase in regulatory checks from January, further decreases in import trade with the EU are likely. Trade with the non-EU is expected to increase although this will be closely linked with future trade deals.

On 24th December 2020, the farming industry received an early Christmas present as a Free-Trade Deal (FTA) was agreed with the EU. The UK-EU Trade and Cooperation Agreement (TCA) has meant that there are no tariffs (or volume quotas) on trade in goods between the two parties, provided they are eligible (i.e. meet Rules of Origin criteria). The 11th-hour agreement came after the two sides found a compromise on the three main sticking points of fisheries, the 'level-playing field' (LPF) and state aid rules.



Over the course of the past five years, there have been numerous discussions on what form the future UK-EU relationship would take. In the lead-up to, and immediately after, the Referendum, much of the focus was on following the 'Norway', 'Swiss', or 'Turkey' models which were deemed as being quite closely aligned to the EU. It is notable just how much the conversation has changed towards a much looser relationship with the EU and Canada (CETA) was frequently cited as the model. However, the EU was always unlikely to agree to such a relationship with a neighbouring competitor if it did not commit to at least some alignment with its rules and standards. What has eventually emerged is a distinct 'GB' model which in some ways appears a quite comprehensive trade agreement (e.g. tariff and quota free trade), whilst in other ways is a distant relationship. This slide attempts to graphically depict how the TCA compares with other types of trading relationships. It shows that in several areas (e.g. customs/SPS and services trade), trade with the EU has become much more difficult, despite tariff-free and quota-free trade on goods.

TRADE DEALS: NEXT CAB OFF THE RANK

- **Continuity ('Roll-over') Agreements** – with 67 countries, all fully in effect except Mexico (signed & partially applied)
- **Japan talks concluded – although minimal ag implications**
- **Australia and NZ talks progressing quickly – deals imminent**
- **Agreements with Japan/Aus/NZ are a prelude to joining the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)**
  - includes Canada, Chile, Malaysia, Mexico, Singapore and Vietnam
- **US Talks began in May 2020 – have stalled recently**
- **Further ahead – Mercosur (Brazil), India others?**

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The TCA was largely about protecting what was already in place – i.e. the significant trade between the UK and the EU. The Continuity Agreements effectively replaced the agreements that the UK had access to when it was an EU Member State. Therefore, these agreements largely preserve the status quo and have had little effect (so far) on markets. Attention is now turning to the new deals the UK might sign with other countries. The deals which are most likely to conclude in 2021 are with Australia and New Zealand. The US trade deal negotiations got most attention last year, but progress has stalled as the Biden administration has other priorities. Looking further ahead, discussions have taken place with India and from a farming perspective any deal with Mercosur (which includes Brazil) will have a major bearing on the competitive position of UK farming.

AUSTRALIA AND NEW ZEALAND

Australian Agri-Food Exports 2019 (£m)

Category	UK	EU27	RoW	World
Meat & offal	65	149	8,757	8,972
Dairy	-	1	1,350	1,351
Fruit & veg	16	105	2,120	2,241
Beverages	206	132	1,582	1,920
Other	37	713	12,747	13,497
Total	324	1,100	26,557	27,981

NZ Agri-Food Exports 2019 (£m)

Category	UK	EU27	RoW	World
Meat & offal	216	514	3,421	4,151
Dairy	22	68	8,233	8,323
Fruit & veg	48	399	1,734	2,181
Beverages	228	107	771	1,105
Other	24	237	3,814	4,075
Total	538	1,324	17,973	19,834

- **Major beef, lamb, dairy & wine exporters; keen to build UK sales**
- **Out-of-season fruit & vegetables might offer some opportunities**
- **Both have been focused on Asia-Pacific in recent years**
- **Viewed as less controversial than US on standards, but will be stiff competitors**
- ***UK exports to focus on automotive and digital services***
- ***Agri-food export opportunities will be limited to a few niches***

Sources: Australian DFAT / NZ Government / Andersons

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Both Australia and New Zealand are major exporters of meat (beef and lamb), dairy products and wine. A trade deal with these countries will exert the most pressure on UK grazing livestock. Admittedly, imports of beef and lamb from both countries into the UK and EU have been below historic levels and this is partly a function of a greater emphasis being placed on the Asia-Pacific region. Australia has been particularly eager to progress trade negotiations with the UK and looks set to be the first country to finalise a 'new' FTA. Given the relatively high prices achievable, there is the potential for exports to be diverted from Asia-Pacific towards the UK market. From an agri-food perspective, export opportunities to both countries are limited to niche areas. Instead, the UK will use agri-food access to the British market as leverage to gain access for its automotive and digital services sectors.

LABOUR

- **Restrictions now apply on new migrant labour from EU**
  - migrants in UK before 1st January eligible for EU Settlement Scheme but deadline is 30th June and many workers have not yet applied.
  - demand for workers rising sharply as UK emerges from lockdown.
  - wages are increasing further on top of Covid-related rises last year.
- **Seasonal Agricultural Workers Scheme (SAWS) has 30,000 places**
  - implementation issues; high costs; insufficient to meet UK needs (80,000)
  - need to cover wider food-chain, not just edible horticulture
- **'Points based' system from 1st January treats EU & Non-EU equally**
  - specifically no route for low skilled workers but salary thresholds lowered
  - butchery not added to Shortage Occupation List despite Migration Advisory Committee's recommendations
  - whole carcases being exported and cutting/value-adding occurring in EU

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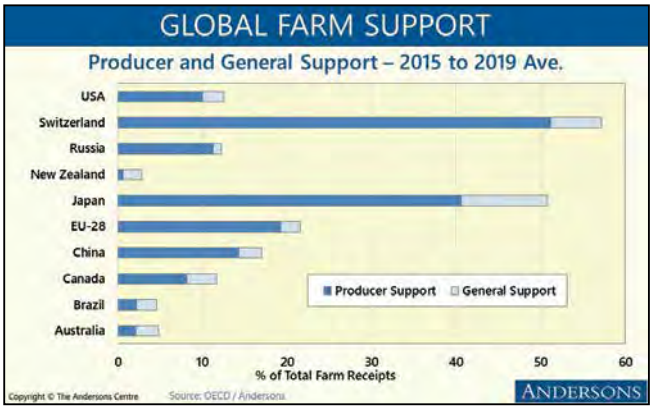
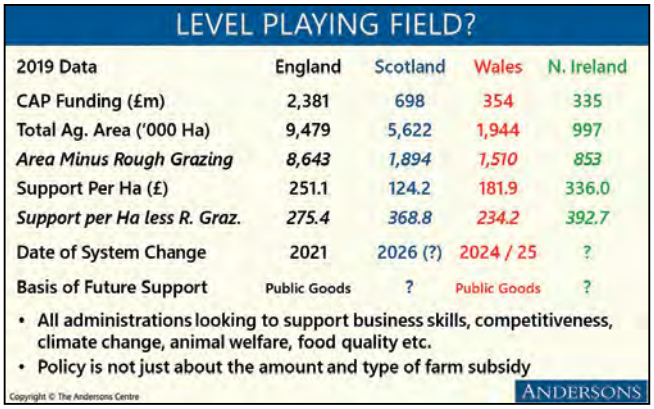
Migrant labour is hugely important in UK agri-food supply-chains, not just on farm and in horticulture but in food processing and transportation. With the ending of Free Movement, Covid and the weakening of Sterling, the sector is experiencing renewed recruitment challenges. There is plenty of anecdotal evidence in the farming sector of difficulties in filling vacancies and wages rising. The agri-food sector needs to improve the attractiveness of its offerings, particularly through better training, job security and career progression pathways as well as wages. The SAWS scheme, whilst helpful, is insufficient and delays in implementation and limited scope (edible horticulture focused) are creating recruitment difficulties this year.

Those who thought that the fall-out from Brexit would dissipate once the Transition Period ended are set to be disappointed. Ongoing negotiations with the UK's largest trading partner and neighbour will regularly feature in the years ahead. This is also case elsewhere (e.g. the US and Canada regularly renegotiate their trading arrangements). However, the UK is set to become much more exposed to trade from elsewhere particularly as it finalises 'new' trade deals in the months and years ahead. UK agri-food will have to meet increased competitive pressure and may need to do this with reduced labour availability.

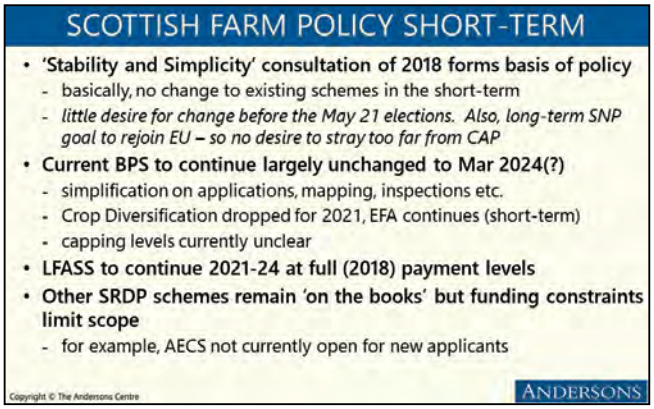
FARM POLICY



Now the UK is out of the EU, it is up to ourselves how much we support farming. Do we want to be a Switzerland or a New Zealand? This chart shows the direct support to farmers (price support, direct payments etc.) in dark blue – the Producer Support Estimate (PSE). General Support, in the lighter colour, is Government spending that facilitates the farming sector (e.g. research, training, knowledge transfer, market development etc.). UK Government funding is guaranteed at previous (i.e. EU-28 levels) until the 'end of the current Parliament'. This is meant to be 2024. After that we would not be surprised to see the level of support fall (especially in real-terms).



This slide summarises the support that each UK region has been receiving historically. The amounts are from 2019, but they are likely to continue at these sorts of levels until at least 2024 due to the UK Government's funding guarantee and the fact that the split between the UK regions has been kept the same. It can be seen there is a wide divergence in the support per Ha of farmland (although rather less when the effects of large expanses of low-output rough grazing are excluded). Current plans sees the most immediate change in England, but other nations will follow. Brexit offers all UK nations a chance of a fundamental 'reset' in terms of farm policy (and environmental) policy.



'Stability and Simplicity' was the title of the Scottish Government's consultation on future farm policy that was published in June 2018. There has been remarkably little further communication on future farm support since then. The Scottish Government appeared to be keeping closely aligned to European agricultural policy in its bid to return to the European Union as an independent country. *There were also political considerations about not 'rocking the boat' ahead of the May 2021 Elections.* The Agriculture (Retained EU Law and Data) (Scotland) Bill has largely rolled-over existing schemes. The BPS will continue, with minor changes – such as the simplification of Greening. LFASS will also continue to at least 2024 with funding returned to the 'normal' (2018) levels. This will only leave limited money for other schemes. For example, the Agri Environment and Climate Scheme (AECS) has opened for new applications in 2021, but only on a very restricted basis.

The Agriculture (Retained EU Law and Data) (Scotland) Bill has a 'sunset' clause in it which requires new legislation on farm support to be put in place by May 2026 at the latest. There also has to be a report on progress towards this by the end of 2024. It is possible to detect a subtle shift in the Scottish Government's position on farm support in recent months. It seems to have accepted that mirroring the CAP is a wasted opportunity. There is greater focus on using an independent farm policy to meet Scotland's climate change targets. What this might mean in terms of actual policy is unclear. Of the (many) review groups commissioned over the past few years, the most important in terms of support is the Farm and Food Production Future Policy Group. This was the body set up to advise the Scottish Government on future policy. It was meant to report 'in 2020' but nothing has emerged as yet.

The Welsh Government has engaged in a series of consultations on future farm policy – the first two were 'Brexit and Our Land', followed by 'Sustainable Farming and Our Land'. The latest being in December 2020 when it released a White Paper consultation setting out the plans for the next phase of agricultural policy in Wales. The paper provides the basis of the Agriculture (Wales) Bill which is planned to be put before the Senedd in summer 2022. It will provide the framework for future policy. Included will be the provisions to establish Sustainable Land Management (SLM) as the 'overarching principle' for future agricultural policy. The proposed programme is called the Sustainable Farming Scheme (SFS).

SUSTAINABLE FARMING SCHEME - WALES

- **'Sustainable Farming Payment' to reward for non-market goods provided by farmers (i.e. public goods)**
  - replaces BPS and Glastir. Introduced 2024 (or 2025?) with transition?
  - meaningful and stable income stream – multi-year contracts with fixed payment rates (not constrained by income-foregone)
  - new *and existing* sustainable practices
  - entry conditional on an external 'Farm Sustainability Review'
  - detailed payment rates, eligibility etc. to be decided over next 2/3 years
- **Also, business support** – advice, skills, training & capital grants
- **Regulatory reform – National Minimum Standards for Agriculture**
  - new enforcement regime
- **Industry and Supply Chain Support. Also, forestry and woodlands**

ANDERSONS

The Sustainable Farming Scheme (SFS) will replace the BPS and Glastir and will pay a Sustainable Farming Payment (SFP). Although the idea is that this will be potentially available to all farms in Wales, it will be different from the BPS as it will not be paid 'as of right' – land managers will have to provide some 'public goods' in order to be able to access it. The provision of food is not a public good as there is a functioning market for food. Transition to the new scheme is expected to commence in 2024, but may be delayed until 2025. It may well be phased-in over a number of years. There has been a clear desire under recent Welsh administrations to try and improve the competitiveness of agriculture. Business support programmes will run alongside the SFP. There will also be support for the wider food chain.

NORTHERN IRISH FARM POLICY 2021→

- **BPS (+RD schemes) continue in short-term (under UK Ag Act)**
  - Greening removed from 2021 year onwards
- **Future policy development delayed by;**
  - lack of Executive from Jan 2017 to Jan 2020
  - need to deal with Brexit and Northern Ireland Protocol
- **Policy development now getting up to speed (lobbying ongoing)**
  - unclear when any formal 'proposals' will emerge
- **Likely to be framed around better productivity, improved environmental performance and focus on quality**
  - issues on land mobility, skills, training, ammonia etc.
- **NI potentially has access to both UK and EU markets - competitive advantage?**

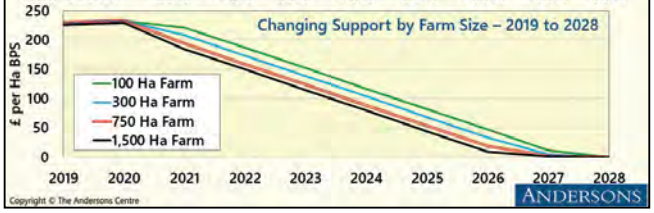
ANDERSONS

In comparison with other UK nations, plans for future agricultural policy are arguably least developed in Northern Ireland. This is due to the lack of an Executive for 3 years coupled with the complexities around developing management systems to implement the NI Protocol as several of the most tricky areas (particularly Sanitary and Phytosanitary (SPS) regulation) come under DAERA's remit. That said, work has been ongoing in the background and there is likely to be more information published during 2021. There is a strong focus on both productivity and environmental concerns and the need to tackle key issues such as ammonia emissions (which have risen sharply in recent years), land mobility and skills. Attention also needs to be given to how support in NI compares with the Republic of Ireland as NI remains de-facto part of the EU Single Market for goods.

THE AGRICULTURAL TRANSITION

- **BPS continues, but will gradually be phased-out**

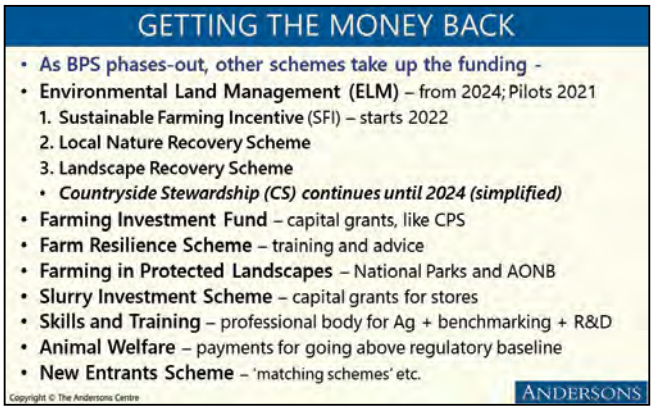
Deductions:	2021	2022	2023	2024	2025	2026	2027	2028
Up to £30K	5%	20%	35%	50%	*65%*	*80%*	*95%*	*100%*
£30K to £50K	10%	25%	40%	55%	*70%*	*85%*	*100%*	*100%*
£50K to £150K	20%	35%	50%	65%	*80%*	*95%*	*100%*	*100%*
Over £150K	25%	40%	55%	70%	*85%*	*100%*	*100%*	*100%*



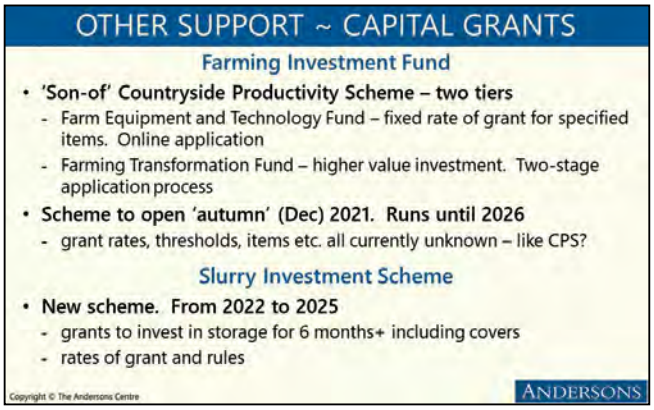
ANDERSONS

The current system of direct support in England (the BPS) will be phased-out during the 'Agricultural Transition' from 2021 to 2027. The BPS will be gradually phased-down, so that by 2028 there will not be any area aid in England. Larger businesses face higher deductions, but, because the deductions work in bands like Income Tax, the actual drop for larger businesses are less than they first appear. The deductions for 2021-2024 have been confirmed by Defra. The figures from 2025 onwards are Andersons' estimates. The bottom half of the table shows the payments (£000's) that typical Lowland England farm received in 2020 compared to future receipts. The document setting out the plans for the Agricultural Transition can be found at - https://www.gov.uk/government/publications/agricultural-transition-plan-2021-to-2024

Lump-sum payments would allow the future stream of income during the remainder of the Transition Period to be rolled-up into one single payment. Delinking of support is a key element of the Agricultural Transition. The idea is that the right to future support payments would no longer be conditional on occupying agricultural land (as it is under the BPS). This frees-up farmers to make decisions about land occupation without affecting their future support payments (through to 2027). Delinking was expected to happen in 2022 but will not take place before 2024. A consultation on both lump-sum payments and delinking was launched in May 2021. More details about the operation of the Lump Sum scheme are expected in October.



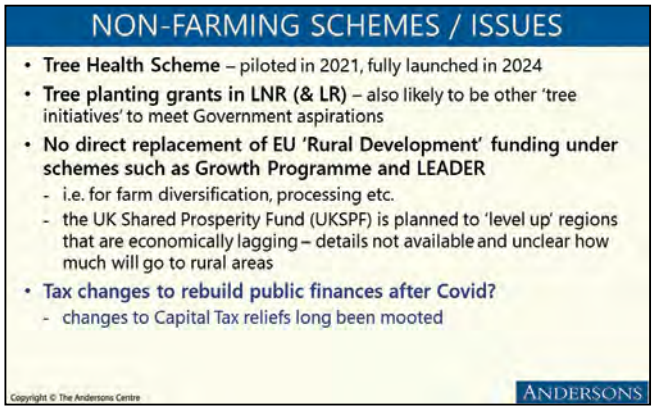
With BPS phasing out, a suite of schemes is being introduced that will use up the budget released. These are listed here and will be covered in more detail in the section that follows. Generally, the support 'landscape' in England will be far more complex than when the vast majority of aid was channeled through the BPS. *For advisors, there may be opportunities in helping clients navigate through the new arrangements. One point to note is that there will not be annual BPS claim for almost all farms – advisors might have to work harder at keeping in touch with clients.*



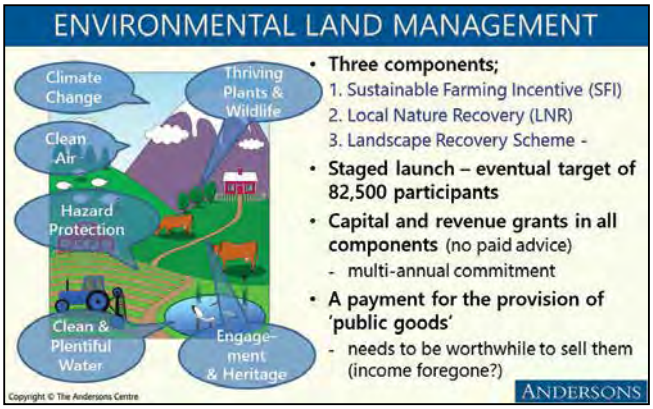
The 'headline' of the Agricultural Transition is the shift from direct payments to ELM. But this will be complimented by other funding programmes. The Government wishes to see the productivity of English (UK) agriculture improve. To that end, there is likely to be some capital grants, probably similar in scope to the past Countryside Productivity Scheme. This is likely to focus on 'equipment' rather than farm infrastructure such as buildings or drainage. There will be capital grants for slurry storage (and associated equipment) that goes beyond the current regulatory minimum.

Farmers will be offered advice to help them cope with the loss of Direct Payments and other business challenges. A pilot has already been operating offering farm advice (Andersons have been part of this). The Farming Resilience Scheme will build on this and the scheme should be open to farmers from the summer. As part of the overall effort to 'upskill' the farming sector, there will also be more training including a professional body for farming – perhaps in future there will be a 'Chartered Farmer' qualification. It may be a condition of future grant schemes that the applicant holds a suitable qualification. To improve performance, farmers will also be encouraged to use benchmarking.

The Farming in Protected Landscapes scheme appears to be a response to the (perceived) greater challenges faced by upland farms from the loss of the BPS. However, it covers National Parks but also Areas of Outstanding Natural Beauty (AONBs) – so some 'uplands' farms will not be eligible whilst other lowland farms in AONBs will be. There will be both farm-level projects including environmental payments and business support, and projects at community scale. More details are promised in early 2021. Details of Animal Welfare payments are still being worked on. The 'Animal Health and Welfare Pathway' will be designed during 2021. It will offer support for disease eradication programmes, capital grants to farmers for measures to increase animal welfare above the statutory baseline, and a new payment-by-results scheme (to be piloted in 2023). The New Entrants scheme will be available from next year, but doesn't look like funding the new entrant directly.

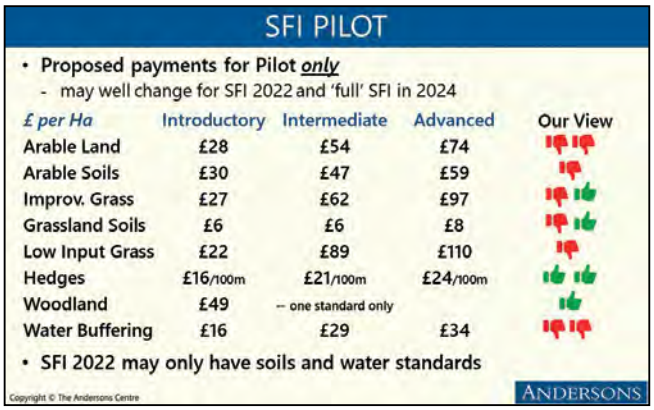


This slide gives details of some of the other initiatives that may be of interest to farmers. Tree planting is likely to be a big issue in the coming years – not least to address climate change. Farmers should be aware that, among all the schemes announced so far, there is no direct replacement for some of the farm diversification funding seen in the past. European funding for regional social and economic development (including rural areas) is due to be replaced with the 'UK Shared Prosperity Fund' (UKSPF). There is little detail on this at present, but it will cover ex-industrial areas, deprived towns and coastal communities as well as rural areas. One final point is that this presentation has focused largely on Government payments to farmers. Of course, Government also gets receipts from agriculture through the tax system. There may be some big changes here in coming years as attempts are made to plug the Covid-shaped hole in the public finances.

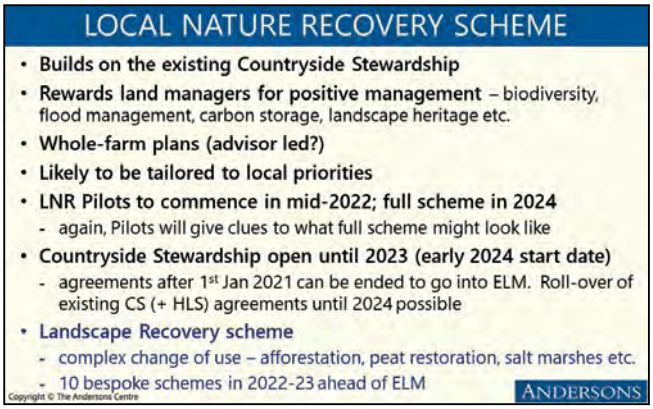


The detailed design of the ELM scheme is being worked on (Defra is devoting a lot of personnel to it). The top-level objectives of the scheme have been set, and it is these that will drive the detailed design and rules. Many of the objectives are familiar from previous agri-environment schemes, but new (or more highly prioritised) elements such as climate change, air quality and hazard protection come more to the fore. ELM will be a three-part scheme. Whilst it will only be introduced gradually in the years to 2027, there is an 'ambitious' target for participation. It aims to pay farmers to provide public goods (those things that cannot be delivered by the market). The payment rates set will be key as to whether it is an attractive proposition for farmers.

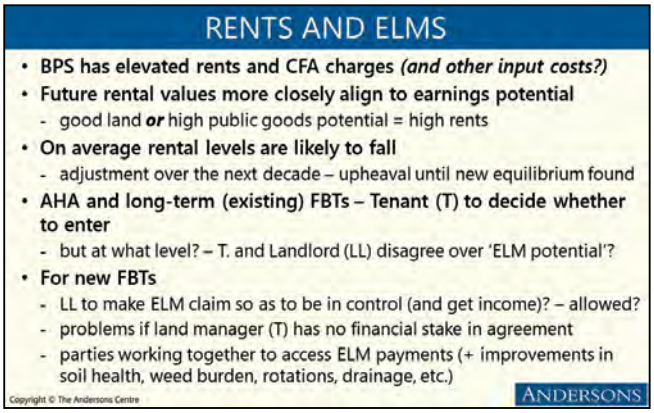
The Sustainable Farming Incentive (SFI) will be the offer for the majority of English farmers. It will perhaps look a lot like the previous Entry Level under the Environmental Stewardship (ES) Scheme (but without the points-based approach). There will be three different ambition levels, with higher payments offered for the higher levels. At the base level it is intended to be a scheme that is relatively easy to get into and thus replaces (some) of farmers' BPS income. The clear desire of Defra is that the administration would all be carried out online. The scheme will focus on reducing the 'negative externalities' produced by land management, particularly around air, soil, and water pollution. It may only be a temporary scheme as the plan is to raise the regulatory baseline to a polluter pays system over the long-term (perhaps a decade).



This slide sets out the proposed payment rates under the SFI Pilot Scheme. These payment rates (and the actions required) are based on the previous Countryside Stewardship Scheme. They may well change once Defra has worked-up the new SFI rates for the 2022 scheme. Other Standards are likely to be added in the future - for example one for Moorland. For more details on what is required under each standard see - https://www.gov.uk/government/publications/sustainable-farming-incentive-scheme-pilot-launch-overview/sustainable-farming-incentive-defras-plans-for-piloting-and-launching-the-scheme#annex-1. We have looked at the payment rates under the introductory Standards, and the management requirements and applied them to our model farms. In general, those that require productive land to be taken out of production do not stack up financially.



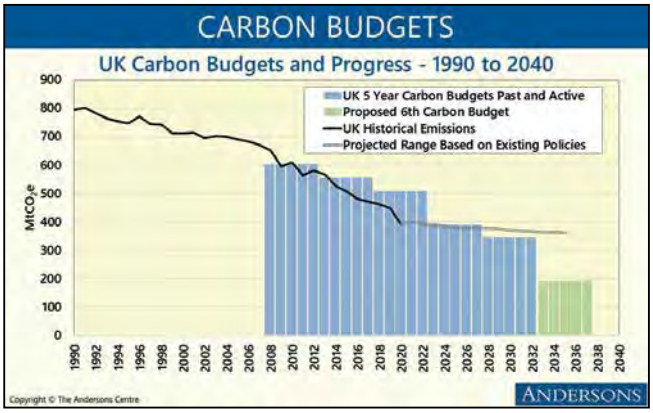
The Local Nature Recovery (LNR) scheme will require more intensive management from farmers than the SFI. It is highly likely that a Whole-Farm Plan will have to be drawn up (possibly by accredited advisors). The focus will be on rewarding farmers for positive externalities such as biodiversity, flood management, carbon storage, landscape heritage etc. This will be the 'core' of ELM over the long-term and can be seen as a turbo-charged CS or ES scheme. *The final element of ELM looks to make 'landscape-scale' changes by getting groups of landowners to work together.*



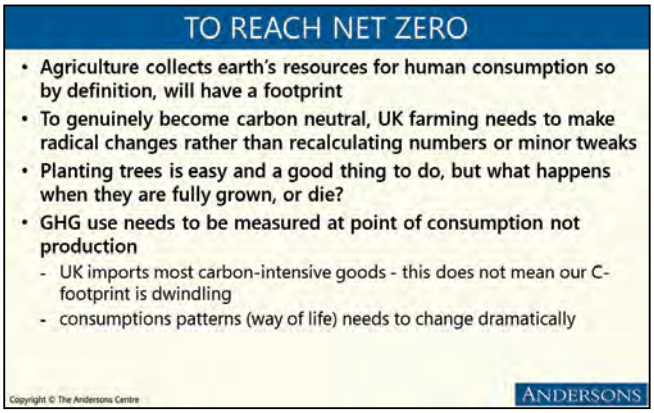
A guaranteed income from land from the BPS has elevated rents (and other inputs) historically. Generally, it is the tenant that bids a rent up, rather than the landlord's demands. Competition for land might not decline in all localities. Some land will retain its earning capacity; good quality, well positioned land for high value crops such as potatoes or vegetables, and high volume crops like maize for anaerobic digestion plants will still command high prices for short term rents. Other land, capable of securing lucrative 'public good' deals may benefit from the subsidy shift. But rents on most 'normal' land will decline. Previously, income from agri-environmental schemes has tended to be somewhat of an 'afterthought'; it comes well behind the BPS and income from farming in the pecking order. As the BPS phases-out, ELM income will assume greater importance. The introduction of ELM therefore raises a new set of questions around how lettings and CFAs operate in the future. This slide sets out some thoughts, but only time will tell how the new support landscape affects farming arrangements. Better relationships might need to be forged between occupant and owner to capture some long-term 'public good' offerings.

The next 5 to 10 years are undoubtedly going to be a period of significant change for English farming. (The devolved nations are likely to go through the same process at some point, but later). The funds granted to farmers will fall and, vitally, claimants will have to do more to access the money that is available, meaning there is less profit available. The key question for farm businesses is 'do they have a plan to prosper through this period of change'?

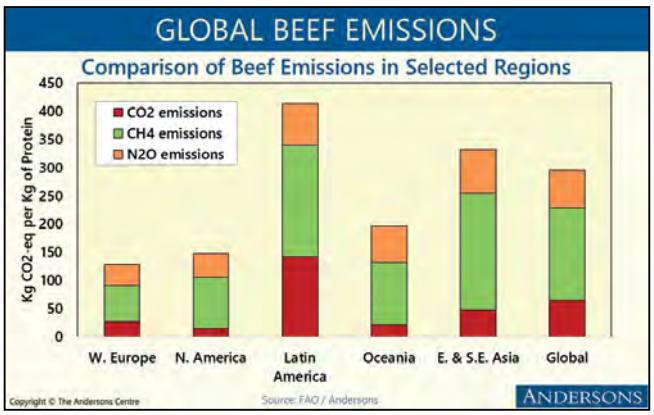
FARMING CARBON



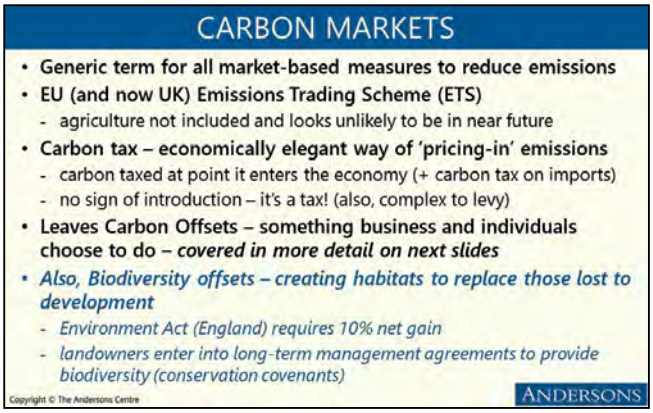
The black line on the chart shows the fall in UK emissions since 1990. This has been down to two main factors. The first is the growth of renewables in energy production (and the substitution of gas for coal). The second is that the UK now very much has a service economy rather than a manufacturing one. As we import goods, we effectively export the carbon emissions (as they are counted at the point of production). The UK has recently pledged to cut its emissions by 78% compared to the 1990 baseline by 2035. There is a goal of reaching 'net zero' by 2050 – i.e. all emissions of GHG are balanced by equivalent sequestrations of GHG. These commitments are translated into five-year Carbon Budgets - as advised by the Committee on Climate Change (CCC). The first two budgets were met and current projections suggest the current carbon budget and the next will also be achieved (just). However, the fifth budget for the period 2027 to 2032 looks unlikely to be hit with the sixth (currently being drawn up) even further away. Many of the 'easy' things have been done and each extra tonne of carbon cut becomes harder to achieve.



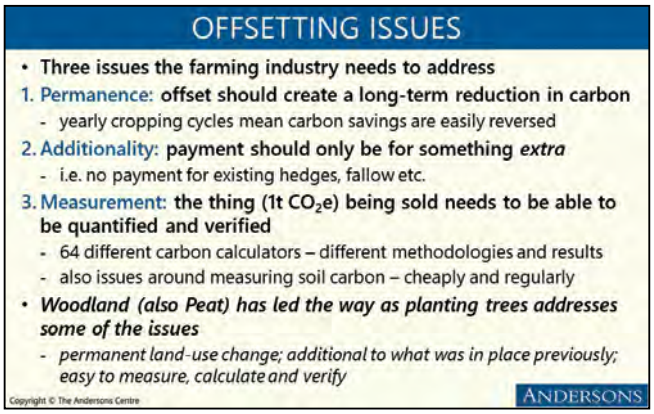
Agriculture is all about taking carbon from nature for (food) consumption. Consuming the food puts it back in the air (through respiration usually). That is the cycle. Other carbon is usually released as part of the food production process (fuel, machinery manufacture, other inputs, rumen discharges etc). More carbon is used to transport, process and prepare the food. Getting to carbon neutrality in the food chain is going to be difficult. There is lots of spin about 'sustainable' business with little evidence to back this up. To genuinely gather more carbon than is returned, some needs to be sequestrated. Forever. More trees and permanent pasture will help – for the short term. But our way of farming and, critically, way of consumption has to change to make any meaningful difference.



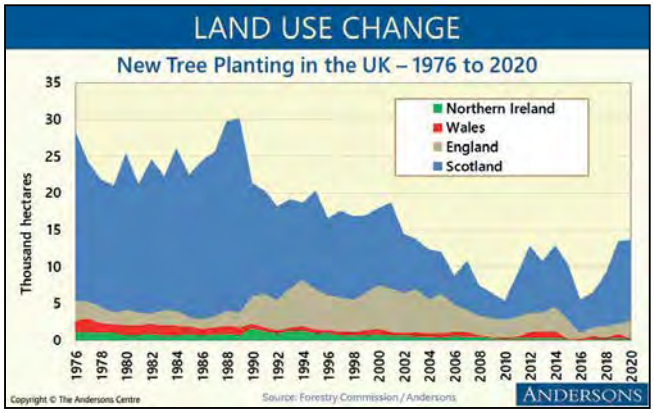
When climate change is discussed, it is 'carbon emissions' that are often referred to. This is a convenient shorthand for all emissions. In fact, Carbon Dioxide (CO2) is not the biggest issue for agriculture. It is methane (CH4) – mainly from ruminant animals and nitrous oxide (N20) from manures and fertilisers. This chart, shows, for beef, the contributions of the three main gasses. The data is taken from a 2017 global study. Western European emissions are at circa 40% of the global average – largely due to the dominance of grass-based production systems. Half of W. Europe's emissions are methane. If countries in W. Europe decrease their beef production, there is danger of a perverse situation where more polluting countries such as Latin America increase their production.



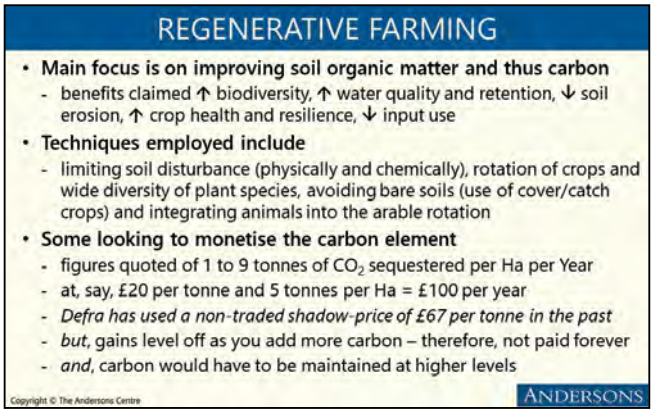
Most economists believe that using market mechanisms is the best way to cut emissions. There have been some moves in this direction in recent years. The UK is setting up its own Emissions Trading Scheme to replace the previous EU system (they may be linked in future). This is a 'cap-and-trade' scheme but, crucially, doesn't include agriculture. A carbon tax across the whole economy is often touted as the most efficient way to lower Greenhouse Gas emissions. There does not seem the political will to implement this. In the short-term then, the market for carbon looks set to be for carbon offsetting. As an aside, this slide also covers the topic of biodiversity offsets. There may be opportunities for landowners in this separate area too.



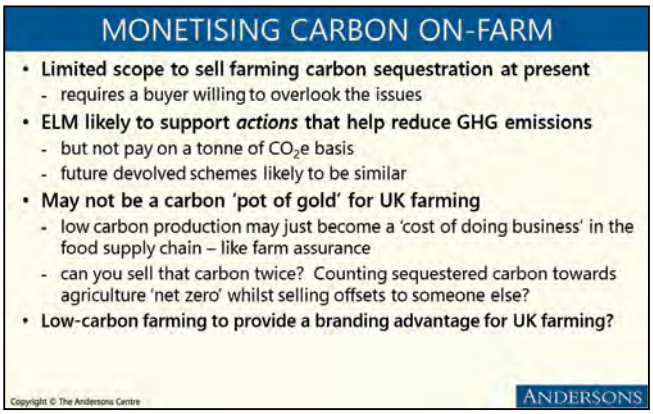
Generating saleable carbon offsets from farming has a number of problems. This slide sets out three that need to be addressed before a fully-functioning market is likely to develop. One of the key issues is no agreed standard and methodology for calculating carbon emissions (and savings) from farming, with a range of different tools available. This is an area where Government intervention, or the whole industry coming together, to settle on an agreed approach would generate clarity and trust around the calculation process. Arguably, this needs to be done at a global level and the COP26 in Glasgow presents a useful opportunity to address this issue. The planting of woodland overcomes many of the problems seen with agricultural carbon. That is why the market is more developed. It also provides opportunities for landowners if they are prepared to accept long-term land-use change.



There has been a great deal of political focus on tree planting. There is also a perception that large areas of farmland (especially in Scotland) have been forested in the last couple of years. However the planting statistics do not bear this out. Recent plantings have been no higher than they have reached at other times over the past two decades. They also fall short of the amounts seen in the 1970s, 80s and 90s. An acceleration will be required if various planting targets are to be met. At present the planting of trees is generally considered to be a 'good thing'. There may be a tipping point in future where the sheer volume of land taken by trees, and the landscape change this involves, leads to more questioning of policy.

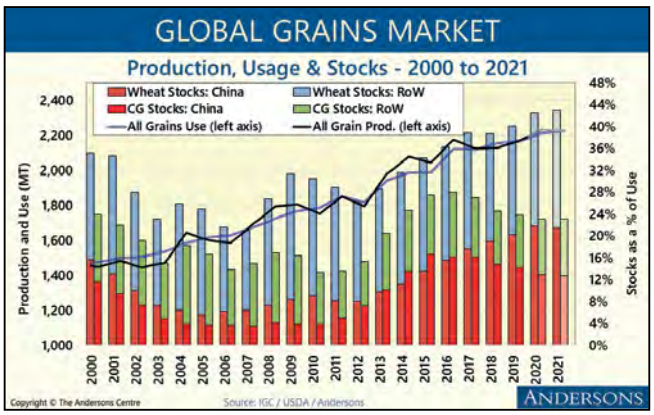


Regenerative farming is a very 'hot topic' in the farming sector. Like many such fashionable methods, the column inches devoted to it may outweigh the area of the UK actually being farmed in this way. The key focus of the technique is to improve the health of soils – by increasing their organic matter content (which also increases the prevalence of micro-organisms). There are a number of key practices that underpin regenerative farming as set out on the slide. One result is that the soil locks-up a greater amount of carbon – thus regenerative farming is seen as (part) of the solution to climate change. It has other benefits too. It is, perhaps, natural to have a healthy scepticism of anything that is so trendy, but the underlying principles do seem sensible. However, there are some counter-arguments. Firstly, the systems seem heavily reliant on chemicals, especially glyphosate, to kill cover crops. It is also unproven how much carbon is actually sequestered by these approaches. Lastly, many of the techniques were pioneered in other countries with different climates and soils to the UK. Essentially, we have a maritime climate and are wetter than most. The window for undertaking 'no-till' operations in optimum conditions is more limited.

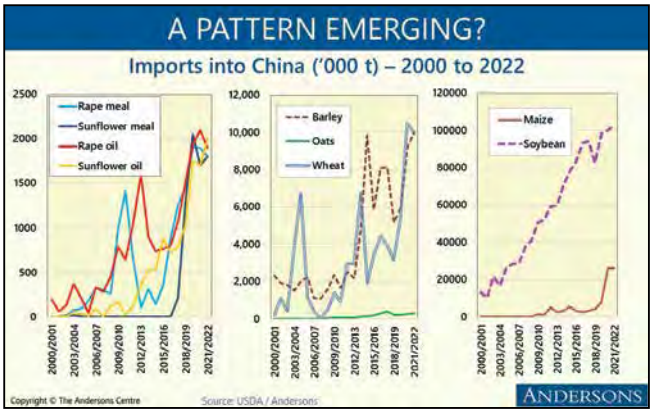


Some see huge money-making potential from agricultural land through carbon sequestration. At present, there is limited opportunity to generate income in this way, and the jury is still out as to whether it will become the significant revenue stream that many believe. However, the farming industry is likely to have to address the issues around emissions and climate change whether there is money or not. The transition to low-carbon farming is likely to be one of the defining features of agriculture in the next decade.

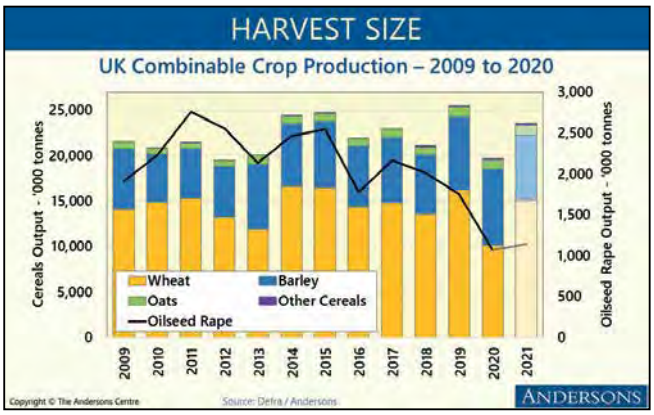
ARABLE SECTOR



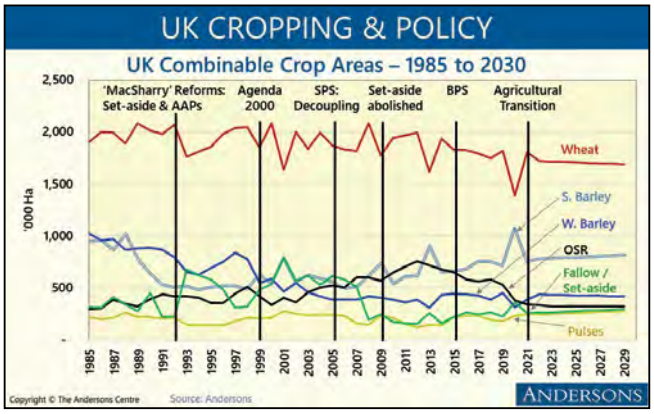
The slide tracks use and production of all grains (excluding rice) over the last twenty years. These are shown by the black and red lines. The 2020 figures are still provisional and the 2021 ones USDA projections. Over the long term supply matches demand; they are relatively close. Any difference between the two affects year-end stocks. The chart also shows those year-end global stock changes, on the right axis split into wheat and coarse grains. *Coarse grains are feed grains, and the category is dominated by maize ('corn' in the US) which comprises two-thirds of them.* Production plus stock is total availability. Wheat, especially, is not in short supply and looks unlikely to be after harvest 2021. However, notice the amount of hoarding that China appears to be doing. They have a large population and their attitude towards food security is different to that of most countries.



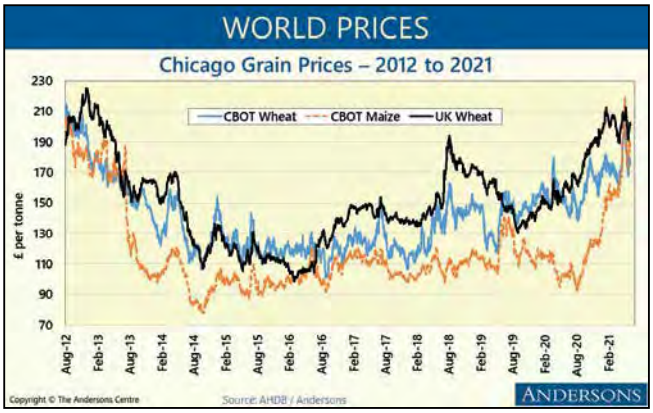
When 1.4 billion people become slightly more demanding in their diets, the whole world notices. The increase of Chinese imports of soybeans has been well publicised and the sheer tonnages imported have changed the global trade routes (coupled with political abrasions). It has also changed global farming. South America has become a soybean 'powerhouse'; Brazil overtaking the US as major world supplier. Whilst Chinese imports of soybeans are the greatest tonnage of all commodities, the charts suggest the country is taking rapidly rising interest in a host of commodities. If this is a trend, the next five years could be transformational for world agriculture.



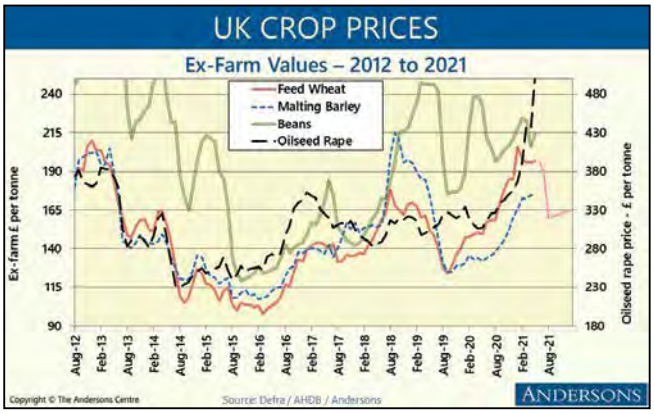
Meanwhile, here in the UK, total output of cereals from harvest 2019 was at historically high levels. The 2020 harvest was much reduced. There was also a big switch from wheat to barley production. This resulted in a shortage of wheat and a surplus of barley. For 2021 harvest, we are not seeing as large a reversion to wheat as some might have thought, with many growers reducing their winter cereal percentage in their rotation. Barley, oats, pulses and other crops are taking its place. This chart plots our crop area forecasts multiplied with the 5-year 2014-2019 yields.



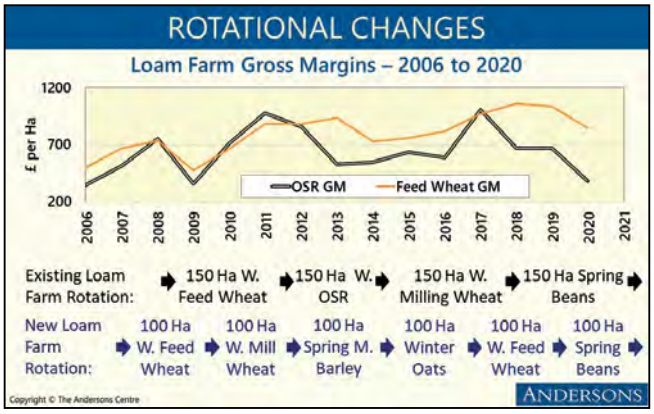
With the Agricultural Transition and the introduction of ELMs, it might be thought that this will herald a great shift in land use – especially arable land being taken out of production. In fact, looking back over 45 years, changes in policy have relatively little effect on cropping patterns at the aggregate level. Whilst we expect the changes in land use to be potentially greater than for any other policy change on the chart, changes may be less than some are predicting (and centred on marginal land).



Global prices (in Sterling terms) have been quite steady for several years – especially for maize which is the main global feed grain. Wheat prices have been on a slight upwards trend for a couple of harvests as the global supply/demand situation has tightened. These prices have been converted into Sterling, so exchange rate movements are in the background. Sterling weakened after the Brexit referendum in June 2016 – there is no obvious movement in prices on the chart, but the weakness kept Sterling prices up when they were actually weakening in Dollar terms. Global prices have taken-off since harvest 2020, led by the coarse grains, which are in tighter supply whereas wheat is more plentiful.



Here we see the price paid for farm-collected combinable crops for spot sales (the nearest delivery date). Prices have risen strongly in the last 6 months, partly because of local market imbalances (short wheat crop) but also tighter supplies globally. This is partially driven by rising demand from China but also drier fields in many parts of the world. Climate change is thought likely to make crop conditions less predictable throughout the world. Consumption will continue to rise. Prices have always been volatile and this will not stop.



The gross margins for oilseed rape, relative to winter wheat, have been declining for the past few seasons. This is largely due to low yields caused, to a great extent, by Cabbage Stem Flea Beetle (CSFB) infestations. OSR tends to be an expensive crop to grow (fertiliser and sprays), with a lot of the cost 'up-front'. Therefore, the risk involved in growing it, with uncertain yields and returns is high. This has seen many farmers abandon the crop in recent years. Loam Farm has now joined this movement. Without OSR, combinable crop rotations tend to become more difficult and complex. The lack of good break crops means there are more cereals – it remains to be seen how sustainable this is over the long-term.

LOAM FARM MODEL

- 600 Ha of combinable crops; 240 owned, 360 FBTs
- owner plus 1 FT worker & harvest casual

£ per Ha	2019①	2020①	2021②	2022③
Output	1,314	1,165	1,379	1,332
Variable Costs	439	370	390	446
Gross Margin	875	795	989	886
Overheads	442	436	437	454
Rent and Finance	239	238	242	242
Drawings	79	75	78	78
Margin From Production	115	46	233	113
Basic Payment	230	233	197	162
Business Surplus	245	279	430	275

 Source: Andersons ① Result ② Provisional ③ Budget ANDERSONS

To illustrate trends in cereals farm profitability, we use our 'Loam Farm' model. This is a notional business which has been running for 30 years and tracks the fortunes of combinable cropping farms. It is 600-hectares, previously in a simple rotation of milling wheat, oilseed rape, feed wheat and spring beans. It is based on real-life data. The 2019 harvest had good yields and reasonable prices. Harvest 2020 shows the effects of the unusually wet autumn and winter and the impact on output. The usual winter crops were not planted and those that did get established did not yield well. There were extra spring plantings. Whilst prices were high post-harvest 2020, Loam Farm sells a proportion of grain forward and has therefore not benefitted fully from this. Variable costs were lower due to the change in cropping. The current year, 2021, has a significant cropping change discussed on the previous slide. This has reduced variable costs. Crops currently look well and yields should be at least back to average levels. Good sale prices are budgeted with a third of the harvest already committed. Despite a declining BPS, the budgeted business surplus is a record figure. For 2022 prices are budgeted to fall back. Additional overheads are incurred through higher machinery investment after a 'lull' in recent years. The BPS continues its decline.

LOAM FARM MODEL - SCOTLAND

- 600 Ha (S. Barley, Winter Wheat, Winter OSR, Winter Oats/Barley)
- 240 owned, 360 CFA's; owner plus 1 FT worker & harvest casual

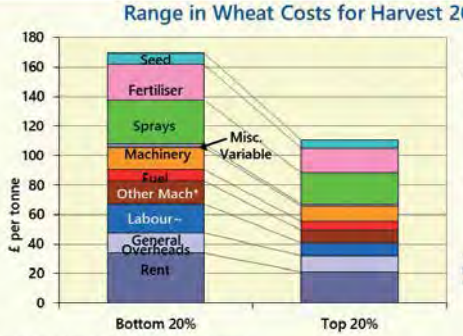
£ per Ha	2019①	2020①	2021②	2022③
Output	1,246	1,270	1,295	1,206
Variable Costs	368	365	361	407
Gross Margin	877	905	934	799
Overheads	431	426	426	443
Rent Equiv. and Finance	230	229	233	233
Drawings	79	80	78	78
Margin From Production	137	170	197	46
Basic Payment	235	231	221	221
Business Surplus	372	401	418	267

 Source: Andersons ① Result ② Provisional ③ Budget ANDERSONS

This shows the results of the Scottish version of Loam Farm. It is a notional 600 hectare farm business based on real-life data. The cropping is different from the English model, growing a significant amount of barley – mainly spring malting barley but also some winter barley as well. It has retained oilseed rape in the rotation as it continues to perform well – with an especially good gross margin forecast for 2021 harvest due to the current high crop prices. It can be seen that the previous harvest and the upcoming one have delivered very good returns for Scottish combinable cropping farms (2020 was not affected by the weather as it was in England, but still benefitted from better prices). The BPS payments in 2020 and 2021 include convergence uplift amounts.

COST OF PRODUCTION

Range in Wheat Costs for Harvest 2021

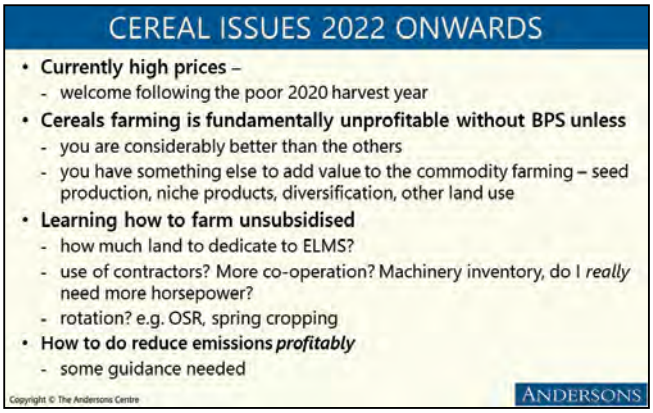


Loam Farm Figures for 2021 adjusted for performance differentials seen in the Farm Business Survey.

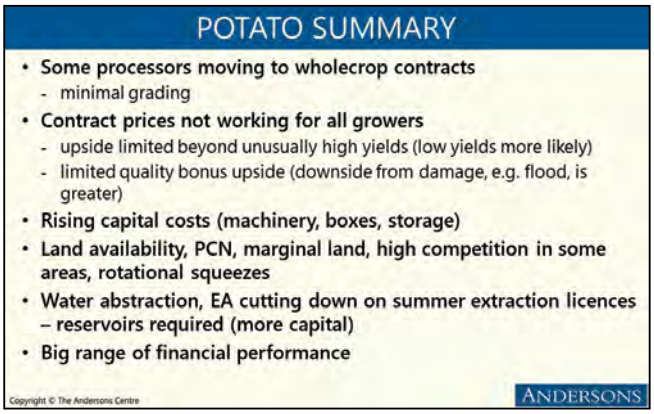
~ includes proprietor's manual labour
* repairs, insurance,

 Source: FBS / Andersons ANDERSONS

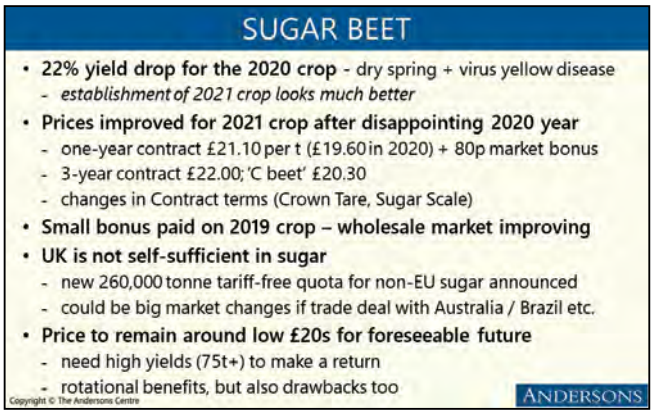
There is a wide range in performance across cereals businesses. This chart shows Loam Farm's wheat cost of production for 2021 harvest, but adjusted for typical performance ranges. These come from the Farm Business Survey (FBS) and relate to the 2018/19 year (the latest for which there is a detailed breakdown). The differences arise from two main sources. Firstly, the better farms get higher yields and, therefore, the costs are being divided by a higher figure so are lower on a per tonne basis. Secondly, the better farms just tend to spend less on many costs. This is less the case for variable (direct) costs but more so for the overhead costs and especially machinery and labour.



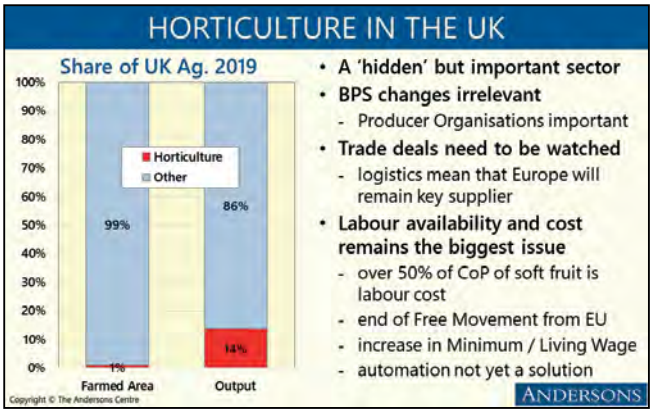
The high prices currently available for new crop are a welcome relief for many growers who experienced a poor 2020. The crops in the ground are currently looking good overall. By now, some will have been swathed or sprayed. But as we say farewell to the BPS, the hard realities of commodity farming come home to roost. The Net Farm Income chart (slide 8) shows combinable crop farming is not in itself a viable business format unless you and your farm perform better than most. Will this lead to mass exodus of cereals farming in the UK? No. It won't because most farmers have other enterprises to underwrite the arable operation. Most farmers also have the single minded determination to keep going. The farm remains the golden goose, most farm diversifications would be difficult or impossible without the farm or land. But we might see more smarter thinking in the coming decade.



Its not just the price that is volatile with potatoes. When crops yield well, then everybody is happy, when they fail or the quality is poor for examples, the buyers are covered with specification requirements in their contracts. The grower loses out. This has always been the case, but with an ever increasing proportion of fixed price sales (now about 2/3 of all potatoes), the price rises following crop losses are not captured by growers. The cost of producing potatoes is rising quickly, particularly the capital costs, meaning the commitment to carry on is tested at more points when it comes to reinvestment. Producer numbers are therefore falling despite overall area having remained relatively flat since 2005.

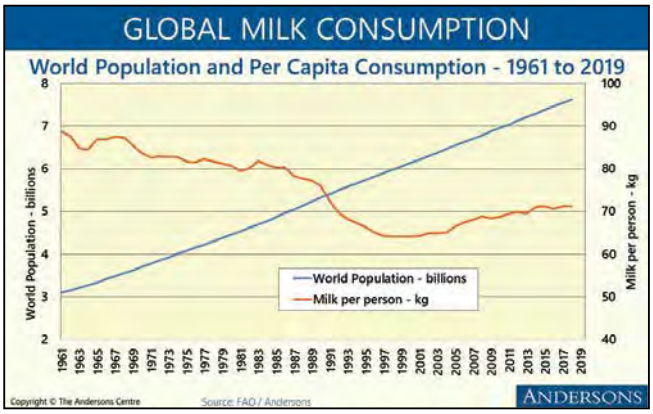


Sugar beet in the UK is an unusual crop. Its most distinguishing feature is that there is only a single buyer for the crop (discounting small sales for anaerobic digestion use). There is not always a harmonious relationship between the processor and the supplier base – this comes into sharp focus with the annual price negotiation. However, the fact that the sector is coordinated and managed has seen some impressive efficiency gains in recent years, with average yields climbing steadily. The 2020 beet crop was affected by dry conditions at planting and then the effect of the Virus Yellows disease. With a relatively low beet price, returns for many growers will not have been high – especially for those on light land with the worst yields. Some will be questioning the future of beet on their farms, particularly with little sign prices are going to move from the low-£20s in the near future. But the crop does have rotational benefits.

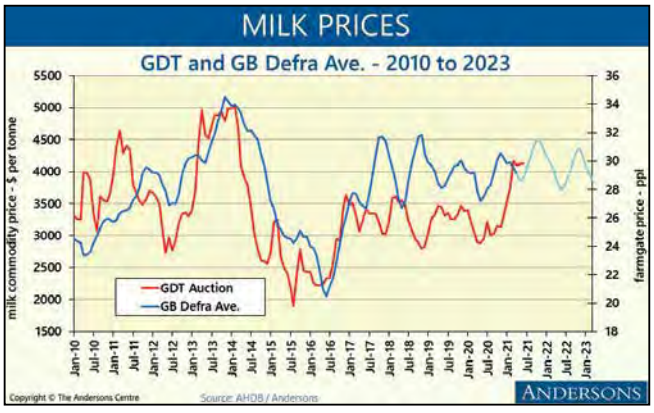


The horticulture sector (by which we mean fruit and vegetable production) is often overlooked (indeed, we only have one slide on it in this presentation). It takes up a very small proportion of the UK farmed area (0.9%). It is also dominated by a small number of very large businesses – making it quite self-contained. Subsidy changes will not impact this sector – the BPS is a tiny proportion of 'per Ha' output. The continuation of processing and marketing support through Producer Organisations is more important. As concerns about healthy diets and food emissions rises, there should be good opportunities for the UK horticultural sector. However, it may be difficult to grasp these opportunities due to issues with the availability and cost of labour.

DAIRY



The chart shows the rise in population over the last 60 years, from a little over 3 billion people to approaching 8 billion. Milk consumption is the raw milk equivalent of all dairy products consumed. The line for milk consumption shows some interesting changes. In the first two-thirds of the chart it actually goes down. The main factor here is a 'dilution effect' – the growth in population was in parts of the world that could not afford to buy much dairy product, or where dairy was not traditionally part of the diet. Whilst global milk production was rising during this period, it was being outpaced by population growth and so the milk per head figure falls. Since the 1990's, the world's population has continued to grow at about the same rate, but the milk per head figure has risen. This is a result of the growing numbers of the global 'middle class' and their desire for more 'western' protein-rich diets. This offers significant opportunities to the world's dairy producers. UK per capita milk consumption is around 220kg.



The 'world price' for milk is taken to be the Global Dairy Trade (GDT) auction price (dominated by the large New Zealand co-op, Fonterra). During the 2010's the commodity market for milk was very volatile. This is because it takes a long time for supply to react to market signals (bringing extra cows into the herd takes 3+ years). Supply and demand therefore tend to under and over-shoot each other. Also, only around 5-10% of global milk production is ever traded, but it is this element that affects commodity prices. Small changes in supply from major exporters, or demand from importers can cause large shifts in price. GB prices are heavily influenced by the world market. This is despite the fact that around half of the milk produced in GB goes into the domestic liquid market rather than competing with imported milk products. Over the last 4 years there has been less price volatility – the movements seen in the UK price are largely down to seasonality.

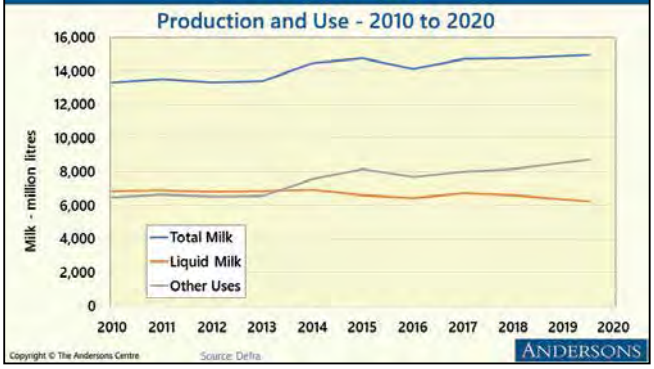
DAIRY MARKETS

- **A period of relative calm in world and UK dairy markets**
  - 'steady' output growth in main exporters – no surges
  - ongoing demand from importers
- **Covid only had a very short-term impact** (significant for a minority)
- **UK prices continue to benefit from the weak Pound**
  - difference between € = 70p and 90p is 4p to 5p on farmgate milk price
  - no major change since Brexit deal – sentiment can change quickly
- **AHDB forecasts global supply to increase 1% in 2021 (0.4% in UK)**
- **Price prospects depend largely on demand**
  - a general economic recovery from Covid should see values maintained
- **Not yet clear what trade effects will be**
  - increase trade costs on UK/EU trade – minimal farmgate effects?

ANDERSONS

Demand remains strong in the main importing nations (e.g. China). Whilst prices have been at reasonable levels, they have not been high enough to draw out large volumes of extra production. Many countries' production has only increased gradually – in some cases limited by environmental issues. Whilst the shutdown of the foodservice sector due to Covid affected a small number of UK processors in spring 2020, consumers' reduction of food waste had a far greater effect. Overall there has been little discernible market impact. Consumption statistics suggests more milk and milk products have been consumed in lockdown. The weak Pound has been a feature of UK commodity markets for many years now – but it is easy to forget how important this is in boosting farmgate prices.

UK MILK OUTPUT



Source: Defra

ANDERSONS

In the EU just 11% of the milk output is for drinking milk (compared to 48% in the UK) with the rest processed. As the UK continues its shift towards manufacturing with the ongoing decline in the demand for liquid milk will this lift average prices going forward? There can now be little doubt that the liquid sector, once seen as the premium outlet for milk, has much to answer for in encouraging systems of milk production that are generally much higher cost. Level supply, longer housing periods, less reliance on grazed grass, and higher cost in terms of labour and power requirements are all legacies of the liquid market. The focus for the future should be on profitaility and not output. Our most profitable clients are those practicing low cost, medium output, grazing-based systems with the yield from forage at >4,000 litres; other key characteristics include block calving (autumn or spring or both), cross breeding to enhance milk solids, and an absolute focus on cost control.

PROCESSING AND SYSTEMS

- **The dairy sector is different from other parts of farming**
  - daily production of a perishable commodity – must be sold *on the day*
  - ongoing (symbiotic) contractual relationship with the processor
  - not always easy to move processors – geography, demand, contracts etc.
- **Low value-added in parts of the supply-chain (liquid milk)**
  - little margin to share out
- **Unwillingness to invest in processing capacity (e.g. Scotland)**
- **More acceptance of low cost (seasonal) production systems;**

GB System	AYR	Spring	Autumn	Spr + Aut
2017	81%	4%	8%	7%
2020	72%	8%	9%	11%

- **Partnership approach still lacking**

ANDERSONS

Being so perishable, there is not the opportunity to hold-back produce from the market during market dips – it has to be sold at the prevailing price. The daily nature of production and the consequent contracts in the dairy sector also make it difficult for farmers to 'shop around' for different purchasers of their product. This factor also makes the relationship between a dairy farmer and their milk buyer much more symbiotic than that between a grain farmer and their merchant. How the processor's business fares directly impacts on the farmer through their milk price. There has been a strong move towards seasonal (lower-cost) production systems in recent years.

FRIESIAN FARM MODEL

- 200+ cows plus followers on 130 Ha (part rented)
- Year-round calving, constituent contract. Owner and worker

ppl	19/20①	20/21①	21/22②	22/23③
Milk	28.0	28.5	29.8	29.3
Total Output	29.8	30.8	32.4	31.8
Variable Costs	12.4	13.3	13.1	13.0
Overheads	9.9	10.0	10.0	10.1
Rent, Fin. & Drawings	6.3	6.4	6.3	6.2
Total Costs of Production	28.6	29.7	29.4	29.4
Production Margin	1.2	1.1	3.0	2.4
Basic Payment	1.9	1.9	1.8	1.5
Business Surplus	3.1	3.0	4.8	3.9

Source: Andersons ① Result ② Estimated ③ Budget
ANDERSONS

Profitability figures from our Friesian Farm model are shown here. This is a notional 200+ cow business in the Midlands with a milk contract on a constituent basis. It has a year-round calving system, like much of the UK industry, but it is trying to maximise yield from forage. The figures are shown for milk years – April to March. 2019/20 year showed a recovery in profitability after the drought-hit 2018/19, even though the milk price was weaker. Farmgate prices firmed (slightly) for 2020/21. However costs also rose – notably dairy feed following the poor harvest of summer 2020. A further increase in farmgate milk prices has been seen (so far) for 2021/22 and this is forecast to give a higher average price for the year. Feed prices for winter 2021/22 should be lower, but other costs (notably fertiliser) increase. Looking to 2022/23 milk prices are forecast to ease a little. The decline of the BPS due to Agricultural Transition can be seen.

FRIESIAN FARM MODEL - SCOTLAND

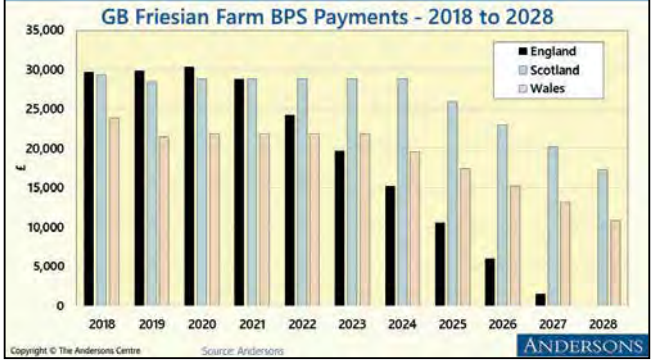
- 200+ cows plus followers on 130 Ha (part rented)
- Year-round calving, constituent contract. Owner and worker

ppl	19/20①	20/21①	21/22②	22/23③
Milk	27.7	28.2	29.5	29.0
Total Output	30.0	31.0	32.5	32.0
Variable Costs	13.0	13.8	13.7	13.5
Overheads	10.0	10.1	10.0	10.2
Rent, Fin. & Drawings	6.2	6.3	6.3	6.2
Total Costs of Production	29.2	30.2	30.0	29.9
Production Margin	0.8	0.8	2.5	2.0
Basic Payment	1.9	1.9	1.8	1.8
Business Surplus	2.7	2.7	4.3	3.8

Source: Andersons ① Result ② Estimated ③ Budget
ANDERSONS

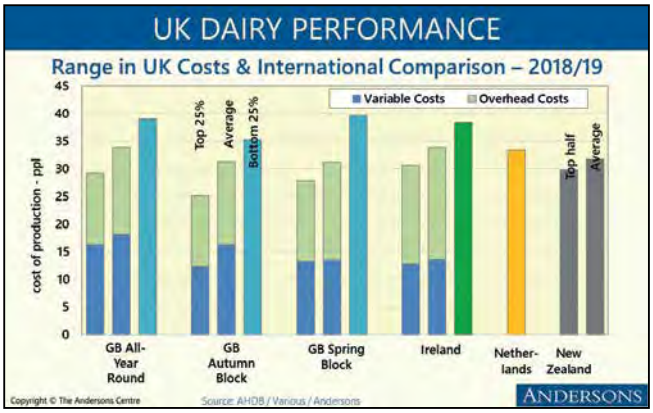
Our Scottish version of Friesian Farm is a notional 130 hectare holding in central Scotland with 200 milking cows. The figures differ from the English model in that milk prices are lower, beef prices are higher, the farm does not grow maize, and some costs are higher due to the longer winters. The profitability story is much the same over the years shown as for the English dairy farm. The current milk year, unless there is a collapse in the milk price from the summer onwards, looks set to produce good profits. With 1.6m litres of annual production, a business surplus of 4.3ppl equates to over £69,000. One point of contrast with the English Friesian Farm is the unchanging contribution of the Basic Payment. The BPS in 2019 and 2020 includes the convergence uplift.

THE AGRICULTURAL TRANSITION

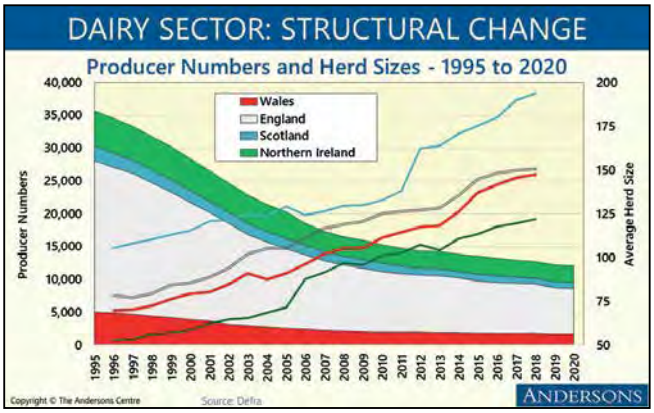


Source: Andersons
ANDERSONS

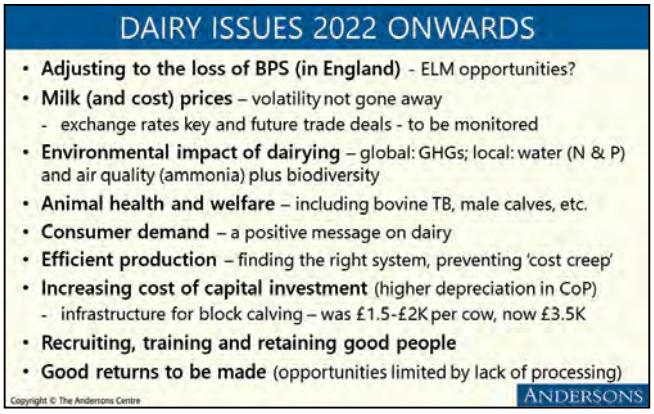
Like other sectors of farming, dairy producers in England are faced with drops in their BPS over the next few years as it phases-out by 2028. The chart shows the payments for Friesian Farm. The deductions beyond 2024 are our estimates as Defra has not announced the phasing for the years 2025 onwards. It can be seen that the situation in England contrasts with that in Scotland where the BPS looks set to remain unchanged until at least 2024. This creates an 'unlevel playing field' across the UK. This is nothing new. Due to differing ways in paying the BPS there have been historical differences. Friesian Farm in Wales has been receiving a lower level of support for some years.



This chart shows total cost of production under three typical systems in Great Britain. The Average and Top-25% figures are split between variable costs and overhead costs. It can be seen the greatest differences between the performance bands are in overheads. There are also some comparisons with costs in other countries. Due to the inherent methodological difficulties in such cross-border cost comparisons, do not to focus on specific figures but take the analysis 'in the round'. The key point for the British dairy sector is that its farms are generally cost-competitive with other producers around the world. Indeed, the best of our dairy farms seem to be as good as those anywhere in the world.

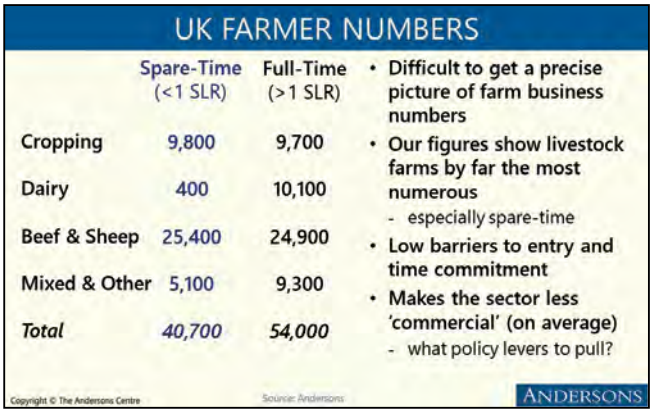


The chart compares herd sizes and producer numbers for the four home nations. It shows all four countries exhibit the same overall trends of declining producer numbers and larger herd sizes. The decline in producer numbers has been less marked in NI (down 52% between 1995 and 2019) than England, Wales and Scotland (down 69%, 67% and 60% respectively). NI has the smallest herd sizes and Scotland the largest. This structural change is likely to continue. However the overall slope of the producer numbers curve is flattening out – suggesting there is now a 'hard core' of producers.



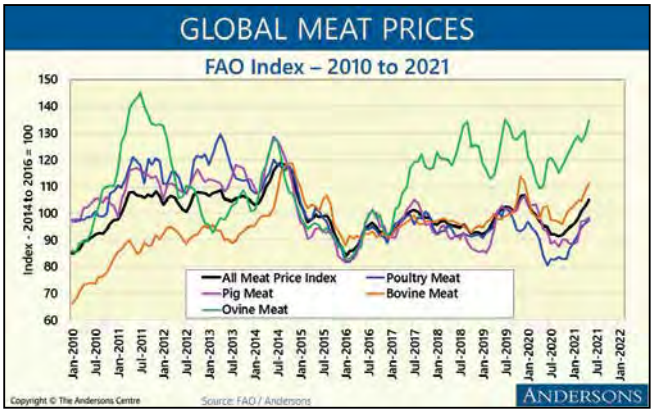
Like other sectors of UK agriculture, dairying is facing a decade of change. The sector will be affected by the loss of the BPS less than others as it forms a smaller proportion of current output. It will still be a big shift though. Environmental schemes have tended to offer little to dairy farms in the past – hopefully ELM can change this. The whole sector must demonstrate 'best practice' in all many areas in order to keep wider society on board – these include animal welfare (especially male calves), ammonia, nitrates, phosphates, GHG emissions and food safety. It could even be extended to offering pleasant, well-paid jobs! The sector is capital-intensive and ongoing investment for the future is key (whilst at the same time keeping costs under control). The best businesses will have a vision of where they want to be at the end of the decade.

GRAZING LIVESTOCK

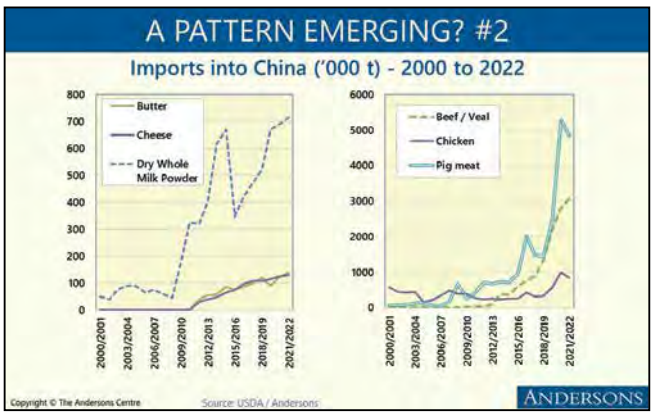


This category of UK farming has by far the most businesses within it. There are several reasons for this;

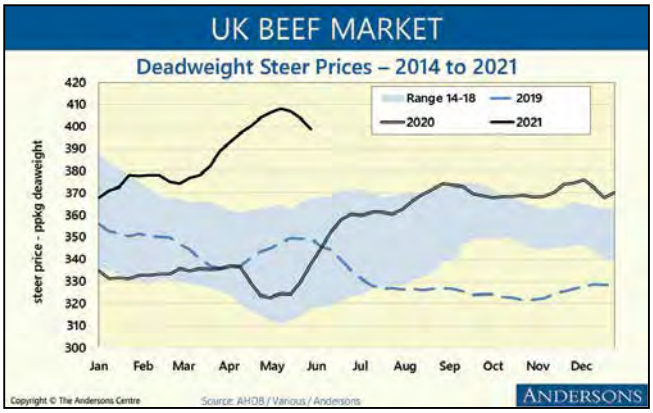
- The barriers to entry are low, with low capital requirements to set up and run a Grazing Livestock business.
- There is less time commitment than in other sectors. As such, part-time farming is easier. This type of farming is consequently often seen as a retirement option.
- Grazing Livestock is often seen as a more 'appealing' way of life to many – there is not the 'tie' of everyday milking or management on an ongoing basis as there is with intensive livestock.
- Supply chains are more open; anybody can have a few cattle then sell them at a market.
- Grazing Livestock is useful if the desire is only to keep farms 'ticking over' such as by tenants who want to keep their house, or owner-occupiers who are staying on the farm for the tax advantages.
- High levels of support are achievable through this system (notably the BPS, but also agri-environment agreements).
- These systems can operate in areas of the UK where other farming is not possible - hills and also poor lowland areas.
- Emotional attachment to the lifestyle, for example herds and flocks are built up over generations with greater levels of personal ownership especially for genetically pure breeds.



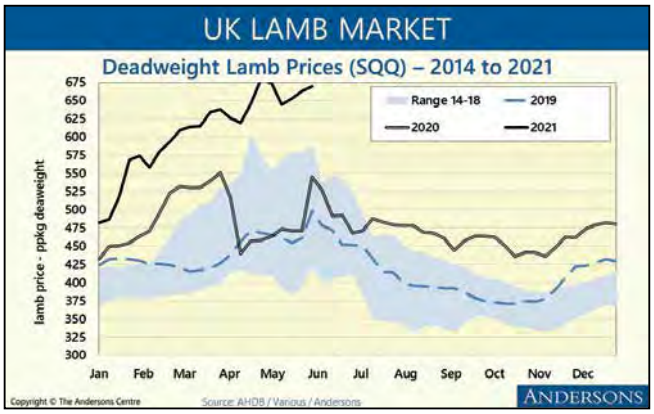
To get a global perspective this chart shows an index of meat prices on the world market. It is collected by the FAO and is computed from average prices of four types of meat, weighted by world average export trade shares for 2014-2016. The index is also based on 2014 to 2016 values. It shows there was an uplift in 2019 as a result of the Chinese ASF outbreak, but there was a subsequent fall. Prices have moved up strongly again since the middle of 2020. Overall, other than for sheepmeat, prices were quite flat for three years from 2016. Additional volatility now seems to be occurring. The figures are in current prices, so over the period the real-terms value of meat will have declined. This is the market that UK producers are operating in.



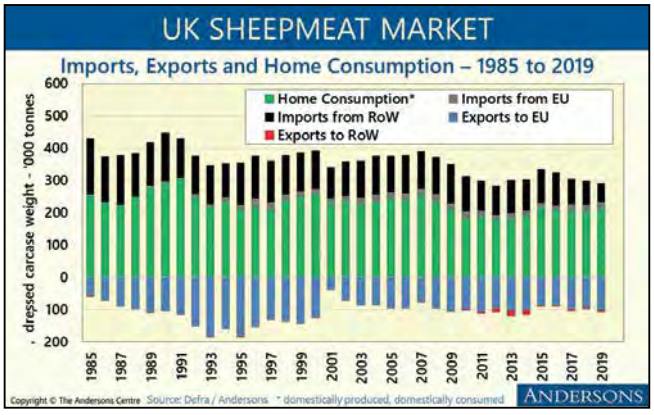
The arable section contained charts showing the growth of Chinese imports of grains (and associated commodities). The same trend is evident for livestock commodities – although perhaps a bit less developed as yet. If this pattern continues then it would herald a historical shift in trade patterns. Any new market offers potential for all agricultural-producing nations to benefit, even if the UK does not sell directly to China (which is far away and very price conscious). It may pay for us to play to our strengths and sell on 'British' quality, provenance and heritage to affluent Chinese (and others) rather than try to compete simply on price.



Beef prices had been in the doldrums since the latter part of 2018. They were showing some improvement then Covid hit. Since the start of summer 2020 there has been a strong improvement in values. On the supply side, production volumes have been lower both domestically and from the key import supplier of Ireland. Demand has been strong. Retail beef sales in the 12 months to the end of Dec 2020 were up 11%. Big growth has been seen in mince burgers and steak – partly helped by promotions. Of course, foodservice demand slumped. However, the switch to home consumption may have helped domestic producers – a lot of foodservice product is imported whilst that on supermarket shelves tends to be GB-sourced. Covid-weary consumers also seem to have been willing to treat themselves at home with high quality (e.g. domestic) meat.



The sheep sector has a very seasonal price pattern. For the 2020 year, the 'Covid crash' can be seen – but relatively few UK sheep were being sold in this period. Since the start of the summer prices have been good and since the turn of the year have been excellent. Many 2020-year lambs were sold early as a result of good grass growth and the desire to sell before 31st December 2020 Brexit cut-off. This has led to low supply at the start of 2021. Covid has had some, perhaps surprising, effects on lamb demand. Although the foodservice sector has been largely lost, the takeaway sector (curries and kebabs) seems to have more than compensated. Retail sales of lamb are up too - possibly consumers experimenting with new recipes at home or 'treating' themselves.



This slide gives a graphical representation of how important trade is in the sheepmeat sector. Exports to the EU are crucial to 'clearing the market' (especially of light hill lambs) during the peak production period of late summer / autumn. The Trade and Cooperation Agreement (TCA) between the UK and EU should keep export volumes up. The added complexity / cost of doing business with the EU may have some effect on farmgate prices. Very little sheepmeat is exported from the UK to the rest of the world and this market has not grown in recent years. There may be opportunities here. Overall, the height of the columns above the line is the total consumption of sheepmeat in the UK. It can be seen this has been in steady decline. Perhaps Covid will have reacquainted people with lamb consumption.

RED MEAT MARKET OUTLOOK

- **Domestic beef and lamb volumes to remain constrained**
  - AHDB forecasts 5% drop in beef UK production for 2021 (lower animal numbers and lower weights)
  - also 5% drop in sheepmeat (2021 lamb crop the same, less carry-over)
- **Imports to increase (slightly)** – unless a revaluation of Sterling
  - logistical challenges on trade once volumes grow?
- **Consumer demand change is unknown**
  - effect of winding-down of lockdown and reopening of eating-out?
  - disposable income once furlough etc. ends
  - 'back to 2019' or has something shifted?
- **Red meat markets likely to remain firm into early 2022**
  - lamb prices less robust than beef (partly because they have been so high)
  - no trade deal effects in next 12 months

ANDERSONS

This slide gives some thoughts on the prospects for the red meat market over the coming year. Generally, the outlook is reasonable. But a caveat must be provided on economic uncertainty and exchange rates.

DISRUPTIVE CHANGE IN UK LIVESTOCK

- **A lot of investment in 'alternative' production methods**
  - milk as well as meat
- **Most current products are 'meat replacements' – soya based etc**
  - far better GHG credentials than any meat
- **Greater long-term development is cultured meat and milk**
  - growing the same protein chains in a lab
  - therefore, the 'same' product
- **Not yet cost-competitive**
  - but see solar panels for an example

ANDERSONS

Producing meat without needing the animal sounds futuristic. The future in on its way. There has been a large amount of 'hype' around cell-grown meat (and milk) technologies. There has also been significant venture capital investment. It would not be a surprise to us if they became a commercial reality. At present they are 'niche' – relatively expensive and not as good as the real thing (our opinion). But it it was the same for mobile phone cameras (vis-à-vis conventional cameras) and many other innovations. Cell-grown meat products are marketed on their non-animal origins. Eventually they will become cost and taste-competitive with meat and milk and perhaps, in time, 'real' meat and milk will become the luxury items. This would obviously have a huge impact on livestock farming.

MEADOW FARM MODEL

- **154 Ha mixed lowland farm (114 Ha owned, 40 Ha FBT)**
- **Beef (suckler cows plus finishers, finished bulls, sheep and arable)**
- **Proprietor, 1FT family worker & casual**

£ per Ha	19/20©	20/21©	21/22②	22/23③
Livestock Gross Margin	617	741	713	669
Crop Area Gross Margin	662	702	703	672
Total Gross Margin	626	732	710	669
Overheads	510	492	483	502
Rent, Finance & Drawings	325	327	328	31
Margin From Production	(209)	(87)	(101)	(165)
Basic Payment and CSS	251	255	241	206
Business Surplus	43	168	141	42

Source: Andersons © Result ② Estimated ③ Budget

ANDERSONS

'Meadow Farm' is a notional 154 hectare (380 acre) beef and sheep holding in the Midlands. It consists of grassland, with wheat and barley mainly for livestock feed. There are 60 spring-calving suckler cows with all progeny finished, a dairy bull beef enterprise and a 500 ewe breeding flock. In all the years (shown), the business makes a loss from its farming activity. This is lesser or greater depending on market factors – for example 19/20 was a poor year due to low beef prices, 20/21 was good thanks to higher livestock values. The current 21/22 looks set to be reasonable, but only after the BPS has been added. This gradually falls as the Agricultural Transition occurs. These types of farms will be the most tested by changes in support. No SFI payments have been budgeted for 2022 onwards as we don't know enough about the scheme yet.

MEADOW FARM MODEL - SCOTLAND

- 154 Ha mixed lowland farm (114 Ha owned, 40 Ha SLDT)
- Beef (suckler cows plus finishers, finished bulls, sheep and arable)
- Proprietor, 1FT family worker & casual

£ per Ha	19/20①	20/21②	21/22②	22/23③
Livestock Gross Margin	633	767	735	690
Crop Area Gross Margin	629	708	668	611
Total Gross Margin	632	755	721	673
Overheads	517	498	489	509
Rent, Finance & Drawings	322	323	325	328
Margin From Production	(207)	(66)	(93)	(164)
Basic Payment & SSBSS	267	266	257	257
Business Surplus	60	200	164	93

Source: Andersons ① Result ② Estimated ③ Budget
ANDERSONS

Scottish 'Meadow Farm' is a notional 154 hectare (380 acre) beef and sheep holding in the Scottish Lowlands. It consists mostly of grassland, with barley grown mainly for livestock feed. There is a 60 cow suckler herd with all progeny being finished, a dairy bull beef enterprise and a 500 ewe breeding flock. Fundamentally, this farm has too many enterprises and manager has not been clever with the assets or working with other farms - it is too self-sufficient. The business is subsidy dependant.

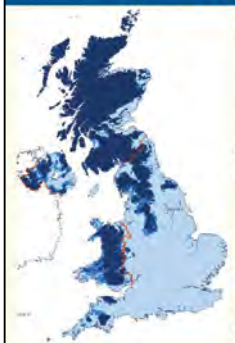
MEADOW FARM OPTIONS

- Meadow Farm is only an *example* of livestock profitability
  - many good, profitable, businesses in the sector
- **Improve farming profitability**
  - simplified systems, meat from grass, lower overheads etc.
- **New income streams** (but what is management capability?)
  - farming: new enterprises (poultry unit); adding value
  - non-farming: diversification, off-farm income (inc. part-time farming)
- **Public goods payments**
  - embracing ELM, perhaps other sources – biodiversity offsets
- **Cease active farming** – this is *not* failure – people change careers / close businesses every day of the year
  - lots of creative ways to do this – joint venture etc.

ANDERSONS

The returns for Meadow Farm do not look great – even in a year when beef and sheep prices have been very good. The loss of the BPS (in England) will test these types of farms. It must be remembered that Meadow farm is only a 'model' showing typical performance. We know of many businesses in this sector which will be able to remain profitable even after direct support is removed. This slide lists some of the options available to the family running Meadow Farm – the type to thing we would be looking at in our Farm Consultancy business. It is planned to have funded farm advice under the Agricultural Transition plans as part of the Future Farm Resilience Framework.

'UPLAND' SUPPORT



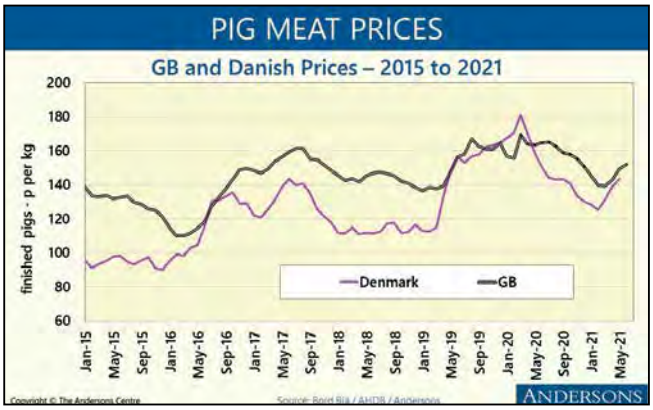
- **Governments recognise challenges of farming in the hills**
  - *although profitability no worse than lowlands*
  - 'multi-functional' aspects – communities, landscape, wildlife more than food
- **LFASS to continue in Scotland**
- **A 'Farming in Protected Landscapes' (FiPL) scheme planned for England**
  - in National Parks and Areas of Outstanding Natural Beauty (AONBs) – not just LFAs
  - from 2021-2024, details not available
  - *gap with loss of BPS and no new funding*
- **No specific support in Wales**

ANDERSONS

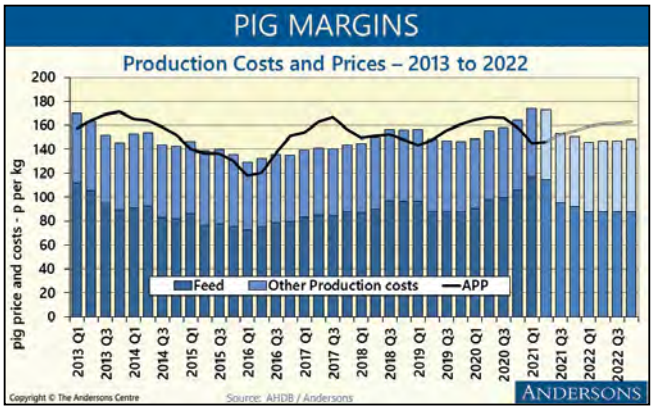
The UK Governments generally recognise the importance of farming in the hills. This is not necessarily due to the food being produced (which is what many farmers would want to be 'valued' for). It is more about the other services that farming provides. The new public goods schemes may reward these more explicitly. In Scotland, the LFASS scheme will continue to at least 2024 with farming-focused support. In England, the Farming in Protected Landscapes (FiPL) scheme is due to start sometime this year. The fund is not limited to traditional hill regions. Areas of Outstanding Natural Beauty (AONBs) will also be eligible – although it is not currently clear how the scheme will operate. Many English farms are challenged by the loss of the BPS whilst not being able to access any replacement funding as they are already in CS/HLS etc. For some years, Wales has opted not to run a specific hill-farming scheme. This policy looks set to continue.

The current good prices in the beef and sheep sectors will mask many of the longer-term issues it has. Systems have evolved that are reliant on direct payments to deliver farm profitability. In England this is now time-limited and other parts of the UK are likely to follow in some way. This is a sector with the most farmers, making the least money and many, whether they realise it or not, are lifestyle farmers. As the BPS disappears, the decision to go for public goods payments, or get better, or do something else will be an important choice for a large number of farmers. The emotional investment of many of these farmers in their land and their stock is high – meaning change is difficult even if it is the right thing to do.

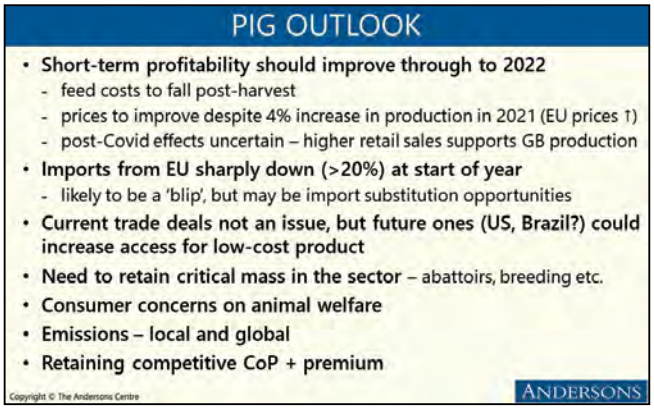
PIGS AND POULTRY



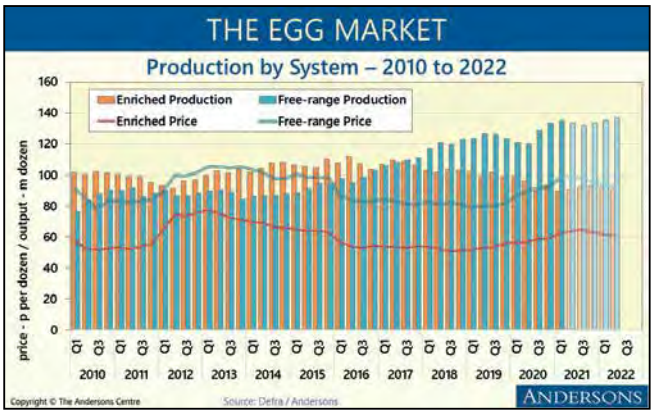
The UK pig meat price is normally above the EU price – illustrated here by the Danish price – a key importer into the UK. Domestic pigmeat has established a premium price on average. This is mainly to do with dedicated supply chains and a premium for outdoor-produced pork which forms a far greater proportion of UK production. The longstanding rule-of-thumb is that margins should be achievable for efficient pig producers if the pig price is above 140ppkg. This has been the case for some years now. The declines in 2020 keep prices in the historic trading ranges. They are largely due to an EU pigmeat oversupply. It is partly extra production – caused by slightly larger herds and pigs taken to higher weights (often due to processing backlogs caused by Covid-related shutdowns in abattoirs). It is also a function of African Swine Fever (ASF) in Germany. The country can no longer export to China and the product is left on European markets. Markets are seen rising again since January 2021.



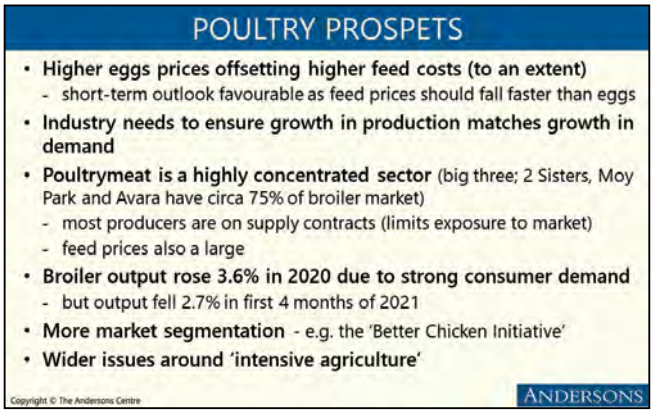
This chart shows the average costs of production and finished sale prices and therefore also typical margins in the pig sector. There will be a range of performance around any average. Pig producers made positive margins throughout much of 2019 and 2020. The margin being made is the gap between the All-Pig Price (APP) (black line) and the columns. After harvest 2020 the price of grain rose sharply and this translated into higher feed costs. At the same time prices fell for the reasons on the previous slide. This has currently put the sector into a loss-making position. Forecasts of prices and costs have been included to the end of 2022. These are an indication of what we believe the likely trends will be. It is thought that costs, especially feed, will decline slightly after harvest 2021. There should be an improvement in pig prices too.



We believe that there will be an improvement in pig returns during the remainder of 2021 and through into 2022. The main driver will be lower feed prices (circa 60% of the total Cost of Production for finished pigs). Rising prices will also help. There was a sharp drop in imports from the EU in Jan to March. This may simply because product was stockpiled before the turn of the year. However, trade will become more difficult and this could open opportunities for UK producers against traditional competitors such as Denmark and the Netherlands. The trade deals in the offing with Australia and New Zealand should have little effect on the pigmeat market. However, if they set a precedent for future deals with countries with large pig sectors then that could be a big treat to the sector in the medium term. The pig industry needs to reassure consumers about production standards and its environmental credentials.

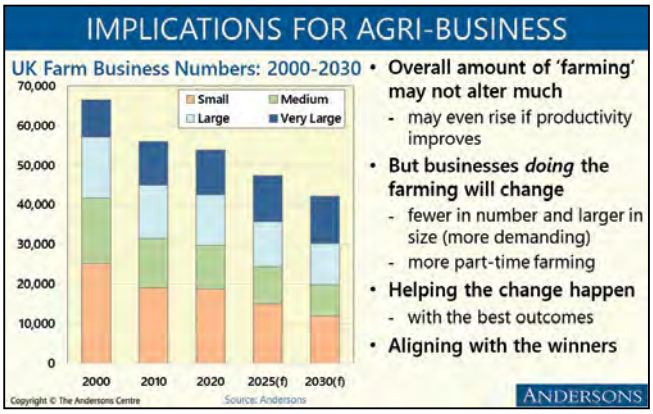


In 2009 the average UK resident ate the equivalent of 1.64 eggs per week. By 2019 this had risen to 2.11. (These are household purchases of eggs, excluding foodservice consumption). The UK does import some eggs (7% of the total in 2019) but these are mainly for processing uses. The rise in demand from UK consumers has prompted a big increase in domestic production. In recent years this has mostly been free-range production – boosted by the commitment of several retailers / manufacturers moving to 'cage-free' from 2020 onwards (most from 2025). Covid lockdown-1 in early 2020 caused a rise demand for eggs (more home-baking). Producers responded quickly with extra output. Prices have remained firm. Output should stabilise over the coming quarters and there may be a gentle weakening of prices.



The biggest short term poultry sector (eggs and meat) issue is the cost of feed (up to 80% of the cost of production in many cases). This should decline after the upcoming harvest. The egg sector has seen big growth in recent years (often onto farms with no previous history of egg production). This growth needs to match consumer demand or there will be periods of low prices and margins. The broiler market is now hugely consolidated – the result of pressure on margins over may years. There is perhaps a sense among consumers (or some of them) that the drive for ever-lower prices may have reached its limit. The 'Better Chicken Commitment' is already established in the US and is growing across Europe. It commits retailers / producers to higher welfare chicken production with a move to slower growing chicken strains, lower stocking densities and a more 'natural environment.' Retailers including; M&S & Waitrose and food retailers such as KFC have signed up, and others look set to follow. Intensive livestock needs to address the wider concerns of society, especially around production systems, animal welfare and greenhouse gasses. These sectors tend to be high-turnover, low margin and high-risk.

FINAL THOUGHTS



The next 5 to 10 years are going to be a period of significant change for UK farming generally and for English farming in particular. The funds granted to farmers will fall and, vitally, claimants will have to do more to access the money that is available, meaning there is less profit available. The new schemes are not business or social support schemes. The key question for farm businesses is 'do they have a plan to prosper through this period of change'? The farms in most need of support under the new schemes may not be able to avail of it, due to the complexity involved. For some farm businesses, developing an 'exit strategy' will be the most logical step to take. Of course, this will create opportunities for others, particularly the best prepared businesses. The 2020s are set to be a transitional decade for UK farming and recent research undertaken by Andersons on future farm businesses numbers suggest that by 2030 there will be 11,700 fewer full-time farms.

This slide sums-up the key messages of this morning's presentation. Overall, farming is currently in a good position, with high prices for most commodities. We should all be grateful that farming does not, cannot stop when pandemics hit, and demand remains almost unchanged. The demand for food is unfailing, offering remarkable security for well managed businesses and the wider industry. Yet the competitiveness of the industry means all growers must remain vigilant to opportunities to raise their games through whichever means they can. Make hay whilst the sun shines. We all know the vagaries of the commodity markets are greater than any other and such fortunes will not last so growers should use the current profits to secure their futures for the periods when times are tougher.

Please call if there are any questions from this presentation.

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GLOSSARY OF ACRONYMS

AD	Anaerobic Digestion
AECS	Agri-Environment and Climate Scheme (Scotland)
AHA	Agricultural Holdings Act (Tenancy)
AHDB	Agricultural and Horticultural Development Board
AMC	Agricultural Mortgage Corporation
ANOB	Area of Outstanding Natural Beauty
ASF	African Swine Fever
AwNC	Areas with Natural Constraints
AYR	All-Year-Round (milk production system)
BEIS	(Department of) Business, Energy and Industrial Strategy
BoE	Bank of England
Bord Bia	Irish Food Board
BPS	Basic Payments Scheme
Brexit	British Exit (from the EU)
BS	British Sugar
CAP	Common Agricultural Policy
CBOT	Chicago Board of Trade
CCC	Committee on Climate Change
CET	Common External Tariff
CETA	Canada-EU Trade Agreement
CFA	Contract Farming Agreement
CGT	Capital Gains Tax
CH4	Methane
CIPC	Chlorpropham
CO2	Carbon Dioxide
CO2e	Carbon Dioxide Equivalent
CoP	Cost of Production
CPI	Consumer Price Index (Inflation)
CPS	Countryside Productivity Scheme
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
CSO	Central Statistics Office (Ireland)
CS	Countryside Stewardship
CSFB	Cabbage Stem Flea Beetle
CSFCGS	Catchment Sensitive Farming Grant Scheme
CTE	Contract Tonnage Entitlement (sugarbeet quota)
CU	Customs Union
DA	Disadvantaged Area
DAERA	Department of Agriculture, Environment & Rural Affairs (NI)
Defra	Department for Environment Food & Rural Affairs
DIT	Department for International Trade
ECB	European Central Bank
ECJ	European Court of Justice
EEA	European Economic Area
EEC	European Economic Community
EFA	Ecological Focus Areas
EFS	Environmental Farming Scheme
EFTA	European Free Trade Association
EIA	Environmental Impact Assessment
ELM	Environmental Land Management
ELS	Entry Level Stewardship
EOI	Expression of Interest
EP	European Parliament
ERDF	European Rural Development Fund
ES	Environmental Stewardship
ETS	Emissions Trading Scheme
EU	European Union
FAO	Food & Agriculture Organisation (of the UN)
FBI	Farm Business Income
FBIS	Farm Business Improvement Scheme
FBS	Farm Business Survey
FBT	Farm Business Tenancy
FD	Financial Discipline
FiPL	Farming in Protected Landscapes
FIT	Feed-In Tariff
FSU	Former Soviet Union
FT	Full Time
FTA	Free Trade Agreement
GAEC	Good Agricultural & Environmental Condition (cross compliance)
GB	Great Britain
GDP	Gross Domestic Product
GDT	Global Dairy Trade
GHGs	Green House Gases
GM	Genetically Modified
GMOs	Genetically Modified Organisms
GPS	Global Positioning System
GVA	Gross Value Added (economic output)
HCC	Hybu Cig Cymru (Meat Promotion Wales)
HLS	Higher Level Stewardship
HT	Higher Tier (CS)
IGC	International Grains Council
IHT	Inheritance Tax
IPPC	Integrated Pollution & Prevention Control
KPI	Key Performance Indicator
kWh	Kilo Watt Hour
LEADER	EU Rural Community Funding
LEP	Local Enterprise Partnership
LFA	Less Favoured Area (Uplands)
LFASS	Less Favoured Area Support Scheme (Scotland)
LL	Landlord
LMO	Land Managers Options
LNR	Local Nature Recovery
LPF	Level Playing Field
LPIS	Land Parcel Identification System (BPS mapping)
LRS	Landscape Recovery Scheme
MAC	Migratory Advisory Committee
MFN	Most Favoured Nation
MLDT	Modern Limited Duration Tenancy (Scotland)
MS	Member States (of the EU)
MT	Million Tonnes
N2O	Nitrous Oxide
NAO	National Audit Office
NE	Natural England
NFI	Net Farm Income
NFU	National Farmers Union
NI	National Insurance
NI	Northern Ireland
NLW	National Living Wage
NTM	Non-Tariff Measures
NVZ	Nitrate Vulnerable Zone
NZ	New Zealand
OECD	Organisation for Economic Co-operation & Development
ONS	Office of National Statistics
OSR	Oilseed Rape
PO	Producer Organisation
PPL	Pence per Litre
PSE	Producer Support Estimate
PV	Photovoltaic (Solar)
QMS	Quality Meat Scotland
RAU	Royal Agricultural University
RD	Rural Development
R&D	Research and Development
RDPE	Rural Development Programme for England
RHI	Renewable Heat Incentive
RICS	Royal Institute of Chartered Surveyors
RoC	Return on Capital
ROO	Rules of Origin
RoW	Rest of World
RPA	Rural Payments Agency
RPW	Rural Payments Wales
RPI	Retail Price Index (Inflation)
RTFO	Renewable Transport Fuel Obligation
SAF	Single Application Form (for BPS)
SAW	Seasonal Agricultural Workers
SDA	Severely Disadvantaged Area
SFI	Sustainable Farming Incentive
SFP	Sustainable Farming Payment
SFS	Sustainable Farming Scheme
SLDT	Short Limited Duration Tenancy (Scotland)
SLM	Sustainable Land Management
SME	Small-Medium Sized Enterprise
SMP	Skimmed Milk Powder
SNP	Scottish National Party
SP	Single Payment
SQQ	Standard Quality Quotation (sheep price)
SPP	Standard Pig Price
SPS	Single Payment Scheme
SRDP	Scottish Rural Development Programme
SSBSS	Scottish Suckled Beef Support Scheme
TAC	Trade and Agriculture Commission
TB	(Bovine) Tuberculosis
TCA	Trade and Cooperation Agreement
TIFF	Total Income From Farming
TFP	Total Factor Productivity
TRQ	Tariff Rate Quotas
UAA	Utilisable Agricultural Area
UKSPF	UK Shared Prosperity Fund
UN	United Nations
USDA	United States Department of Agriculture
WG	Welsh Government
WFD	Water Framework Directive
WHO	World Health Organisation
WMP	Whole Milk Powder
WRDP	Welsh Rural Development Programme
WTO	World Trade Organisation
YESS	Young Entrants Support Scheme
YFP	Young Farmers Payment
YFS	Young Farmers Scheme

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