

ANDERSONS

Outlook 2022

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Contents

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Editor: Richard King, Head of Business Research, The Andersons Centre

INTRODUCTION TO Outlook 2022

Welcome to Andersons Outlook 2022, our annual review of the UK farming industry and thoughts on prospects for the coming year.

2022 looks set to be dominated by the recovery from the twin shocks of Brexit and Covid. It seems that many issues have been thrown up in the air and it is not entirely clear yet where they will land. Sale prices are high in many sectors, but will these be sustained if consumers change their buying habits post-Covid? Costs for many key inputs (such as fertiliser and fuel) are rising rapidly, whilst labour availability (and cost) is a pressing issue for many businesses, not least those in intensive livestock and horticulture; it appears that farm profits will be squeezed, despite good output values. Farm support is already changing in England, and 2022 will bring more details of the new schemes. Other nations of the UK should also set out their future policies in more detail over the coming year. All this is set against the long-term imperative to address environmental issues – especially climate change.

With so much uncertainty around the external business environment, it might be easy to become fatalistic. However, farmers have control over how they structure and operate their own businesses – experience shows that being the 'best in class' and having a long-term plan allow farms to be successful, whatever the economic and political conditions. Andersons Consultants have for many years been helping those in the farming sector achieve their personal and business objectives.

We hope that you find Outlook 2022, written by members of all the Andersons' businesses, both informative and stimulating and, as ever, wish you all the best for a successful year. 2023 is the 50th anniversary of the founding of the Andersons business and in next year's Outlook 2023 we plan to prepare a 'special edition' that both looks back over the past half Century, but also, in the tradition of Outlook, looks forward at the (positive) future for UK farming.

John Pelham   Nick Blake   David Siddle   Richard King

Directors, Andersons the Farm Business Consultants Limited

Farm Profitability Prospects

RICHARD KING

Profits from UK farming will recover in 2021 after the downturn of 2020. However, prospects for 2022 are less positive, as cost increases look set to reduce returns for farming businesses.

The 2020 year saw overall UK farm profitability reduced by the twin effects of the weather and Covid-19. The wet autumn of 2019 followed by the late spring saw combinable crop output in particular decline. Although Covid had far less effect on agriculture than many other sectors, a drop in income from farm diversification activities can be clearly traced to the pandemic.

For 2021, total crop output returned to more normal levels. Although Covid was still with us, restrictions were reduced in the spring and farm diversification, especially accommodation and food, received a boost from 'staycations'. Across many farm sectors, prices have been robust for most of the year (covered in more detail in the sector Outlooks that follow). Costs have moved upwards, although the significant autumn increases will have a lesser effect on the calendar year figures.

The main headline measure used to look at UK farm profitability is Defra's Total Income from Farming (TIFF) figure. This shows the aggregate profit from all UK farming and horticultural businesses for the calendar year. In simplistic terms it is the profit of 'UK Farming Plc'. More precisely, it measures the return to all entrepreneurs in the industry for their management, labour and capital invested. Figure 1 below shows TIFF going back to 1997. The data up to 2020 is Defra's and then that for 2021 to 2023 is from Andersons forecast model. (The first Defra forecast for the year is usually made in December). All figures are in real-terms, that is, adjusted for inflation.

"Profits from UK farming will recover in 2021 after the downturn of 2020. However, prospects for 2022 are less positive."

The dip for 2020 can be clearly seen – TIFF dropping by a fifth in real terms compared to the year before. This years' recovery is equally plain – our forecasts suggest a rise of almost a third – back above the levels seen in 2018 and 2019.

Looking to 2022, the full effects of the cost increases are forecast to have an impact. The most notable are in fuels, fertiliser and seasonal labour, although many other farm inputs are also seeing strong inflationary pressure. Some commodity markets may also be weaker in 2022 – current futures prices suggest a decline in grain values post-harvest 2022 and it must be questioned whether red-meat markets can remain at the historically high levels we have seen recently. TIFF is simply the 'top slice' between output and costs. As at farm level, quite small changes in the relative sizes of these can mean a big change in the 'residual' – the profit. Our projection for the year sees profits dipping back down to 2020 levels.

Some of the cost pressures may be short term – the hope is that energy markets will regain their equilibrium over the coming year and costs for fuel and fertiliser, in particular, will be lower come 2023. However, increases in other categories, such as labour and machinery costs seem more 'structural' and could well be present for the long-term. Even so, our tentative forecast for TIFF for the 2023 year (not included on the chart)

> *The farming industry will continue to face a roller-coaster of profitability.*

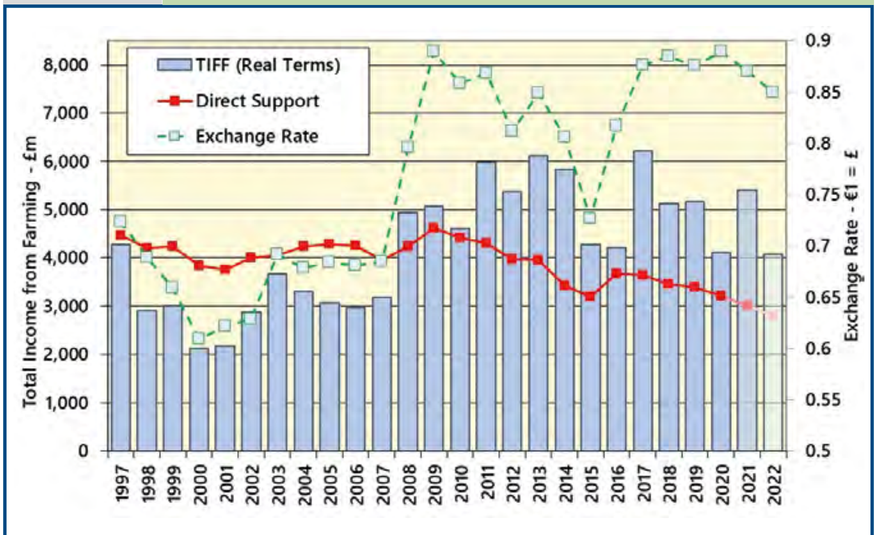
is for some recovery compared to 2022.

Two other lines are shown on the chart. The first, Direct Support, is a reminder of the level of public support received by farm businesses. It covers the BPS plus any agri-environment income. Although there is a 'funding guarantee' until 2024, the real terms value of support declines – and faster if inflation is higher. Also, some of the funds currently paid through the BPS in England will be channelled into other programmes under the Agricultural Transition.

The other line is currency, specifically the Pound versus Euro exchange rate. Although the UK has left the EU, Europe is still our primary trading partner. Therefore, the relationship between the two currencies is an important factor in determining produce prices and thus the profitability of the sector. The relationship has mainly been in the range €1 = 85-90p for nearly 15 years and it is easy to forget how important this has been for sustaining prices (for example, the current price of wheat would be £30-40 per tonne lower at the 2007 exchange rate). However, with the aftershocks of Covid causing economic upheaval (see following article) then a sudden and significant shift in Sterling is not impossible. Our forecasts have assumed it stays in the present range, but this cannot be guaranteed.

Overall, should our forecasts be anywhere near correct, the farming industry will continue to face a roller-coaster of profitability.

Figure 1 **Total Income From Farming, Support and Currency - 1997 to 2022***



** real terms, 2020 prices* *Source: Defra / Andersons*

Economic Prospects

GRAHAM REDMAN

The global economy is more unsettled than it has been for some years. It is experiencing disturbance from the uneven resumption of manufacturing and purchasing as it emerges from Covid closures. The UK has additional upheaval in trade and labour markets as a result of Brexit. We should not consider the UK as emerging from two distinct events that shaped its economy, rather, that we are learning to live with Covid and Brexit as ongoing factors of life. Both will continue to affect the UK economy for many years.

As the world struggles to resume activities that have been postponed from last year, the demand for fuel, gas, steel, cars, computer chips, as well as some farm goods has exceeded supply. This demonstrates how delicate supply chains are and how easily they can be disrupted, with imbalances of supply and demand (or simply timing). These items are now rare goods, which heightens the already nervous global geo-political position. Covid accelerated the transition from Western Superpower to Eastern. The US is ceding its status as undisputed number one global force and economy, as Chinese authorities flex their political (and military) muscles by, for example, provoking the US by flying warplanes over Taiwan. Incidentally (or not), Taiwan manufactures 70% of computer chips in the world. This position is slowly changing, but their semi-conductor supremacy is now at a level of political importance as that of the Saudi's over oil. Russia supplies more than 40% of European gas, so commands considerable political influence over the continent.

> *We are learning to live with Covid and Brexit as ongoing factors of life.*

A laissez-faire style of food policy is not ideal in a geo-politically unstable world, where markets are disrupted and potentially more exposed to control by a few key actors. The recent carbon dioxide shortage demonstrated the impact a little-known minority input in livestock and meat supply can have. It is not just disruptions to farming that can stop food production. It was once said the most important supply chain in the supermarket was of carrier bags.

For 50 years, being part of a club which supplied over 90% of our food requirements provided sufficient food security for the UK. Now we have left, and the world feels less safe, food supply takes a different meaning. Again, this is magnified by Covid. The vulnerability the virus left consumers feeling was reflected in their dramatic reduction of food-waste and rise in local sourcing. This benefitted the British red meat sector and may continue to do so. It would not take much to trigger another food-stockpiling event that we saw in Lockdown-1 in spring 2020 or at the fuel stations in September this year. The surge in consumption ahead of Christmas puts pressure on all food supply chains. If shortages appear, these can spiral into panic buying.

The return of consumer spending, on things the consumer did not buy last year, largely excludes food and therefore farming. Farming carries on at its own pace which is an advantage during a downturn. The lockdown lack of spending was only postponed expenditure, however; the demand for items such as new cars, kitchens and trips to Cornwall is inflationary, especially when they are in short supply. Higher inflation is almost inevitable and looks set to be the big economic issue in 2022. This suggests base rates and the costs of borrowing money might rise at some point next year too. Anybody with debt might look to fix their rates if they can. Commodities are more inflation-proof than most things, as their prices move daily as we have recently seen.

As demand for goods and services has risen, there has been a corresponding increase in demand for people to make, deliver or provide these items, with over a million job vacancies in the UK. Surely nobody should now be unemployed. This has coincided with the return of skilled workers to their respective EU countries and has left us, unsurprisingly in the lurch. We knew hard-working Eastern Europeans who came to the UK to make a living, were concentrated in certain areas of the UK workforce. Now, with some of them having returned and few new workers arriving, bars, restaurants and hotels have closed from lack of staff, deliveries are not being made, animals not being slaughtered or butchered and horticultural crops not harvested. Covid self-isolations intensify the overall staff shortages. Clearly, with a smaller pool of workers, it will take time for these skills to be replaced and the economy to return to balance. Lorry drivers can shuffle between fuel deliveries and less urgent cargo, but that could push up costs of all farm deliveries.

Whilst demand is strong the supply-side constraints will limit economic activity. Overall economic growth will look robust in 2022 (an average of independent forecasts in October suggests 5% growth). However, this is only partially rebuilding what has been lost during Covid.

Figure 2 **Inflation and Interest Rates – 2005 to 2023**

Source: BOE / AMC / Andersons

The coming year, 2022, will, it seems, be unsettled. The 2010's had little political unrest, no new major wars, no massive economic disruption, and relative calm in the commodity markets. We did not experience many crop futures markets double, then halve, in the same contract period. Even global dairy prices have been unusually settled since 2015. But we must hold tight because the commodity markets, which provide the greatest level of volatility of all asset classes, never promised to be anodyne or predictable. And markets are related. Too little carbon dioxide reduces poultry and pig numbers, too little fertiliser reduces grain yields, and possibly increases pulse cropping. High fuel prices encourage biofuel manufacture and biofuel demand in Europe increases oilseed rape acreage.

Last year we discussed how Covid, Brexit and global disorder would provide opportunities for entrepreneurs. We said the Government was less inclined to support the capitalist than the worker and we have seen that. This message remains true for 2022. Dividends have never been

> ***Higher inflation is almost inevitable and looks set to be the big economic issue in 2022.***

underwritten in a way that salaries have. We saw that in Covid policies; employees and small businesses were looked after. Workers, makers, developers and visionaries will be protected; the country needs them. This approach appears to fit with the new farm policy; protect the environment, pay farmers for services they provide, but social welfare payments are currently not on offer. This major change in policy will suit the lateral thinker, and one prepared to do something different. One might ponder if too many in agriculture are steeped in tradition with practices that have worked until now. The new economy may not allow that. Government has been making that very clear.

Farm Policy

CAROLINE INGAMELLS

Agricultural policy remains very busy following our exit from the EU. Much legislation has been rolled-over under 'Retained Law', but we now have the opportunity to amend this and set our own regulations.

In terms of future support, each of the devolved nations continue to develop their own programmes. Scotland, Wales and Northern Ireland all made announcements in early autumn. These will be discussed in the Regional articles but, in summary, they still lack much detail on any schemes. For 2022, the BPS will remain, with very few changes for all the devolved nations.

In England policy reform is progressing much quicker. The seven-year Agricultural Transition has already commenced and claimants will 'feel' the first reductions to their BPS in December 2021, as Outlook is being read. Direct payments will continue to be reduced annually, so that by 2028 there will be no BPS-type of support. Figure 3 provides a reminder of the percentage deductions. The figures for the year's 2021 to 2024 are those announced by Defra, the next four years are Andersons' estimates. The key point is that, by 2024, the BPS will be at least half the 2020 level.

> *Claimants will 'feel' the first reductions to their BPS in December 2021.*

During the Transition, these reducing payments are expected to be Delinked and some may be able to take their future payments as a Lump Sum. By the time Outlook is released we should have more detail on this, particularly on the Lump Sum payment. It should be available, as a one off, in early 2022 for those exiting the industry. Once the details are known (including the tax treatment of the payments) those considering taking up this option need to be consulting with their advisors as soon as possible, if they haven't already done so.

Delinking is expected to happen in 2024. After Delinking a business can reduce the area it farms or even cease farming and it will still receive payments for the rest of the Transition Period. Delinking will not be optional; it will just happen. Again, more details are awaited on the rules.

Replacing the BPS in England will be Environmental Land Management (ELM). Land managers will be paid for 'public goods' such as clean air, clean and plentiful water, plants & wildlife, hazard protection, beauty & heritage and climate change. Defra continues to work with farmers and stakeholders to design ELM. Although there is much detail still to be decided, the broad scope of the three components of ELM are clearer than when we wrote last year's Outlook:

Figure 3 **The Agricultural Transition in England – 2021 to 2028**

Deductions	2021	2022	2023	2024	*2025*	*2026*	*2027*	*2028*
Up to £30,000	5%	20%	35%	50%	*65%*	*80%*	*95%*	*100%*
£30,000 to £50,000	10%	25%	40%	55%	*70%*	*85%*	*100%*	*100%*
£50,000 to £150,000	20%	35%	50%	65%	*80%*	*95%*	*100%*	*100%*
Over £150,000	25%	40%	55%	70%	*85%*	*100%*	*100%*	*100%*

Sources: Defra / Andersons

◗ ***The Sustainable Farming Incentive (SFI)*** – The majority of farmers should be able to access this. It will consist of 'Standards', with most standards having three ambition levels -introductory, intermediate and advanced. The levels build on one another – each one includes the actions from the previous level. There will be a set payment rate for each level, but the higher the level chosen, the greater the payment. The SFI will also incorporate the Animal Health & Welfare Pathway (AHWP). Piloting of the SFI has already commenced. From 2022 all BPS claimants will be eligible to enter the 'SFI 2022' scheme, which will run from spring 2022 to 2024. However, this will only include four Standards and the first element of the Animal Health & Welfare Pathway. Other Standards will be added over time with the full SFI launching in 2024, then expanding in the years through to 2028. Figure 4 includes the Standards and Payments available under SFI 2022.

Figure 4 **SFI 2022 Summary***

Level	£ per Ha	Requirements
Arable and Horticultural Soils Standard		
Introductory	£26	Complete a basic soil assessment. Establish green cover over winter (5% area). Increase soil organic matter (10% area).
Intermediate	£41	Complete a basic soil assessment. Establish green cover over winter (10% area). Increase soil organic matter (15% area). Use no, low, or min tillage techniques (25% area).
Advanced	£60	Complete a basic soil assessment. Create a soil management plan. Establish green cover over winter (15% area). Increase soil organic matter (20% area). Use no, low, or min tillage techniques
Improved Grassland Soils Standard		
Introductory	£26	Complete a basic soil assessment. Add legume, herb and grass mix (5% area). Maintain permanent grassland (5% area). Manage stocking density (5% area).
Intermediate	£41	Complete a basic soil assessment. Add legume, herb and grass mix (10% area). Maintain permanent grassland (10% area). Manage stocking density (10% area).
Advanced	£60	Complete a basic soil assessment. Create a soil management plan. Add legume, herb and grass mix (15% area). Maintain permanent grassland (15% area). Manage stocking density (15% area).
Moorland and Rough Grazing Standard		
One Level Only	tbc	Assess the range of habitats & features present. Identify pressures & the risks posed by wild fires.
Animal Health and Welfare Review		
One Level Only	£269 - £775 per farm	A Defra-funded yearly visit from a vet to collect data and advise on actions to improve animal health and welfare.

** provisional, subject to change* *Source: Defra / Andersons*

◗ ***The Local Nature Recovery (LNR)*** - This component will focus on rewarding farmers for positive management such as biodiversity, flood management, carbon storage, landscape heritage etc. and will require more intensive management. Payment will be made for actions that support Local Nature Recovery and deliver local environmental outcomes. Collaboration between farmers will be encouraged. There may be competitive elements in this component. The Pilots for the LNR are due to commence in early 2022 with the main scheme launching in 2024.

◗ ***The Landscape Recovery Scheme*** – This will be for bespoke agreements to deliver landscape and ecosystem recovery through long-term, land use change projects such as large-scale woodland planting, peatland restoration and coastal habitats. Ten pilot projects will be funded in the period 2022-24 to deliver 20,000 hectares of habitat. Invitations to the pilots opened in autumn 2021. If successful, a long-term (20+ years) funding agreement will be offered. The scheme will be scaled-up from 2024.

Over the long-term, the aim is for most of the funding for 'farm support' to be channelled through ELM. However, during the early years of the Transition there will be help for farmers to cope with the loss of the BPS and also to try and improve the productivity of English agriculture, which include:

◗ ***Future Farming Resilience Fund (FFRF)*** - will offer fully funded advice from accredited advisors. An interim phase is currently open and closes in March 2022. Nineteen bodies are offering advice through a variety of formats. Andersons are providing one-to-one farm resilience reviews and reports. This interim round will be assessed and is expected to be scaled-up from spring 2022.

◗ ***Farming Investment Fund (FIF)*** – builds on the previous Countryside Productivity Scheme. It will offer grants for investment in items of equipment deemed to improve productivity. There will be two tiers;

- *Farming Equipment and Technology Fund - a fixed rate of grant for specified items with application online.*
- *Farming Transformation Fund - for high-value items or projects. A two-stage process with an EOI and then full application.*

The FIF will open in rounds; the first round opened in November 2021.

◗ ***Slurry Investment Scheme*** – expected in autumn 2022, it will help fund improvements in storage.

Other funding available during the Agricultural Transition includes support for farmers and the wider community in National Parks, Areas of Outstanding Natural Beauty (AONB) and the Broads via the **Farming in Protected Landscapes (FiPL)** scheme. There will be initiatives in **Skills and Training** and also 2022 should see details of a **New Entrants Scheme** be published.

With all the changes in support it is easy to forget the other areas of policy. Changes to farm tenancy law continue. New legislation to vary an existing tenancy to allow diversification and access to support schemes (such as ELM) has been introduced. Alongside this, the Tenancy Reform Industry Group (TRIG) has published a new Code of Good Practice designed to provide Landlord's and Tenant's guidance when the parties are agreeing terms to vary an existing tenancy. *It was recognised by TRIG that with the move from BPS direct payments to the 'public money for public goods' approach, some tenants may not be able to access this support due to restrictive clauses in their tenancies, some often dating back many years, written when the agricultural landscape was very different to now.*

The landmark Environment Bill continues to (slowly) progress through the Parliamentary process.

> *The landmark Environment Bill continues to (slowly) progress through the Parliamentary process.*

The Bill will see the creation of a new independent Office for Environmental Protection which will have the powers to hold the Government to account over its environmental performance, including its commitment to reach net zero emissions by 2050. In September, the Government made new amendments to the Bill, including the duty to set a legally binding target to halt species decline by 2030.

The Farming Rules for Water, hit the headlines this autumn. They were actually introduced back in 2018 with the aim to standardise the good practice that many are already undertaking. The rules have been introduced through an 'advice-led approach' with the Environment Agency providing the advice, but this appears to have moved more to a legislative process. The problem in the autumn is, under the Farming Rules for Water (Rule 1), when organic manure is applied to agricultural land, the application must not exceed the needs of the soil or crop on the land. But most crops do not have a need in autumn and winter. *A regulatory Position Paper placed a 'sticking plaster' over the problem for this year, but a move to more storage and spring and summer spreading looks like the only solution, however this will take time and money.*

The second part of the National Food Strategy report, undertaken by Henry Dimbleby, has generally been well received. A tax on sugar and salt made headline news, but some of the other recommendations could have a more direct impact on UK farming. *However, the report is independent and the Government does not have to implement its recommendations. Indeed, the Prime Minister rejected the idea of taxing sugar and salt almost immediately. The Government has said it will respond to the report with a Food White Paper within six months. A 'Food Act' has been suggested as the final outcome of this process, but whether this will actually be a Government priority remains to be seen.*

As written last year, we are in a period of significant change and all businesses will be challenged. Support payments are reducing annually and businesses will have to do more to receive funds under the new schemes, meaning less profit. Those who are prepared will do the best. The Lump Sum exit may be the most logical step for some. Whatever the decision, making sure there is a plan is the best way.

Agricultural Trade Issues

MICHAEL HAVERTY

Since the Trade and Cooperation Agreement (TCA) became effective in January, there have been key changes to the UK-EU trading relationship. These effects have been exacerbated by severe labour shortages, the lingering impacts of Covid, and other supply-chain pressures affecting UK agri-food and the wider economy. This article examines how agri-food trade is set to evolve in the next year and beyond as the UK starts to reorientate its trade away from the EU.

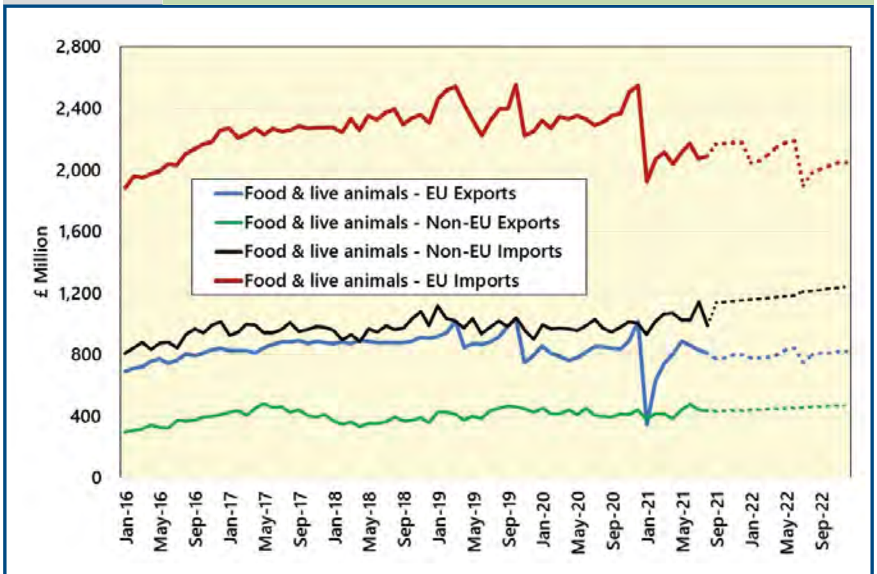
As Figure 5 shows, UK agri-food exports to the EU, which are now subject to full EU border controls, declined sharply (by 67%) in January, and have since only partially recovered. The effect on imports from the EU has been much less because the UK Border Operating Model is still not fully functional, with further delays in its implementation to July 2022.

As the Figure also shows, further turbulence is anticipated in 2022 as the introduction of full customs declarations and controls on EU imports (from January) and border controls (Sanitary and Phytosanitary (SPS) physical checks and certification (from July)) take effect. The imposition of these non-tariff barriers means that agri-food trade with the EU will be lower in future. Trade with the non-EU is expected to increase although this will be closely linked with future trade deals that the UK agrees.

Despite UK-EU trade trending downwards overall, a significant anomaly has been the substantial increase in trade between Northern Ireland (part of the UK) and Ireland (an EU Member State) due to the imposition of the NI Protocol. Northern Ireland's agri-food trade with Ireland has risen by 27% in 2021 (Jan-Aug) versus the same period in 2019, with NI exports to Ireland up by 29%. This is because there are no barriers to trade on the island of Ireland (or between NI and the rest of the EU) due to NI being in the Single Market for goods. However, the imposition of regulatory controls on NI imports from GB has taken its toll and continues to pose major challenges for the implementation of the NI Protocol.

The EU Commission's proposals (published in October 2021) would see checks on consumer goods arriving from GB drop by around

Figure 5 **UK Food and Live Animal Trade with EU and Non-EU – 2016 to 2022**



Source: ONS / Andersons

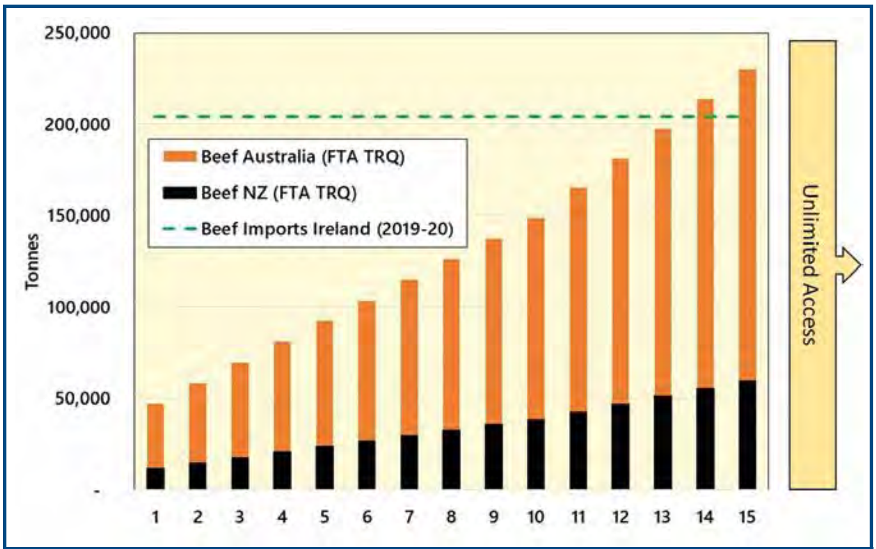
80%. It proposes simplified access in terms of reduced SPS certification and physical checks as well as exemptions for 'identity products' such as Cumberland sausages that continue to be produced to EU standards. There would also be reduced customs formalities on GB-NI shipments for goods intended for final consumption in NI. Whilst these proposals are significant, they will not remove friction completely (e.g. products for further processing in NI would still be subject to controls). There are no proposed amendments to the role of the European Court of Justice (ECJ), a red-line issue for both the EU and the UK.

Whilst the EU Commission's proposals represent a significant shift in position, further turbulence is anticipated as both sides negotiate the specifics. However, if the Protocol is implemented with careful consideration of both communities, it has the potential to offer Northern Ireland 'the best of both worlds' in terms of being an integral part of the UK and enjoying frictionless access to the EU Single Market for goods.

Looking further afield, the UK is setting its sights on trade deals with non-EU countries. With agreements-in-principle now reached with Australia and New Zealand, as well as negotiations with Canada and Mexico to update current trade deals, significant change will already be taking place in the next 12 months. Add to this, the UK's application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and trade talks with India and the US (although the US talks appear to be stalling), and the pace of change is set to accelerate in the years ahead.

The effects of the Australian and NZ FTAs will be felt most in the beef, lamb and dairy sectors. Whilst there are lengthy quota-based transitional periods for beef and lamb (i.e. 15 years before unlimited access), the adjustment periods for butter and cheese are shorter (5 years).

Figure 6 **Phase-in of Beef Quotas under Australia & NZ FTAs**



Source: DIT / CSO / Andersons

The effects of the Australian and NZ FTAs will be felt most in the beef, lamb and dairy sectors.

Taking beef as an example, Figure 6 looks at the combined effects of the transitional FTA Tariff Rate Quotas (TRQs) for both countries and compares this to beef imports from Ireland. In year 1, the combined access for both countries will be 47Kt rising to nearly 148Kt in year 10. During this period, imports above the annual TRQ limits will be subject to the UK Global Tariff (UKGT). From years 11-15, tariff-free TRQ access will increase incrementally to 230Kt. During this time, any imports in excess of the annual TRQ allowance, will be subject to a 20% safeguard duty. All tariffs would be eliminated from year 16 onwards. By year 14, the TRQ allowances for Antipodean suppliers will have surpassed beef imports from Ireland (based on the 2019-20 average).

Based on these arrangements, UK grazing livestock will be particularly exposed to increased competition from 'down-under' in the long-term. Additional competitive pressure is likely to emerge when other countries strike trade deals with the UK. Of course, having generous quota access with eventual full liberalisation does not necessarily mean that Australian and NZ imports will reach these levels, particularly as there is plenty of demand in Asia-Pacific. However, the access offered is sizeable and of concern to British (and irish) farming, particularly as they are the first of several trade deals.

Overall, the outlook for agri-food trade is for continued friction on GB-EU trade. This is set to increase for imports from the EU with the full implementation of the UK Border Operating Model. Tensions could increase further if the NI Protocol challenges are not resolved. All the while, competitive pressure from non-EU countries will increase as the UK completes trade deals. The 2020s look set to be a disruptive decade for UK farming on multiple levels.

Land Prices and Rents

GEORGE COOK

Another year forward in the Transition Period of policy reforms, now set against unhelpful backdrop of policy lurches from our political leaders. Bolt on a series of potentially conflicting new policies surrounding land management requirements, GHG emissions from farming and water quality and the way forward is far from clear.

The continued surge in commodity prices, implementation of the Farming Rules for Water, the requirements for phosphate management plans for most planning applications and we have a complex decision-making matrix to deal with at farm level. Where does this leave land values and rents?

Looking at rents first, as the details of BPS reform and the transition to ELM emerge, the reality is dawning for those who manage land that the comfort-blanket of BPS payments will not be directly replaced. The continuing Stewardship and interim SFI schemes work on income/gross margin replacement rather than top-up payments in the majority of cases.

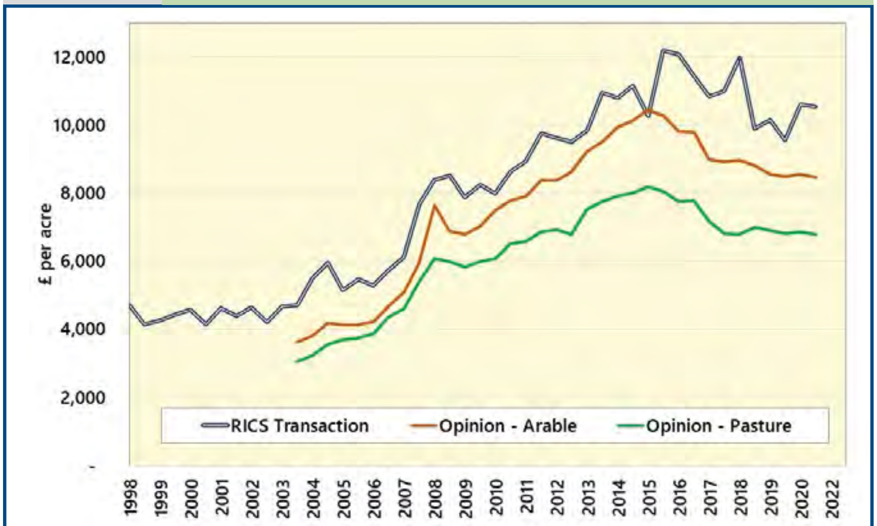
Short-term supply chain and energy price increases linked to our ever-increasing reliance on imported gas have left the farming and horticultural sectors vulnerable to these swings. At present these problems have been offset by significant rises in ex-farm prices for many commodities, but for how long? Careful calculations are needed when looking at the relative profitability of different crops, which include the alternative of entering land into environmental management.

Against this backdrop, AHA rents appear largely unchanged, with increasing prices counter-balancing reduced BPS payments in earning capacity calculations for arable and mixed farms. The red meat grass farms present more of a challenge in terms of future rents, as this sector tends to be much more reliant on BPS.

For FBT rents, there is still a strong demand in much of lowland England and only marginal movements, both up and down, in short term tenancies. However, longer-term FBT's are more reflective of the reforms in support policy.

Historically, land prices have remained largely detached from direct farm-income related influences, with prices more affected by local demand, optimising Roll-over reliefs and just a desire to own land. Figure 7 below indicates a

Figure 7 **Land Prices – 1998 to 2021***



** real terms, 2020 prices* *Source: RICS / Misc Agents / Andersons* small short-term decline in average prices in all sectors, although the long term trend still indicates a modest increase.

Looking ahead for land prices, there are a number of other policy changes that may have an influence on the decisions that can be made by those owning and occupying land. At the very least, land deals linked to Planning are likely to take longer to conclude, as some of these new policies will either slow down or possibly block house-building and even construction of new farm buildings.

The key issue that has emerged recently is the need to prepare phosphate management/mitigation of losses plans. This means that any development, be it a housing estate or a new intensive livestock unit, must not increase phosphate levels into water supplies through runoff or other sources. The developments are looked at in isolation and regardless of previous activities. Also, for new livestock buildings, ammonium emissions must also be similarly managed.

> *The reality is dawning for those who manage land that the comfort-blanket of BPS payments will not be directly replaced.*

All assessments are undertaken by Natural England and this is bound to delay any Planning application (and increase cost!). In some instances the possibility of outright refusal looms where previously it would have been granted. The impact on development land values is clear, as well as knock-on effects to the 'agricultural' value if new farm buildings are difficult to secure or there is a potential obstacle to change of use of agricultural buildings to diversified enterprises.

These factors, coupled with a changing support system, are likely to see greater variation in land prices due to specific, local factors. Overall, however, we see land prices remaining robust, despite the prospect of higher interest rates.

As always there is much to consider for each individual business and the benefits from having a long-term business strategy to complement the day-to-day have never been stronger. We are here to help.

Topical Issue-

Future of the Family Farm

JAMIE MAYHEW

The family farm is an integral part of the fabric of farming and the management of the countryside. With complex issues surrounding the nature of family-controlled businesses, it is essential that businesses plan for the future, have a succession plan in place and address the way assets are passed on to the next generation.

Before looking to the long-term aspirations of the family, however, it is critical to ensure that there will be a successful business model in the future to pass on. Whilst every business is different, there is generally one common factor: reduction in subsidy means a potential reduction in profitability. To mitigate this, either one or a combination of the following options could be implemented:

- Improve productivity/invest
- Diversify
- Reduce debt
- Reduce drawings

Adding a new diversified enterprise to the business can also provide the opportunity for another family member to get involved with the business. Although this may require additional borrowings, a properly prepared business plan will identify whether the new enterprise provides the necessary returns to cover the cost of additional funds.

> *It is wise to review family roles, responsibilities and reward.*

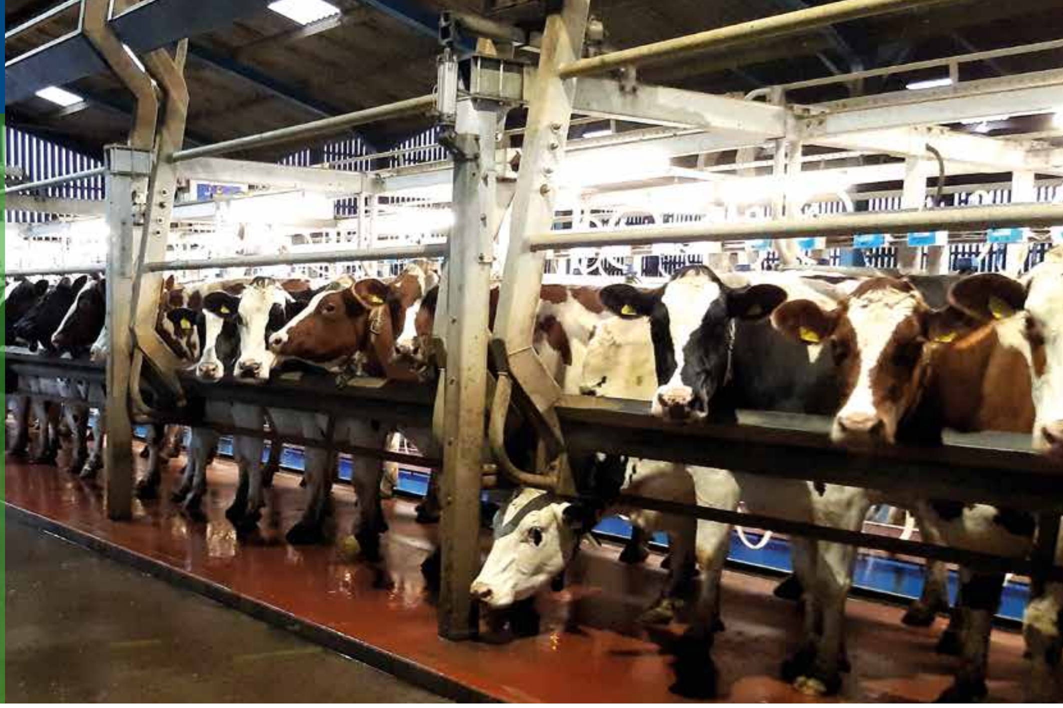
Another important factor is to identify, clearly, the full income requirement from the business. In addition to the cash drawings , the amounts required to run the house(s) and vehicles, and identifying the income foregone on the residential properties has to be examined. The total figure may come as a surprise. As greater pressure comes to bear on businesses, and to avoid dispute, it is wise to review family roles, responsibilities and reward. The ability to fund those who are not directly involved with the day-to-day operation and management of the business may now be less affordable; it may help to encourage them to review opportunities to contribute more to the business.

Succession planning is essential for any family business. It allows all parties involved to have a clear understanding of the future of the business and their position within it. Having the discussions openly with all parties present is essential. Vague promises of 'one day all this will be yours' no longer suffice. As part of the process, all members of the family need to be clear on their own objectives. Whilst these may not always be wholly compatible, at least compromises can be worked out. This allows the proper management of expectations for all concerned, hopefully avoiding future conflict. Bringing in an external advisor should help facilitate the discussion, and to provide an impartial view, and offer recommendations and experience of dealing with these challenges. It is also essential that comprehensive tax advice is sought, to ensure that any plans do not create tax problems that could be mitigated. Planning in advance of any generational change can often be the difference between having to dispose of assets, or being able to continue the planned business development with little change.

Starting early gives the opportunity for family members to discuss their personal ambitions and whether their long-term plan is, in fact, away from the farm. Diversification doesn't always have to be on farm. It could be the opportunity required to start a new business and create financial independence.

When reviewing the way in which the assets are split, it is vital to establish clearly the ownership, occupation and value of the assets involved, it will often be useful to obtain a Red Book Valuation of the asset base, to give a clear benchmark against which all plans are developed. The use of overage clauses can address the issue of uncertainty about future significant uplift in the asset value.

> *All members of the family need to be clear on their own objectives. Whilst these may not always be wholly compatible, at least compromises can be worked out.*



Dairy

OLIVER HALL,
MIKE HOUGHTON AND
JAKE ARMSTONG-FROST

Cost inflation looks set to be one of the big issues across agriculture in 2022, including dairying. With large price increases being seen in the wider economy and high levels of 'ag-flation' on specific inputs to the dairy farm, for Outlook this year we have looked at how this will affect different systems of dairy farming operating at different levels of performance.

The original data set used for this exercise is the AHDB dairy performance results from 2018/19. This is a 350-farm dataset with dairying systems recorded at source, allowing an analysis by system to be undertaken. These figures are compiled with no BPS entered, comparative rates for unpaid labour inputted, and all land having a rent paid on it.

We have tracked key areas of dairy farm income and expenditure for the period that the data was originally collected - 12 months to 31st of March 2019. We then looked at the average prices and compared them with a 'today' figure as we look to budget for 2022. This % change is then applied to that income or cost line in the dataset. The model does not take into account price changes, altering usage rates of products or behaviour.

> *On the prospects for future milk prices, the outlook currently looks reasonable.*

Firstly, income is up, with average milk prices currently 1.95ppl higher than the reference period. There is a different ppl increase for the different systems due to varying levels of milk solids per litre and this reflects how the majority in the UK are now paid. Income is further supported with strong cull and calf incomes.

On the prospects for future milk prices, the outlook currently looks reasonable. Demand, both domestically and internationally is robust. Importantly, the Chinese appear to be back in the market and buying. Despite high prices, global supply seems likely to be constrained. Partly this is a result of weather – the heatwave in the west of the US for example. But it is also a result of the topic of this article, i.e. input prices are high right around the world and the milk price : cost ratio is not favourable for extra production. UK prices look set to remain firm through into 2022.

Known agricultural inflation on feed, fertiliser (correct at time of writing!), farm labour, farm machinery capital costs, contractors, and fuel is inputted. More challenging is where inflation from the wider economy will feed into the dairy cost of production. To date, general inflation is standing at 5.5% based on CPI since the reference period. We have entered this partially in areas where we think suppliers will be seeking price increases on goods and services; 50% of the CPI on vet & med and other livestock costs and 100% on property repairs and other overheads.

The results can be seen in Figure 8 overleaf. The outcomes are stark, with all systems and all different performance levels losing margin, even with an average milk price applied for the UK at 31.24ppl. This would be the highest average milk price paid in the UK since the highs of 2014. Fundamentally, cost-inflation has outstripped milk price rises.

Businesses with high costs originally fare the worst as the % increases are acting on a larger starting figure. Unsurprisingly, those poor-performing businesses, without much margin to play with, feel the impact on profitability much quicker.

Figure 8 **Dairy Income and Cost Changes – 2018/19 to Present**

	Spring Calving				Autumn Calving				All-Year-Round-Calving			
	Middle 50%		Top 25%		Middle 50%		Top 25%		Middle 50%		Top 25%	
	18-19	Current	18-19	Current	18-19	Current	18-19	Current	18-19	Current	18-19	Current
Milk	*32.0*	34.1	*32.9*	35.1	*30.6*	*32.6*	*31.4*	*33.5*	*29.7*	*31.7*	*30.4*	*32.4*
Other Income	*4.2*	5.0	*5.2*	6.3	*4.5*	*5.6*	*3.6*	*4.5*	*3.9*	*4.7*	*3.7*	*4.5*
Total Income	***36.2***	**39.1**	***38.1***	**41.4**	***35.1***	**38.2**	***35.0***	**38.0**	***33.6***	**36.4**	***34.1***	**36.9**
Feed	*7.5*	9.1	*8.9*	10.5	*10.2*	12.7	*7.2*	9.1	*11.4*	14.2	*10.5*	13.1
Forage	*2.2*	3.7	*1.7*	2.8	*1.9*	3.2	*1.7*	2.8	*1.6*	2.7	*1.4*	2.3
Other Variables	*3.9*	4.0	*2.8*	2.9	*4.3*	4.4	*3.5*	3.6	*5.1*	5.2	*4.4*	4.5
Total Variables	***13.6***	**16.8**	***13.4***	**16.2**	***16.4***	**20.3**	***12.4***	**15.5**	***18.1***	**22.1**	***16.3***	**19.9**
All Labour	*5.8*	6.3	*4.8*	5.2	*4.9*	5.3	*4.6*	5.0	*5.3*	5.8	*4.2*	4.6
Power & Mach	*5.1*	6.0	*4.4*	5.1	*5.0*	5.8	*3.8*	4.4	*5.9*	6.9	*4.4*	5.1
Property & Other	*3.3*	3.4	*2.5*	2.6	*2.5*	2.6	*2.2*	2.3	*2.2*	2.3	*1.9*	2.0
Rent & Finance	*3.8*	3.8	*2.7*	2.7	*2.6*	2.6	*2.3*	2.3	*2.6*	2.6	*2.2*	2.2
Total Overheads	***18.0***	**19.5**	***14.4***	**15.7**	***15.0***	**16.4**	***12.9***	**14.0**	***16.0***	**17.6**	***12.7***	**13.9**
Total Costs	***31.6***	**36.3**	***27.8***	**31.9**	***31.4***	**36.7**	***25.3***	**29.5**	***34.1***	**39.7**	***29.0***	**33.8**
Profit Margin	***4.6***	**2.8**	***10.3***	**9.5**	***3.7***	**1.5**	***9.7***	**8.5**	***(0.5)***	**(3.3)**	***5.1***	**3.1**

Sources: AHDB / Andersons

Spring calving systems come out better due to their inherently low-cost nature. High-performance autumn calving also experiences less of a slip due to a high initial margin and in-built efficiency. Average autumn calving does not fare as well, due to large feed price rises and higher overhead costs. The average All-year-round-calving (AYRC) system moves quickly into a negative margin and requires a milk price of 35ppl to breakeven. Some retailer contracts are heading to the 35ppl point, but not all producers have one of these. Top performance AYRC sees the margin of profit fall by 38% to leave a 3ppl profit margin.

Often what's missed when looking at profit margins per litre is what happens to whole farm returns, as farm performance also comes at relatively different stocking rates and litres produced per hectare. We have created a model 100 Ha farm to demonstrate this, all derived from the average figures of the AHDB 350 farm dataset. It would be worth remembering that cows between systems will range from 490Kg of bodyweight to 700kg+. The results show a massive range in profitability per Ha as seen in Figure 9.

It also shows the modelled reduction in profitability in 'real life' yearly numbers for a farm of this size. A 100 Ha farm in England would receive around a £21,600 BPS in 2022 on top of this margin from dairy farming.

Two key points – firstly, this is only a model and every business is different, and, secondly, we don't yet know where cost inflation finishes! However, it does indicate clearly that if you wish to make a profit and not subsidise your business with unpaid labour or land without a rent return, whilst in a reducing subsidy environment, then higher margin per litre, low-cost business models can ride out cost inflation more easily. AYRC will need excellent performance or a retailer contract to make good profit margins. A good block calving system gives you a base to start from, but good performance is needed, as average won't be good enough!

Figure 9 **Whole-Farm Profit Changes – 2018/19 to Present**

100 Ha Farm	Spring Calving		Autumn Calving		All-Year-Round	
	Mid 50%	Top 25%	Mid 50%	Top 25%	Mid 50%	Top 25%
Cows per Ha	2.17	2.77	1.71	1.87	1.96	2.07
Litres per Ha	11,706	15,664	13,317	14,156	16,431	18,072
Milk Solids per Litre	*8.40*	*8.45*	*7.47*	*7.80*	*7.36*	*7.36*
Profit Margin 18/19	*£53,849*	*£161,137*	*£49,273*	*£137,314*	*(£8,215)*	*£92,169*
Profit Margin Current	£33,590	£147,902	£19,906	£120,018	(£53,912)	£55,838
Reduction	£20,258	£13,235	£29,367	£17,296	£45,697	£36,331

Sources: Andersons

Beef

CHARLOTTE DUN
AND BEN BURTON

Breeding cattle numbers increased between 2013 and 2015 as the number of cows in the dairy herd rose in response to strong milk prices, but in more recent years numbers in both the dairy and beef herds have reduced by about 1% per annum. This is a trend which looks set to continue as milk yields per cow increase and the profitability of keeping beef cows comes under more intense scrutiny as the support payments which, in most instances have cross-subsidised them, reduce.

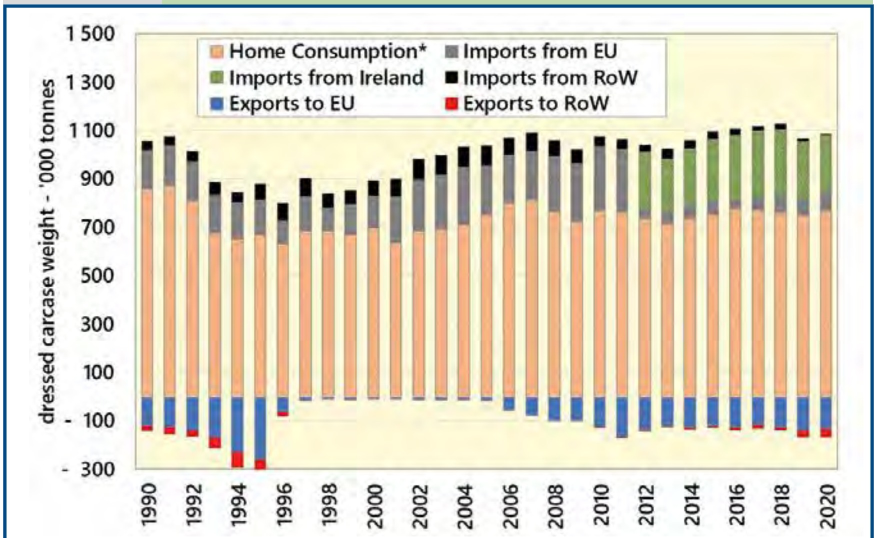
Beef farmers have enjoyed strong prices since mid to late 2020, well above the long-term average, and this has continued throughout 2021. Price uplifts have primarily been on the back of British retailers buying/supporting British beef. Supply data suggests the numbers of cattle available for slaughter in 2022 may show some modest recovery, but numbers look set to remain tight. With the UK only 70% self-sufficient in beef, imports are necessary to meet demand. The majority of our imports come from Ireland and Irish cattle numbers have also been tight in 2021. Irish slaughterings are forecast to be down by as much as 6% on the year, with only modest recovery anticipated for 2022.

Another factor to consider in 2022 will be changes to the requirements on imports coming into the UK from the EU under the new trading relationship. Additional paperwork, export health certificates and other requirements such as physical checks are all due to come into force, which will increase costs and frustrate logistics, perhaps adding to the competitiveness of home-produced beef. It may also potentially become easier for Ireland to export elsewhere.

On the demand side, home-produced beef has benefited greatly from increased domestic demand during lockdown, with consumption moving away from the service sector, where imported beef tends to do well, to the home. As food service re-opens there is likely to be some reversal in this trend. Another factor to consider may be increased media attention on the environmental

> ***Beef farmers have enjoyed strong prices since mid-to-late 2020.***

Figure 10 **UK Beef Market – 1990 to 2020**



** beef both produced and consumed domestically* *Source: Andersons* and sustainability credentials of red meat in the year ahead, following the publication of the National Food Strategy and events such as the COP 26 Climate Change Conference in Glasgow.

Ever-growing overhead costs, coupled with reducing support payments, is making profitability in beef suckler and finishing herds very difficult, despite the current high prices. Labour is becoming increasingly challenging to find and is expensive when it is found. Also, the next generation are not willing to run a cattle enterprise for no return. Producers will be forced to become more efficient and sustainable if they wish to continue. A trend has been seen over the past few years where those producers that have struggled to be profitable have been forced out of suckler beef or changed their system. Some changes we have seen in recent years include;

- ***Utilisation of forage*** – rotational or mob grazing has been proven to greatly improve grassland utilisation, extend grazing periods, and produce healthier animals.

> ***Ever-growing overhead costs, coupled with reducing support payments, is making profitability in beef suckler and finishing herds very difficult, despite the current high prices.***

- ***Outwintering*** – outwintering where possible reduces labour, straw, feed, and silage costs that are tied up with housing cattle over winter.
- ***Breed smaller*** – trying to finish large carcases requires high input costs, moving toward smaller more native breeds allows cattle to be finished on a low input system as well as providing provenance to the product.
- ***Consistency*** – markets want consistent uniform cattle which is easier to achieve with smaller traditional breeds or dairy beef cattle.

Following pressure from dairy processors and retailers we are seeing an increase in the number of integrated supply models between dairy herds and beef finishing units – not least to address the issue of male dairy calves. The focus on market requirements has led to increased popularity and demand for dairy-cross beef cattle. The advancement in genetics has allowed firms to identify heritable traits that help reduce the cost of production, methane, and carbon footprint. Measurable traits in dairy-beef cattle can be implemented quickly across the supply chain as a result of AI, as opposed to suckler herds where too many variables – whether that is breed, topography or farming system, mean development of new traits are difficult to monitor and slow to implement.

This is likely to see a continued reduction in the suckler beef sector in the years ahead. With changes in support, it may only be a viable proposition where premium prices can be achieved or where it is linked to managing land for public goods payments.

Sheep

DAVID SIDDLE

Concerns over Brexit meant many farmers marketed their lambs in advance of 31st December 2020 and, as a result, significantly fewer lambs were carried forward into 2021. This, in conjunction with a modest or, for some, poor lambing in spring 2021, reduced level of imports and higher domestic demand due to Covid meant the supply versus demand equation tipped in sheep farmers favour in 2021 and prices responded accordingly.

Sheep prices reached unprecedented levels in spring 2021, and remained well above long-term averages even through the autumn and early winter period.

As a result of these high prices there are some indications the breeding flock may expand in 2022, with low cull ewe slaughtering meaning more lambs on the ground in the year ahead. However, quite a number of potential breeding females are likely to have been slaughtered as hoggs in spring 2021 due to their value in the prime lamb market, and for anyone considering expansion in autumn 2021 the high cost of breeding stock may well be a limiting factor. AHDB initial forecasts are for an increase of no more than 1-2% in the breeding flock going into 2022.

More focus on profitability as Basic Payments decline will continue to squeeze out less productive flocks and ageing flock keepers, with no succession, may take the opportunity to leave the industry whilst prices are high.

Sheep prices reached unprecedented levels in spring 2021.

With Brexit fears reduced to a large degree, more lambs may be carried forward to 2022 as compared to the very low numbers in 2021. This, in conjunction with weaker consumer demand due to rising living costs, energy in particular, may mean hogget prices do not reach the extremes seen in the first quarter of 2021.

A modest increase in the breeding flock and perhaps better weather at lambing could see a marginal increase in the 2022 lamb crop and hence some increase in supplies of new season lamb from late spring onwards.

Imports which largely come from New Zealand look likely to remain constrained in the year ahead by high shipping costs, the rebuilding of the New Zealand flock following drought and demand for New Zealand lamb from China. However, there are signs of some weakening in Chinese demand for meat as their pig herd rebuilds after being affected by African Swine Fever.

Exports were a lesser feature of trade in 2021, with higher demand at home, lower supplies of domestic product and imports reduced. However, they remain a crucial part of the UK trade in sheep meat with 30% of our output typically exported in most seasons. If good prices are to be maintained in the year ahead higher levels of exports are likely to be required, not least as domestic demand may ease with the re-opening of the service sector and a move away from pandemic levels of cooking at home.

New regulations and logistics associated with exporting to Europe, our major market, have not gone away and will add costs, some of which will inevitably be passed back down the supply chain to farmers.

All the factors which came together to drive up sheep prices in 2021 are unlikely to disappear in the year ahead and we remain generally positive about prices assuming some increase in the level of exports.

With regards to costs of production the sheep sector is less exposed to the rising costs of feed and fertiliser than the beef or dairy sectors, but this will have some effect in the year ahead on producers' margins. The best-performing flocks tend to be those who have focussed on forage-based systems with an increasing reliance on clover and other legumes for their nitrogen, this will put them at a competitive advantage in the year ahead.

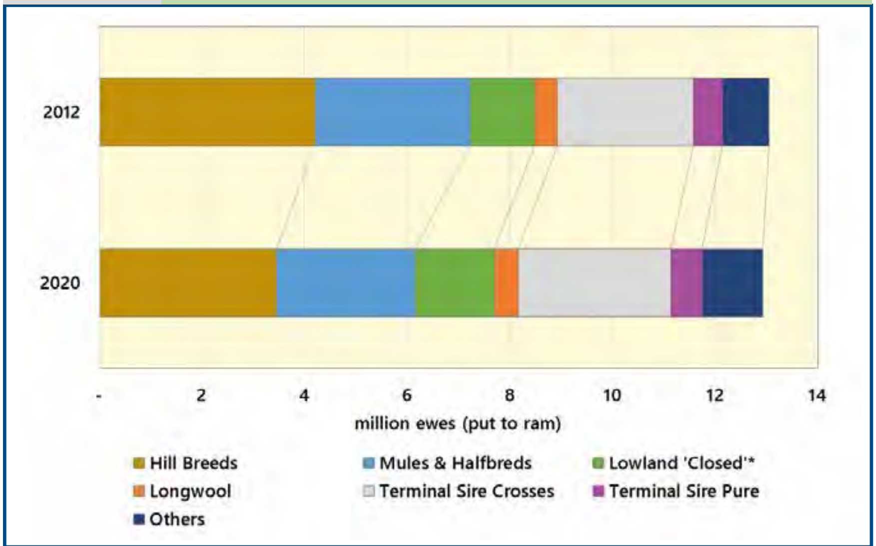
The latest Breed Survey, the last survey took place in 2012, a joint initiative between industry boards and British Wool, showed some interesting trends.

Traditional stratified sheep breeding based on the pure-bred hill breeds providing crossbred (mule) ewe lambs for lowland units appears to have declined as more lowland farmers look to close their flocks and try cross-bred or composite breeds.

Scottish Blackface numbers were estimated to be down 36% as compared to 2012, with Welsh Mountain, Beulah, Welsh Speckled Face and Swaledale all back 15-19%. Cheviots bucked the trend with growth of 4%. Lleyn and Easycare ewe numbers were also up.

Support payments which have cushioned the industry for many years look set to decline at pace, at least in England, and there are some signs sheep farmers are looking to change and improve their productivity.

Figure 11 **UK Sheep Breeds – 2012 to 2020**



** includes Lleyn and crosses, Easycares, Dorsets and other 'composites'*

Source: Sheep Breed Survey / Andersons

> ***Traditional stratified sheep breeding ... appears to have declined as more lowland farmers look to close their flocks.***

The survey highlighted scope to significantly increase the use of Estimated Breeding Vales (EBVs) in ram selection, as well as to make more use of simple management practices such as the regular weighing of lambs and making more use of body condition scoring ewes. Most flocks did not take sward height measurements or use Electronic Identification to manage their flocks beyond current legal requirements.

We estimate well-managed productive flocks have total costs of production, to include a return on family labour, in the 190 to 210 pence per kg live weight range and that at recent prices they should have generated profits excluding support payments. Many flocks will have much higher costs of production and, as the Basic Payment declines, the pressure to improve or leave the industry looks set to mount. Understanding costs of production, benchmarking and the adoption of more progressive management practices will become much more important in the future.

Pigs

HARRY BATT

A time for a change? I think so. According to AHDB figures, producers lost on average £25 per head on finished pigs in the first half of 2021, meaning that the industry has lost a staggering £145 million or £800,000 a day. The situation has escalated further in the latter part of the year with on-farm culling becoming a necessity due to labour shortages in the supply chain. This is a crippling and unsustainable situation for the industry, with it likely to decide the fate of producers and processors alike.

Over the last 10 years producers have experienced volatile margins, however farmers have remained resilient. This latest challenge might just be a step too far for some with margins at a 10-year low. In addition, producers are faced with rising input costs, not least for feed and the challenges of further investment to meet emissions legislation. This will signal the end for some, with a significant contraction of the breeding herd expected. However, others are in for tougher journeys having recently invested on the back of China's ASF crisis. The question posed must be 'how has it come to this'?

This latest challenge might just be a step too far for some with margins at a 10-year low.

The first eight months of 2021 saw increased pigmeat production, with output up 320,000 tonnes or 6.5% on the same period in 2020. This is a significant uplift in numbers being slaughtered. Was the wider supply chain aware of this level of expansion? Is the CO_2 and abattoir labour shortage the problem or has it just exacerbated a situation that was already at tipping point.

What is the future for the sector? As an industry, the focus has been on technical improvements to compete against our global and EU counterparts. Why? Are we ever going to displace imports or be competitive on a world scale? Brazil, Canada and USA can produce a kilogram of pork for 90-95 pence, almost half that of the UK.

UK meat consumption has

Figure 12 **Pig Margins and Throughput – 2011 to 2021***

*first two quarters

Source: AHDB / Andersons

declined by over 17% in the last decade, with pork consumption in 2020 at 23.4 kilograms per capita - almost 10% lower than three years previous. We know that diet changes and environmental concerns are driving these shifts. So why not focus on producing the first carbon neutral meat?

Why not focus on producing the first carbon neutral meat?

The pork industry is already at an advantage by having an integrated supply chain, therefore it is possible to achieve, subject to buy in by all parties. Secondly, there are benefits for all, not the least supermarkets who are already trying to encourage awareness and promote environmental purchasing decisions having invested heavily in carbon labelling.

The main change to produce carbon neutral pork would involve a radical rethink of the diet, a ration that has been designed to fit with the current B&B model. Over 60% of the sector's emissions are related to feed and the impact of growing specialist crops, i.e. soya, is having on the environment. Manure storage and management contribute to a further 27% of pig emissions.

In addition, a carbon neutral pig industry should encourage greater utilisation, with a large proportion of exports being low value cuts, including offal. There is limited value to these exports at just over £1 per kilogram. Therefore, might this offer a solution to current food poverty, whilst still playing an integral role in providing a balanced diet?

Poultry

EDWARD CALCOTT

To avoid sounding like a broken record, I am not going to talk about the obvious, and seemingly numerous, external issues which have faced the UK poultry meat sector this year such as labour availability, Brexit, Covid, CO2, logistics issues, trade deals, feed prices, climate change etc. Instead, let us focus on what producers can influence and control within their businesses.

In 2018, Andersons Research produced a report identifying the top characteristics of high performing farms, which included: 1. Minimise overheads costs; 2. Set goals and compile budgets; 3. Compare yourself with others and gather information; 4. Understanding your market requirements and meeting them; 5. Give each detail the attention it deserves; 6. Have a mindset for change and innovation; 7. Continually improve people management; 8. Specialise. Do some of these sound relevant to your business?

Let us focus on 'Understanding your market requirements and meeting them'. Who is the customer of the broiler farmer? Technically, in most growing arrangements, it is the processing factory. The target weights and dates are set so the right size bird is available at the right time to the factory. Now take one more step along the supply chain. Who is the customer of the factory? It is the shops, the retailers, the restaurants, the caterers. Then their customer is the actual consumer, the person who cooks and eats the chicken.

> ***The humble chicken has lost its identity. It is on par with milk – a brandless commodity product which is a household staple.***

Due to vertical integration because of a need for efficiency, the steps have been reduced, but there is still a significant gap between producer and consumer. This is where our efficient and innovative industry has room for improvement. The humble chicken has lost its identity. It is on par with milk – a brandless commodity product which is a household staple. Instead, we have 'tiers' of welfare. There is Red Tractor assured; RSPCA Assured; Room to Roam; Indoor; British Indoor; British Indoor+; Free Range; Organic to name a few.

Then we have the Better Chicken Commitment (BCC), which has good intentions, but a slightly controversial and corporate name – does it mean that chickens not reared to the BCC standards are bad?

The Free-Range egg sector has a better link between farms and consumers, an example being the simple branding of the Happy Egg Co., a brand with a chirpy name and an identity which consumers can relate to across all stores. There is a link made back to the farmer who farmed the hens; and the customers who will crack the eggs. Is this where broiler businesses are missing out? 'I've got some happy eggs for tea' sounds a lot more appealing than 'I've got a better chicken commitment chicken for tea'.

In the future, I think more needs to be done to give chicken a simple identity which consumers can understand. They can make the link to the country of origin and the production methods, so informed purchasing decisions can be made with clarity. This is important more than ever as reduced meat diets potentially become more popular. We could treat customers to a cheerful chicken, a roaming rooster, or even a pleasantly produced pullet!

Topical Issue-

The Future of Meat

LILY HISCOCK

Will the 21st century be the one where the 'lab-grown' burger is sold in your local McDonalds? There is ever-increasing pressure on UK consumers to change the way they eat, whether that is a conscious choice for health reasons, for 'animal welfare' purposes, or to reduce their personal carbon footprint by becoming plant-based, vegan, vegetarian, pescatarian, flexitarian or planetarian, to name but a few ...

Currently, meat is still king. But the reality is that the alternative meat sector is fast-growing and of high value. Covid-19 and Brexit are having a significant impact on the meat supply chain in the UK and abroad, with CO2 shortages and limited labour resource to process products. Meanwhile established plant-based businesses such as Impossible Foods and Beyond Meat, or UK startups such as THIS or The Meatless Farm Company, have attracted significant investor interest, with more than £100m raised in the UK by the end of Q3 in 2021, compared to £63.9m in the whole of 2020.

Many of the world's largest meat companies such as Cargill, Tyson Foods and Unilever also have an interest in meat-free and cell-based meat due to its increasing

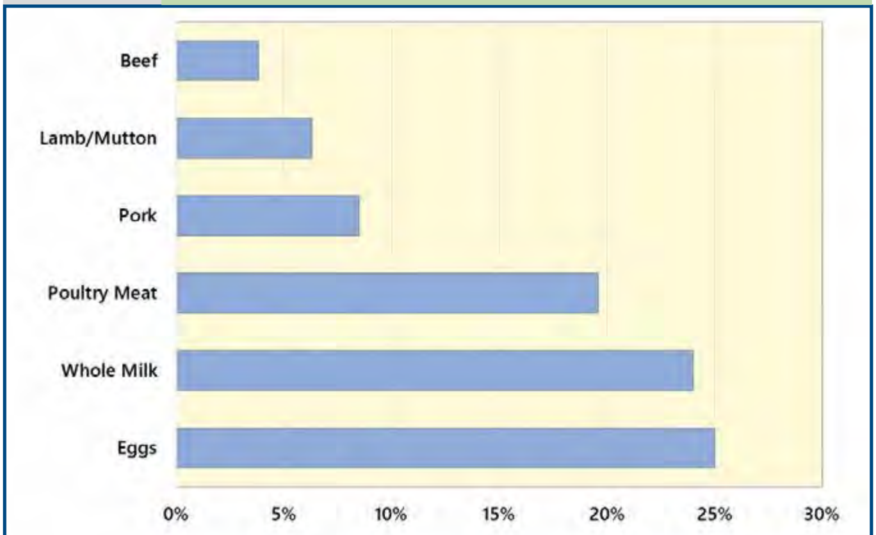
The alternative meat sector is fast-growing and of high value.

consumption and high value, showing the future direction of travel.

What is undeniable is that by 2050, the world's population is likely to reach ten billion. This will require a twofold increase in global food production. Emerging countries will drive this growth, China, in particular, with its rising middle class is likely to see an uplift in protein and calorie consumption. Even with improved distribution and reduced food waste, we would still see a massive gap between current food output and required production, whilst climate change will continue to have a negative impact on our ability to produce food from our traditional resources, being land and water.

Meat produced in the UK (beef in particular) is produced at a lower carbon footprint, being

Figure 13 **Protein Efficiency of Meat and Dairy**



Source: SRUC (Alexander et.al (2016) – Human Appropriation of Land for Food) (see https://core.ac.uk/download/pdf/228101603.pdf for details) predominantly grass-based, than our counterparts in the US and South America on feedlot type grain-based systems. However, there is no getting away from the fact that the efficiency of producing a kilo of beef protein versus other forms of meat or plants is low, with a greater need for land and water.

So, what does our future look like?

The National Food Strategy has called for a 30% reduction in meat consumption which has led to a suggestion of a 'meat tax' bandied around at 19%. To date, this has been vetoed with studies suggesting this would cost the UK £242 million a year, impacting those already struggling with food poverty and far outweigh any environmental savings (c. £100 million).

In my view, we will see a three tiered 'meat' sector.

There remains a place for 'conventional' meat production in the UK, not least because, in many cases, animals occupy land not suitable for growing of crops / vegetables or for other economic uses (development etc). This is likely to be produced at a premium and consumed on fewer occasions. It is likely it will become a 'Sunday special' or 'Weekend treat', with many families choosing to be flexitarian and reduce their consumption during the weekdays.

> *There remains a place for 'conventional' meat production in the UK. This is likely to be produced at a premium and consumed on fewer occasions.*

The current opinion of cultured meat is that it will see growth, but will it be mainstream? One commentator has suggested that "Cultivated meat is at odds with vegan and vegetarian preferences. For those that avoid animal-based products, cell-grown meat will probably not appeal, whilst those who love meat and are not eco-conscious might still pay a premium and eat good meat." The key point to note here is that cultured meat is still meat; it contains exactly the same nutrients and has the potential to be more consistent, have better taste and be grown on a tiny proportion of the area which animals and plants alike currently occupy. Growth of this sector will be down to consumer education – particularly as it has no 'welfare' issues, no use of soya and the impact on the environment is modest compared to both conventional meat production and crops.

The third tier which meets the requirements of the animal welfare advocates and eco-conscious is the plant-based sector. This will see continued rapid growth, particularly if vertical farming and hydroponics can be made more mainstream and lower cost.

A challenge for the UK meat industry certainly, but perhaps a major opportunity also for farmers who are open-minded and wish to provide for our Millennial and Gen Z consumers. Why can't premium grass-based beef be produced alongside horticultural crops for the impossible burger?

Combinable Cropping

JOE SCARRATT AND
SEBASTIAN GRAFF-BAKER

It would be easy to assume that the prospects for the cereals sector look good; admittedly on the face of it they do, with high commodity prices and the relatively modest cost base for harvest 2021. Andersons' Loam Farm model shows comparatively good returns at present when compared to the past. *(Note, this chart was shown in our recent publication 'Business Matters' but has been updated since - Ed.)* Our 2022 budget does assume summer purchased nitrogen fertiliser as is this business's normal practice!

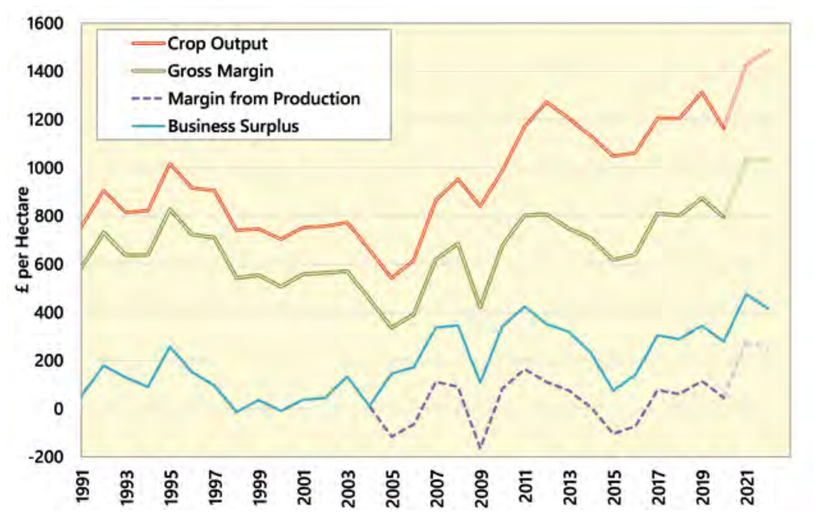
However, the 'mood' is very mixed at present; harvest has been exceptional for some, but poor for others. Spot prices for cereals and oilseeds are at historically high levels, but spot prices hide averages achieved for the year. Perhaps most importantly, all costs are increasing, and quickly. Fertiliser is the obvious one at present, but of more structural concern is the rising cost of machinery (essentially depreciation) and labour, or even the lack of it. They threaten to damage what is, for harvest 2021, generally a good margin before subsidy receipts although, of course, the latter is in decline also (at least in England).

Machinery price inflation is a stark statistic. It is actually quite difficult to access such figures as the Defra machinery prices indices are often an unreliable indicator. But taking a 200 HP tractor price from the John Nix Pocketbook suggests an almost 70% increase in price over the last 10 years before the increases being quoted now – 10, 20 or even 30%. The price is probably heading towards doubling in the last decade. Equally, prices for buildings and infrastructure for those needing to make replacements/renewals/ additions are significantly higher. Both feed through long-term into the structural depreciation charge

> ***The 'mood' is very mixed at present; harvest has been exceptional for some, but poor for others.***

for the business. There is a risk that in the short-term, particularly with machinery, it becomes easily affordable from a cash perspective because of comparatively high

Figure 14 **Loam Farm Performance – 1991 to 2022 (Current Prices)**



Source: Andersons

returns. The additional HP cost per annum or per month may not be that noticeable when crop prices are strong. However, as we are acutely aware, long-term this leads to an increasing depreciation (non-cash) cost to the business as the system (assuming the same) is maintained by future replacement of machinery over time, something often over-looked. It prevents the deep, hard, look at the system and appropriateness of the resource level. Machinery and labour costs remain those cost categories that show the greatest variation between farm businesses when benchmarked.

Most businesses understand their variable costs well, but rarely spend much time examining overheads. The classic mistake is to use 'operational' type costings (e.g. contract rates, costs per hectare from management handbooks) when reviewing machinery and labour costs, but that gives only part of the story. What this fails to do is correctly allocate all full-time labour, depreciation, repairs, fuel, plus other administration and property costs between all enterprises i.e. all the expenditure has to be allocated to some part of the business. The largest element 'missed' is down-time and management time. It is a key issue many larger businesses and contractors have not fully grasped when attempting to understand their cost base for re-negotiations of tenancies and contracting arrangements. For example, it is very easy to use the former methodology to convince yourself of an operating cost, but when you allocate all of the elements within your P&L to different enterprises, the figure is often far higher.

Joint Ventures have been employed as a way to help mitigate some of those cost and structural challenges. Contract Farming is the most widely seen in the combinable crops sector. Such agreements, where the Contractor provides specialist knowledge, machinery and labour, often enable a Farmer wishing to step back or retire, the ability to continue their business, and generate good returns working with a larger specialist in the sector. Equally, they provide great opportunity for an existing farmer, contractor or contract farmer to grow their business.

Standard practice over many years has been for the Contractor to provide his/her services for a fixed fee, and then also taking a majority share of the overall surplus (after a basic charge for the land also). This incentivises the Contractor to farm it well (like their own). This mechanism is well proven over the years.

Machinery price inflation is a stark statistic. The price is probably heading towards doubling in the last decade.

However, there is an increasing trend within the industry to start to break that incentivised structure with fixed fees rising and the Contractor's share of surpluses reducing. This fundamentally changes the risk profile, moving more to the Farmer. Where fully understood and engaged with a good operator, this may be a sensible move, but for others it risks a spiral of poorer performance. The change is being driven in some cases by a willingness of some to farm greater areas with the perception that this will 'spread' overheads. This works in the right circumstances but inevitably hits a barrier when the next 'step' of capacity in machinery and labour is required; risking the same process repeating itself. There is a

need to reward the time for actually managing the crop/business, rather than just time sitting on a tractor. It is all of this time, knowledge, and input that creates the 'pot' of income for the Contract Farming Agreement in the first place.

The risk and likelihood is that the performance slips and both parties lose out. With all arrangements it is critical to correctly incentivise performance – it drives reward for all parties, which if structured correctly will be fair and appropriate to the level of risk each takes. To forget such principles runs the risk of under-performance, low rewards and arguably land not farmed to the highest standard, particularly true for short-term arrangements.

Attention to detail remains key in all sectors for those top performing businesses , as Figure 15 demonstrates. It shows Loam Farm's 2021 harvest feed wheat crop, adjusted for the performance differentials seen in data across the sector from the Farm Business Survey. Admittedly the overall margins are very good because of current prices and, of course, this only relates to the wheat crop, not the whole rotation, but it serves as a stark reminder of the range in performance between businesses. Although soil type and inherent geographical / layout differences will lead to varying output and costs, in our view the majority of the variation is down to the individuals managing the business – and their attention to detail.

Figure 15 **Range in Performance for Feed Wheat - 2021**

£ per Ha *(unless otherwise stated)*	**Loam Farm**	**Bottom 20%**	**Top20%**
Yield (t per Ha)	8.8	7.5	9.7
Price (£ per t)	188	188	188
Output	**1,654**	**1,406**	**1,820**
Seed	59	62	56
Fertiliser	181	190	172
Sprays	225	236	214
Miscellaneous Variables	15	17	15
Machinery Depreciation	110	119	107
Fuel	63	63	63
Other Machinery	104	120	88
Labour	115	155	86
Overheads	106	111	111
Rent and Finance	242	266	218
Total Cost of Production	**1,220**	**1,339**	**1,130**
Cost of Production per Tonne	***139***	***179***	***117***
Net Margin per Hectare	**434**	**67**	**690**
Net Margin per Tonne	***49***	***9***	***71***

** repairs and other machinery costs (inc.contracting)*
- includes charge for farmer's own labour *Sources: FBS / Andersons*

With the BPS reductions now a reality (most will have received their first 'reduced' BPS payment by now), maximising performance (balance of output and inputs) is clearly key, as is perhaps adjusting systems to access new income. For many, the Sustainable Farming Incentive will be a method by which to mitigate BPS reductions, but also adjust systems to aid soil health and perhaps, more importantly, aid transition to reduced machinery costs long-term. A later article in this section looks at the opportunities that regenerative farming may offer the combinable cropping sector.

Sugar Beet and Potatoes

NICK BLAKE AND
JAY WOOTTON

Sugar Beet

Communications from both the NFU and British Sugar were unexpectedly received on the same day in June this year, each justifying their position on pricing for the 2022 drilling. Ultimately, it appears that the NFU (on behalf of growers) has largely prevailed this year, with a one-year contract of £27 per tonne (including uplifts for 3 year contract holders too; subject to committing for a further year). This could be topped up with a premium for local growing, or by success with the sugar futures-linked contract, which has been opened to all growers for next year.

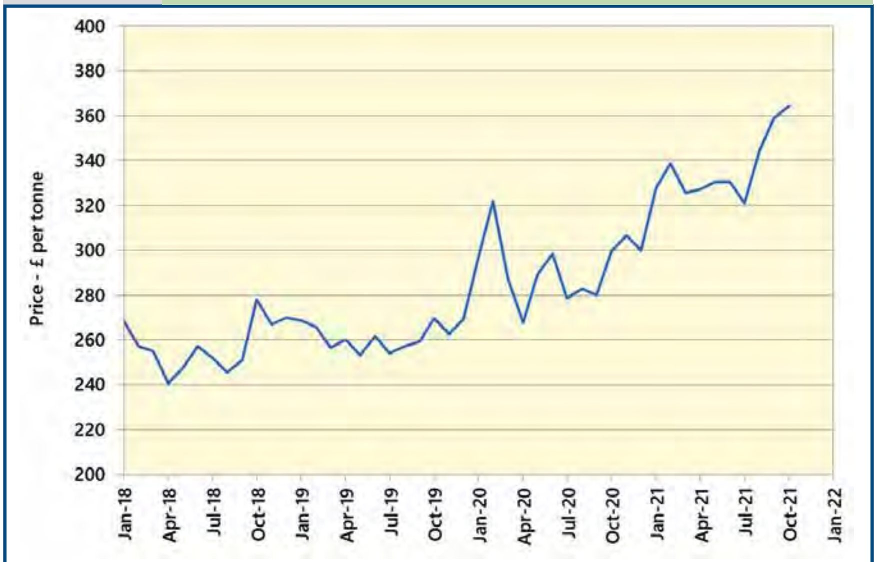
As usual, the devil is in the detail, and growers can only enter up to 10% of their CTE entitlement for the 2022 drilling into the futures contract. At the time of writing, NFU Sugar thought this approach would pay £30 per tonne on today's market, providing an additional 30p per tonne to the overall average price. The principle of a futures based contract seems positive, so why not let growers enter a greater share of their contract?

Following the wet autumn of 2020, and disappointing yields, our experience was that growers planned to seriously review their commitments either now, or at the end of their 3-year contracts, giving rise to uncertainty for British Sugar. Growers who choose to extend their existing 3-year contract by another year, in order to access the increased price of £25 per tonne, will no doubt help British Sugar understand growers' medium-term commitment to the crop.

The wheat market is often used as a benchmark for the sugar beet price, but other than the, often not insignificant, effect on a following wheat crop, the benchmark must surely be the alternative break crop which there are few, and fewer still with oilseed rape becoming uneconomic for many in the East. Total margin from the rotation, with or without sugar beet seems to be the most appropriate analysis to undertake. We suspect for many growers, beet will continue to make a positive contribution to farm profit.

Ultimately, growers who can't make it add up would do well to vote with their feet, as this is likely to have the biggest influence on future negotiations.

Figure 16 **World White Sugar Price – 2018 to 2021**



Source: European Commission / Andersons

Potatoes

The AHDB Ballot in 2021 'Do you agree that the statutory potato levy (for growers and buyers) should continue?' resulted in a majority 'No' response of 66.3% (or 63.2% by levy value). Theoretically, therefore, the levy, in place since the Potato Marketing Board was set up in 1934 will be no longer be part of the potato grower's budget.

The AHDB reported a 64.3% turnout by votes (of the total registered 2,000 growers). Of the 402 votes cast, a slim majority of the largest Potato Buyers voted to keep the levy whereas, other than the smallest area category (0-3 Hectares), the majority of Potato Growers (around 60%, other than >200Ha growers at 76%) in each area category voted to end the levy.

Ultimately, whether or not the AHDB levy continues, will be a matter for the Government (who are yet to decide), but it seems likely that growers' decision will be respected. In the meantime, it is unclear as to whether or a not a levy will be collected this December, and at what rate. Although AHDB Potatoes hold some retained funds, it has run at a deficit recently, and there will be 'winding up' costs, and contractual commitments to honour.

The levy, in place since the Potato Marketing Board was set up in 1934 will be no longer be part of the potato grower's budget.

Research, on which the AHDB spent 28% of their annual budget (reported as £6.6m for the 2020/21 financial year) is perhaps likely to be one of the most significant losses to the sector. There are other privately funded organisations providing excellent research on behalf of growers, such as CUPGRA (Cambridge University Potato Growers Research Association), but who will take the lead on issues such as seed exports, agrochemical approvals, and how will this be funded? Is this something the NFU should be expected to do – hardly fair, given it is a membership organisation with a broad, and possibly relatively small, potato growing membership.

Selfishly, market intelligence has been a useful tool for Andersons, and we have communicated the changes in varieties, planted areas, consumer trends to a wide audience. Will the industry be better off without market price data, the accuracy of which has come under question in the past? Given the level of contracted crops these days, we expect it will make little difference.

Horticulture

JOHN PELHAM

Weather and labour, the betes noires of horticulture in 2021.

From early spring, UK weather has bordered on the bizarre, broadly observed as the south and east having western weather and vice-versa. You know that something unusual is happening when, at the beginning of September, the highest daily temperature recorded in the UK is in west Wales!

A late season started with unprecedented April frosts, a cool, wet May, followed by sudden high temperatures and, subsequently, for those in the key growing areas in the south and east, dramatic summer rainfall. It has been a difficult year for both growing and harvesting fruit, vegetable and salad crops.

In last year's Outlook we wrote "The major issue facing the UK grower for 2021 will be labour supply….", reflecting the thinking of many in the horticultural sector. Despite a late Government announcement to increase the Seasonal Agricultural Workers Scheme (SAWS) annual allowance from ten to thirty thousand workers, horticulture has suffered all season from a chronic staff shortage (as indeed have other sectors of the farming industry, and beyond), not least because many EU staff, eligible to return, did not. The result has been crops in a wide range of horticultural enterprises – soft fruit, tomatoes, broccoli, cauliflowers and daffodils, to name but some – that have not been harvested, becoming waste to be sent to AD plants or ploughed in as expensive green manure.

You know that something unusual is happening when, at the beginning of September, the highest daily temperature recorded in the UK is in west Wales!

With additional cost inflation in some other areas (e.g. packaging, haulage) and the escalation of wage costs (matched by little, if any, produce price inflation), financial losses in horticultural businesses will inevitably increase in 2021, making the discussions with lenders about the 2022 working capital facility a challenge. Constraints on growers' access to labour and, possibly, capital, inevitably means that the supply of UK grown fruit, vegetables and salads will reduce. It will be interesting to see if the Government's intransigent attitude to the food industry's proposal of a Covid Recovery Visa will persist when declining supply starts to convert into food cost inflation.

In July the Government announced that it would continue the funding of Producer Organisations (PO's) until a new horticultural productivity scheme is developed, which was welcomed by the industry generally. The 1996 EU scheme enabled groups of growers to come together to coordinate their production and marketing, paying an annual levy on turnover (at a rate set by the PO of up to 4.1%) into a collective fund, match-funded by the EU (now UK). This combined fund can be invested in a range of measures – both operating and capital – to improve production.

PO funding has greatly increased the range, quality and availability of fresh produce, whilst prices have increased little, if at all – successful policy-making, with the consumer being the beneficiary and growers developing their operations. For those crops where there were opportunities to develop consumer demand, there have been significant increases in the volume of production as a result of PO support. The most notable example would be strawberry production, as Figure 17 illustrates.

In 1996 UK strawberries were available for some 6-8 weeks in early to mid-summer and were a luxury. Today UK-grown strawberries are available from April-October and cost no more – nominally – than they did 25 years ago. In other words, in real terms the price of strawberries has almost halved.

Figure 17 **UK Strawberry Sector – 1996 and 2020**

	1996	2020	% change
UK Production '000 tonnes	40.1	123.3	+207
UK Consumption '000 tonnes	67.0	177.7	+165

Source: Defra

Constraints on growers' access to labour and, possibly, capital, inevitably means that the supply of UK grown fruit, vegetables and salads will reduce.

The key for policy-makers, designing a future horticulture productivity scheme, is to ensure that incentives improve the economics of existing production and only encourage expansion where there is the capacity to develop consumer demand. Now there's a challenge.

Topical Issue-

Regenerative Farming

SEBASTIAN GRAFF-BAKER

Over the past two or three decades the combinable crop sector has evolved a model where yields are reliant on high levels of input - be this artificial nutrition, pesticides or the movement of soil. This approach is increasingly being questioned as yields stagnate and the use of resources in farming come under the spotlight. Regenerative agriculture suggests an alternative approach is possible.

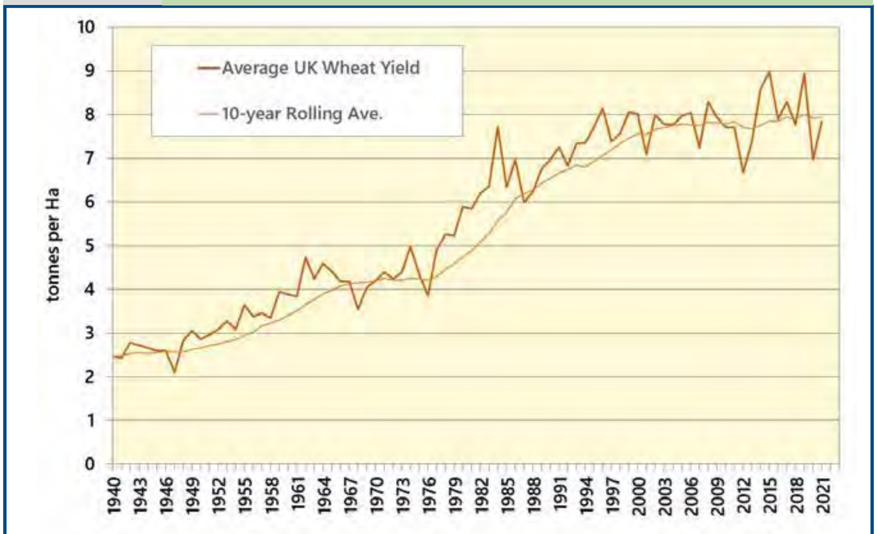
The requirement for inputs is driven to a large extent by poor soil health. In effect, an increasing proportion of soil inputs (including cultivation) are well-organised insurance activities to ensure a reliable crop. This has largely worked; the response from these inputs has been relatively consistent and has therefore created a relationship between the supply industry (the 'insurer') and the farming business (the 'customer'). A consequence of this evolution is that the farming industry has not needed to maintain or develop levels of soil management and husbandry that provides a commercial alternative to continuing with an approach that relies so heavily on insurance inputs.

Whilst yields were increasing (see Figure 18), and with the

> *The combinable crop sector has evolved a model where yields are reliant on high levels of input - be this artificial nutrition, pesticides or the movement of soil.*

supply industry providing high levels of service, together with the contribution from support payments and mechanisation, farm businesses have generated profits that have not created the need for any significant change. Tyre technology, lower link sensing and high levels of power have meant that soils have either been moved too much and /or when conditions are unsuitable or both. Over the same period, the presence of livestock, particularly grazing ruminants has fallen. This has led to a reduction in levels of soil organic matter, which in turn has led to a decline in levels of soil biological activity, leading to soils in poor health. Consequently, our soils are less resilient towards and

Figure 18 **UK Wheat Yields – 1940 to 2021**



Source: Andersons

more intolerant of difficult weather; something that has been all to evident when soils in poor health have failed to support reliable crop growth. Figure 18 shows a clear stagnation in yields in recent years.

A small number of people have been trying to develop practices which provide an attractive alternative to either the 'standard model' of conventional agriculture or organic farming. Interestingly the experiences of farmers of land with less or no maritime climate influence and less livestock (e.g. North America) have highlighted some key principles:

- *Minimum disturbance of soil*
- *Ensuring soil cover at all times either with growing crops or crop residues*
- *Use of diverse rotations*

In order to reduce the industry's dependency on the insurance approach, we need:

- *An objective assessment of the current health of soils*
- *A realistic indication of the performance of the same soils, in improved health*
- *Access to management that can deliver practices with the attention to detail that is required to return soils to their former levels of health, resilience, tolerance and therefore performance.*
- *To develop methods that can reduce our dependence on Glyphosate.*
- *A financial tolerance of reduced profits during the transition of soils from poor to improved health and one which can work with management as it becomes sufficiently confident to replace insurance with husbandry*

One of the obstacles that needs addressing is the absence of reliable information; currently much of what is available is anecdotal.

One of the obstacles that needs addressing is the absence of reliable information; currently much of what is available is anecdotal. In the Post-War years, the State's advisory service was able to refer to trials showing an economic return from the cost of increasing inputs and cultivation. Under the current circumstances neither the state nor the supply industry appear interested in funding work with which to demonstrate the benefits of improved soil health. Regrettably much of the supply industry has an obvious conflict of interest.

Given these circumstances we have to use the available evidence with which to consider the financial risk of both continuing with unimproved soils or, as an alternative, adopting the practices required to bring about an improvement and restoration of soil health. One of the key issues is to consider the costs of transition and improvement over a longer time period than a single financial year. Arguably the convention of assessing business performance on an annual basis is driven by both the calendar and the growing season. We need to consider how long it may take for the industry to recruit and foster its team of earthworms, mycorrhizal fungi and the myriad of available soil microorganisms, the cost of which is organic matter, attention to detail and time.

Regenerative agriculture is one of the most interesting and available opportunities to farming businesses. Consequently, it has triggered an interest in people right across the industry, irrespective of their role and, for some, it has been a reminder of why we like farming.

Wales

KERRY JERMAN

There is generally a positive sentiment in Welsh farming at the time of writing. High output prices always produce a sense of well-being, and both cattle and lamb values have remained at remarkable levels throughout 2021. This time last year we wrote about the threat from a No-Deal Brexit, particularly on Welsh light-lamb exports. This has been avoided, but it is perhaps too early to relax completely, as how trade progresses in a more normal marketing year is yet to be seen.

Contrary to many early predictions, the red meat sectors have fared well as a result of the Covid lockdowns. Domestic demand has been boosted by more meals being cooked in the home and fewer taken through the foodservice sector. A number of entrepreneurial businesses have 'not let a good crisis go to waste' and have developed direct sales to customers (both the meat and dairy sectors). This perhaps demonstrates that consumers will seek out local and high-quality food – if they have the time to do so (and sellers make it easy). As restrictions ease, a key question for Welsh farming in 2022 is whether consumers will revert to the buying habits of 2019, or whether tastes have shifted in some permanent way.

> ***Cattle and lamb values have remained at remarkable levels throughout 2021.***

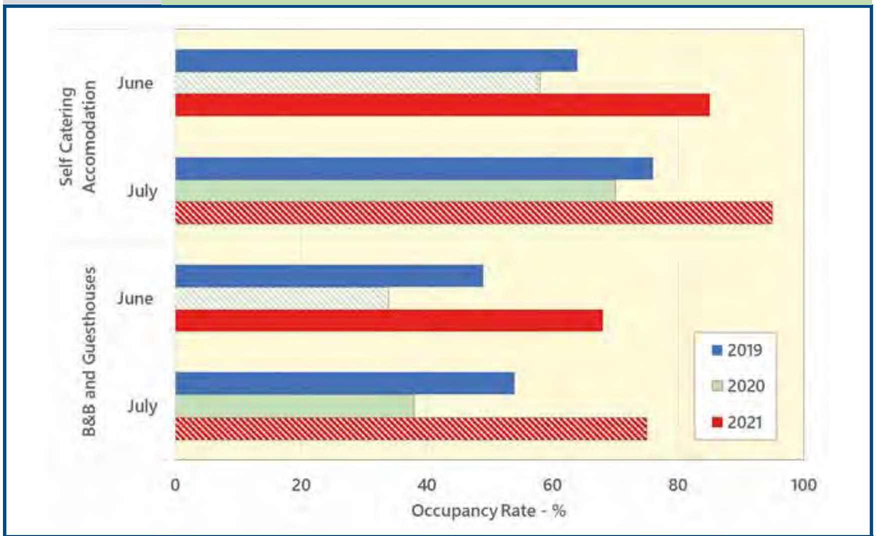
Those farms that have tourism enterprises are likely to have had a good 2021 with abundant 'no vacancies' signs. The hope must be that some of those that were forced to holiday at home by Covid have discovered the great things that Wales has to offer and bookings will remain strong for 2022 and beyond.

Another source of positive sentiment is that major change to support has been deferred. Whilst there is now a roadmap for policy change in Wales, the BPS will remain in place unaltered until at least the 2023 year. With the new Sustainable Farming Scheme (SFS) not scheduled to start until January 2025, it seems possible the BPS could be around in 2024 too. And, even when the SFS is launched, a phasing-out of the BPS over a number of years seems certain. Therefore, direct payments, in some form, could well be part of the policy landscape until the end of the decade. Indeed, it is not impossible that a (small) income-support, direct aid element is included as part of the SFS.

Details on the SFS are currently still vague. The gaps will start to be filled-in during 2022 with the publication of the outline of the scheme in the spring. Also, the Agriculture Bill will be placed before the Senedd which will give the Government powers to enact the new schemes. The agricultural industry will be asked to co-design the SFS. There is often scepticism from farmers about how much influence this process actually has. However, there does seem a genuine desire from the administration not simply to impose a 'top down' solution. It is more difficult to complain about what emerges if you have passed-up the opportunity to have your say!

The Agriculture Bill will mainly be about future support, but will also cover (small) changes to the farm tenancy regime and introduce new National Minimum Standards for Agriculture. It is in the area of regulation and the environment that the positivity in the sector starts to erode.

Figure 19 **Welsh Holiday Accommodation Occupancy – 2019 to 2021**



Shaded columns are estimates. July data is latest published.
Source: Welsh Govt / Andersons

The confirmation this year that the whole of Wales would be designated as a Nitrate Vulnerable Zone caused widespread dismay. The effects of this will start to be felt over the coming years as slurry stores are required to be upgraded - sometimes at considerable expense (and rising, as building costs escalate). Perhaps some of the largest effects will be on beef producers who are behind the dairy sector in terms of existing stores. The economics of large investments simply to be able to continue with a relatively low-income enterprise often look questionable. This is certainly the attitude taken by some landlords who are less than keen to make such investments. This may see a shift towards sheep production on some farms.

The issue of pollution is also a live one in the poultry sector. On many family farms the addition of a poultry enterprise has allowed the unit to support another generation or kept the farm viable as a full-time proposition. The high density of poultry units in mid-Wales and a rise in nutrient levels in rivers has meant it has become almost impossible to get permission for new facilities in some areas. This seems unlikely to change in the foreseeable future so limits a route to expansion for many farms.

The traditional pathway to grow has always been to take on more land. Purchasing land has been expensive for many years. In Wales, new players in the market are putting it even further out of reach for many farmers. There is now strong competition for land from eco-investors who wish to buy land to rewild or plant trees. They have deep pockets and do not always need to see a return from their investment.

> ***In Wales, new players in the [land] market are putting it even further out of reach for many farmers. There is now strong competition from eco-investors who wish to buy land to rewild or plant trees.***

As well as the roll-over of the BPS, existing Glastir agreements will be extended until 2023. Although this is positive for existing agreement holders, it does continue to lock things in place and does not recognise the changing nature of Welsh agriculture. The Farming Connect programme has also been continued until 2023. This will continue to offer 80% funding for one-to-one strategic business and technical advice, training courses to improve Personal Development, and assistance with setting up joint ventures to aid restructuring.

We have been involved in the programme for many years. With all the pressures outlined above, we believe the scheme continues to provide a great opportunity for businesses to step back from day-to-day management and really think about their future direction in the industry. Whilst the current situation is broadly positive, it is likely that tougher times lie ahead and those businesses that have set out a plan for the future are those most likely to prosper.

Scotland

BEN KELLAGHER

Similar to the rest of the UK, the changing weather patterns continue to be a challenge for all farming sectors across Scotland. During 2021, significant snowfall affected outdoor winter grazed livestock, principally sheep. We didn't really have a spring and what followed was one of the driest and warmest summers on record. In some areas, grass growth suffered and although good quality silage and hay were produced, yields were lower than normal and additional cuts were required to ensure plentiful stocks of winter keep for all categories of livestock. It can be an expensive game to play if you go into the winter months being reliant on an early spring!

The warm and dry summer meant that this year's grain harvest was one of the easiest for a number of years. With the demise of one of Scotland's grain trading businesses and the well documented issues faced by the road haulage industry, the main challenge facing many arable farmers was, and still is, moving grain post-harvest. Yields are reported as average to good in some areas and with prices on the rise, many will be expecting enhanced levels of return. Autumn sowing conditions have been exceptional and it will be no surprise if there is an increase in winter cropping across Scotland, given the current spot and future prices for harvest 2022. With crops in the ground and looking well-established, plus the opportunity to lock into good prices for next harvest, another year of robust returns looks possible for the arable sector in 2022.

> ***Another year of robust returns looks possible for the arable sector in 2022.***

Whilst crop values have been good, the headline for 2021 in terms of pricing was in the beef and sheep sectors, reflected in Figure 20 overleaf.

Prices in both sectors are up on 2020 and there is an optimism within the beef and sheep sectors not seen for quite a number of years. This is reflected in the prices being paid for breeding stock. The welcome return of live bull and tup sales has seen large attendances, keen buyers, and record prices paid. With tight supplies, 2022 could be another good year.

Early in 2021, the Scottish Government distributed a further £70 million to Scottish farmers via upland support payments (a top-up to a reduced LFASS) and a BPS uplift. This was a welcome boost of funds paid at a time in the calendar year when income generation tends to be reduced. The BPS Loan Scheme continues to operate in Scotland. What was once an emergency measure to cope with a malfunctioning IT system has evolved into a predictable process to get payments out early. Whilst there have been some teething problems with the new online application process this year, Scottish farmers still receive the majority of their annual BPS earlier than any other country in the UK and for this, we must be grateful.

It was no surprise the SNP were re-elected in May, but they fell one seat short of an overall majority. The recent cooperation agreement signed with the Scottish Green Party possibly indicates the future direction for agricultural policy in Scotland with more focus on environmental outcomes. The issue of 'IndyRef2' seems to have been side-lined for the moment and it would be a surprise if 2022 saw any move to trigger this.

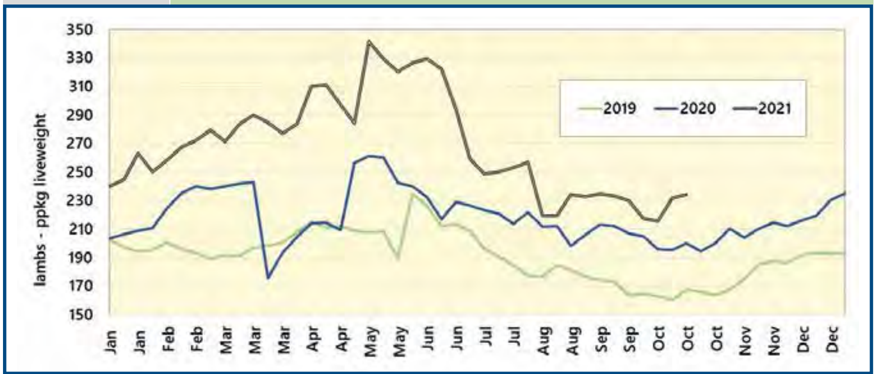
The agri-environment scheme, AECS, opened up once again, but applications were very restricted and only a few farmers were given the opportunity to enhance their on-farm environmental credentials. The recent announcement that the scheme will fully reopen for applications in 2022 and then remain available through to 2024 is to be welcomed and more fully reflects the current administration's desire to be green. However, clarification is still needed on the funding available for the AECS and the treatment of agreements that are due to come to an end next year. There is much environmental benefit to be lost if these are not continued.

Looking to the future, the farming industry in Scotland has assurances that the current schemes and level of financial support will be in place until 2024. Whilst this does provide 'stability' in line with Scottish Government policy, it can also be

Figure 20a **Scottish Deadweight Beef Prices - 2019 to 2021**

Source: QMS / AHDB / Andersons

Figure 20b **Scottish Liveweight Lamb Prices - 2019 to 2021**



Source: QMS / AHDB / Andersons

argued that it prevents business change, especially coupled with the high prices seen in many sectors at present. However, you just need to look south of the border to see the sweeping changes that have already been implemented, with English BPS subsidy set to be halved over the same period and a move to 'Environmental Land Management'. The direction of travel is inevitable for Scottish farm businesses.

All eyes will be on Scotland in November with COP26 taking place in Glasgow (between the writing and the publication of this article). Climate change is high on the agenda, not just at an international level, but also within the Scottish Government. It appears part of our future agricultural policy will be linked to climate change mitigation, with farmer led groups reporting on each sector in the industry to recommend ways in which farmers can help tackle climate change.

> *It appears part of our future agricultural policy will be linked to climate change mitigation.*

A consultation has been launched, called 'Agricultural Transition in Scotland – First Steps Towards our National Policy'. A new committee has been set up to drive forward the recommendations from the farmer led groups to develop proposals for sustainable farming support. We are expecting a full consultation on these proposals during 2022. It is hoped that this will provide more detail, as it is a question that is frequently being asked at farm level.

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