ANDERSONS

Seminars

Spring 2025

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THE ANDERSONS CENTRE

Contents

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ANDERSONS

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FARM PROFITABILITY AND PERFORMANCE

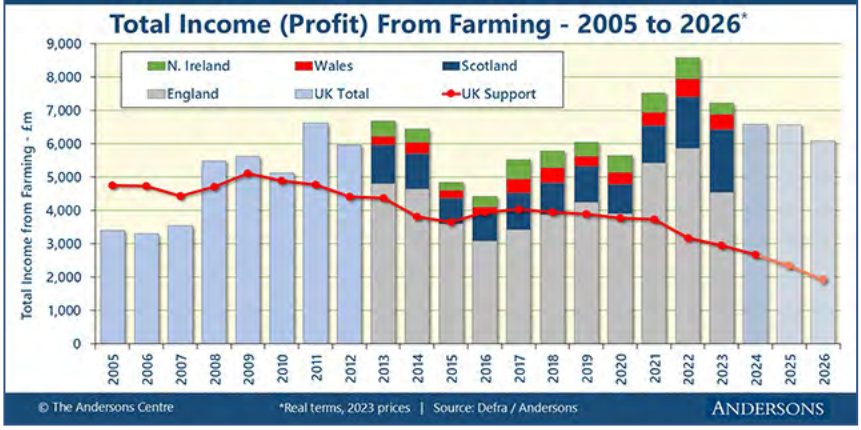
DECADES OF CHANGE

	2015	2025	2035
UK Base Rates	0.5%	4.5%	?
UK Government Debt (% of GDP)	86.5%	99.5%	?
Major Wars in Europe	0	1	?
Temp Increase over Pre-Industrial Ave.	1.1°C	>1.5°C	?
US President	Barack Obama	Donald Trump	?
World Population (bn)	7.47	8.23	*8.89*
UK Population (m)	65.1	68.7	*72.5*
China GDP as a % of US	60%	88%	?
UK Membership of EU	✓	×	?

 Source: Various / The Andersons Centre ANDERSONS

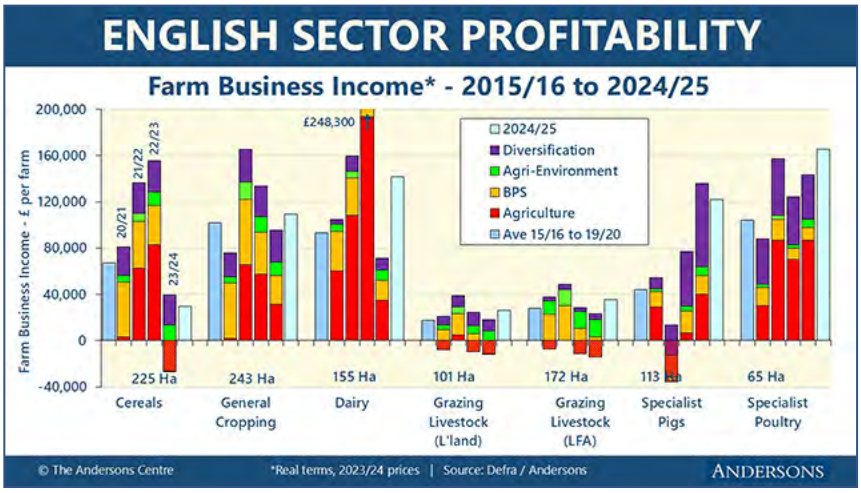
A theme running through this year's Seminar is a look forward to 2035. Ten years perhaps doesn't seem that far away – maybe things won't change very much? But this slide shows how things have altered in the past decade. It focusses on geo-political and economic issues (the presentation will explore the specifics of UK agriculture later). Overall, it shows that the world in 2025 is riskier and more volatile than that in 2015. This filters into farming too – contributing to price 'spikes' in outputs and inputs and affecting the economic environment in which farm businesses operate.

UK FARM PROFITS

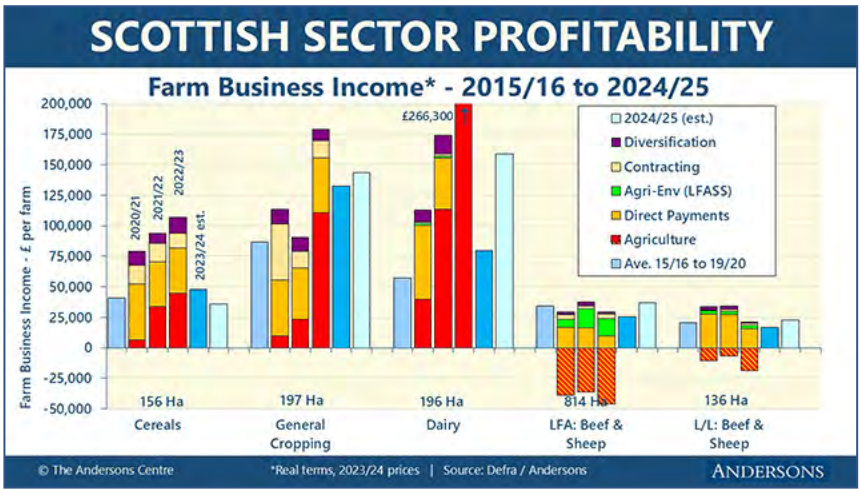


 *Real terms, 2023 prices | Source: Defra / Andersons ANDERSONS

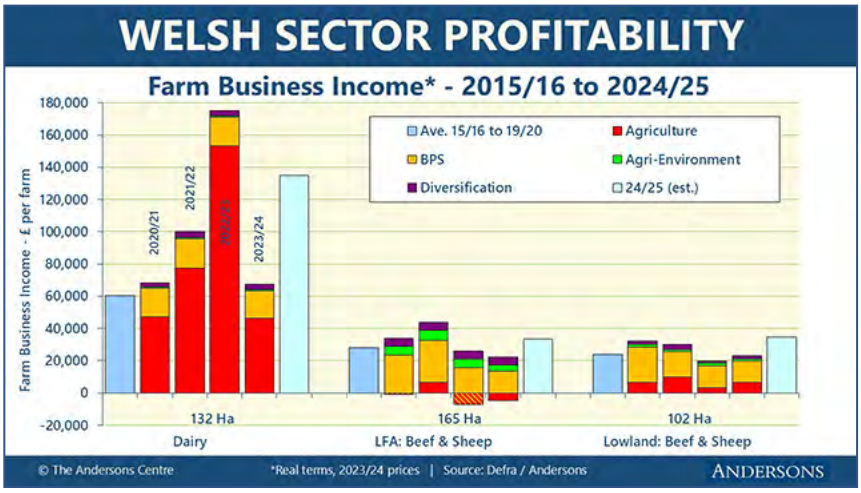
To set the scene, we look at the overall profitability of UK farming. The measure used is Total Income from Farming (TIFF) – this is calculated by Defra and the Devolved administrations. Simplistically, it can be considered the profit of 'UK Farming Plc'. In technical terms, it is the return to all the farmers in UK agriculture and horticulture for their management, labour and capital. The figures to 2023 are official Government ones; thereafter they are Andersons' estimates. For the past decade they have been split between the four UK nations. Although they tend to follow the same trends there can be significant yearly differences – largely due to the split of sectors in each country. As all the figures are in real terms the effect of inflation has been removed. Profits have been good in recent years with 2022 showing the highest farming profits since the mid-1990's. Even with a fall in 2023, returns were still good. A further, if small, drop is forecast for the recent 2024 year and the current 2025 year may not be greatly different. There is perhaps a disconnect between the (historically) good levels of returns shown and how the farming sector is feeling. The red line shows the value of direct support (BPS + agri-environmental payments) in the TIFF figures. This has been consistently eroded by inflation.



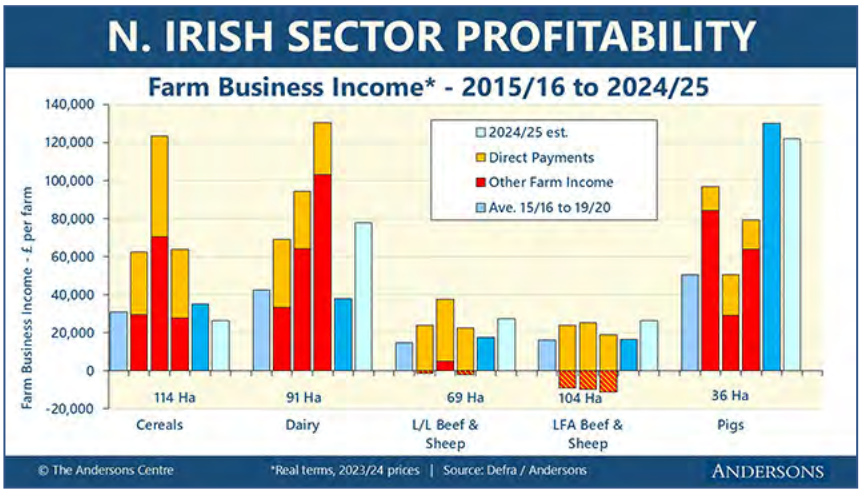
The previous TIFF chart gives an overview of the financial health of UK agriculture, but a single figure loses much of the nuance of farming returns. This chart shows profitability of English farms split in a couple of ways. Firstly, by farm type; secondly by the different 'profit centres' on those farms. It shows annual average Farm Business Income (FBI) for part and full-time farms (any business with over half a Standard Labour Unit requirement). This represents the financial return to the farmers' (and spouses') unpaid labour and on the capital invested in the farm business (a rent on owned land is not imputed). It is equivalent to Net Profit. All the figures are in real terms and the years run from Feb to Feb. An average is first given for the five years 2015/16 to 2019/20. Then, for the next four years, the contribution from four profit centres is shown, before an (Andersons) estimate for the recently-ended 2024/25 year. Farming income is the most volatile. Government support, whether the BPS or environmental payments, is very important to farm profitability. The high level of diversification income for pigs and poultry is partly linked to renewables income. Included is the average farm size in each of the categories (for the 2023/24 year).



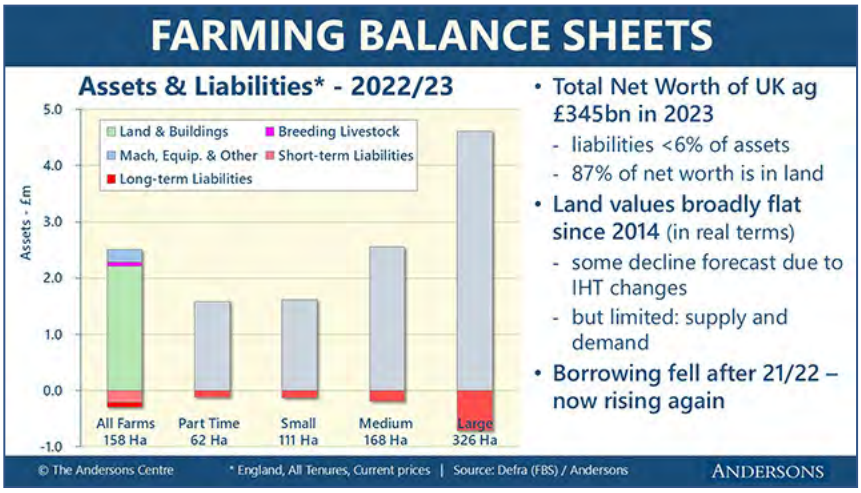
This chart breaks down farm incomes in Scotland by sector and the profit centres on farm. It shows annual average Farm Business Income (FBI) for part and full-time farms. FBI is the Scottish Government's preferred measure of profit at the farm level. It shows the return to the farmers' and spouses' unpaid labour and on the capital invested in the farm business. A rent on owned land is not imputed. The first column shows the average for the five years 2015/16 to 2019/20. For the next three years the FBI has been split into the profit contribution from five profit centres – usefully, the Scottish data has separate figures for contracting profit, which none of the other UK nations show. Subsidy income, and especially the BPS, remains important to Scottish Farm profitability. It helps offset the variability of farm incomes. The final two columns show Andersons' estimates for FBI for 2023/24 and 2024/25 respectively – the Scottish Government has not yet released this data. Included is the average farm size in each of the categories (for the 2022/23 year).



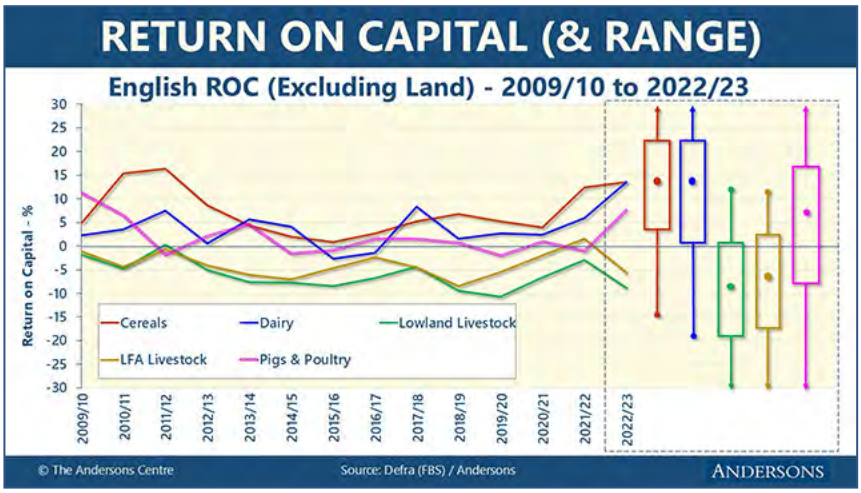
This chart breaks down farm incomes in Wales by sector and the profit centres on farm. It shows annual average Farm Business Income (FBI) for part and full-time farms. FBI is the Welsh Government's preferred measure of profit at the fam level. It shows the return to the farmers' and spouses' unpaid labour and on the capital invested in the farm business. A rent on owned land is not imputed. The first column shows the average for the five years 2015/16 to 2019/20. For the next four years the FBI has been split into the profit contribution from four profit centres. Subsidy income, and especially the BPS, remains important to the Welsh beef and sheep sector. For dairy farmers it is less important, but still provides a useful 'top-up'. In general, Welsh farmers generate less profit from diversification than those in England due to their more remote locations. The final column shows Andersons' estimates for 2024/25. Included is the average farm size in each of the categories (for the 2022/23 year) so that it is possible to see what the 'average' farm size in each sector is.



This chart breaks down farm incomes in Northern Ireland by sector and the profit centres on farm based on data from the DAERA Farm Business Survey. The figures are average farm-level profits for part and full-time farms (any business with over half a Standard Labour Unit requirement). The measure is Farm Business Income (FBI). This is the return to the farmers' and spouses' unpaid labour and on the capital invested in the farm business. The average farm size for each category for the 2022/23 year is shown. The first column is an average for the five years 2015/16 to 2019/20. The data for the following three years has been split into the contribution from two profit centres i.e. direct payments and all other farm income (including income from agriculture). It shows how important direct payments are to the profitability of NI farming. The final two columns show Andersons' estimates for FBI for 2023/24 and 2024/25 – DAERA has not yet released this data.



The balance sheet of UK farmers has been in the spotlight following the announcement of changes to the Inheritance Tax regime. This chart shows data from the Farm Business Survey (FBS) in England. The equivalent surveys in other parts of the UK do not go into as much detail, but it is unlikely the trends would be much different. Land (and property) assets are over £2m for the average farm in the FBS of 158 Ha (390 acres). This is an average for all farms, so will be reduced by tenant farms. Other business assets add to the total. There is not a split by asset class for the different farm sizes. For 'large' farms (around 800 acres on average), it is likely that the property assets will be well-over £3m. There is also the question of what valuations Defra is using in the FBS. An 800 acre farm at £10,000 per acre would be an £8m asset. Whilst it may cause tax problems, UK farming has a strong asset base and very low liabilities. There has been comment that the tax changes will strongly affect the land market. We think any effect will be marginal – largely due to the continued strong demand for land.



This chart shows Return on Capital for some farming sectors. Fourteen years' data is shown and then, for the final 2022/23 year, the range of performance is given. The figures come from the Farm Business Survey (FBS) in England, but similar patterns would occur across the UK. The 'return' in this analysis is the Farm Business Income figure less an imputed value for the farmers' labour and rent on owned land. The capital figure only includes tenant-type capital (i.e. land and buildings are excluded). Cereals, pigs & poultry and dairy farms on average produce a positive return. Grazing livestock farms do not. The variation of performance within sectors is greater than that between sectors. The box shows the range between the middle 50% of producers. The variation from the bottom 5% to the top 5% (the lines) is very large in each sector. The pig and poultry sector has the largest range in performance.

UK FARM PRODUCTIVITY

- From 2000 to 2022, UK farming productivity grew by just under 1% per year
  - less than improvement in many competitor nations, *but*
  - UK food chain productivity averaged 0.55% annual increase; total economy just 0.27%
- Improving farming productivity stated as a goal of all UK administrations
  - *but*, how committed are they? – most spending on environment (or still income support in the Devolveds)
  - grants for investment ('stuff') – skills and management better ROI?
- Higher productivity should result in better industry profits
  - economic growth, lower need for support etc.
  - *plus*, usually results in lower GHG emissions and frees up land for other uses
- Traditional productivity measures only consider purchased inputs
  - does not look at things like biodiversity, soil health etc.

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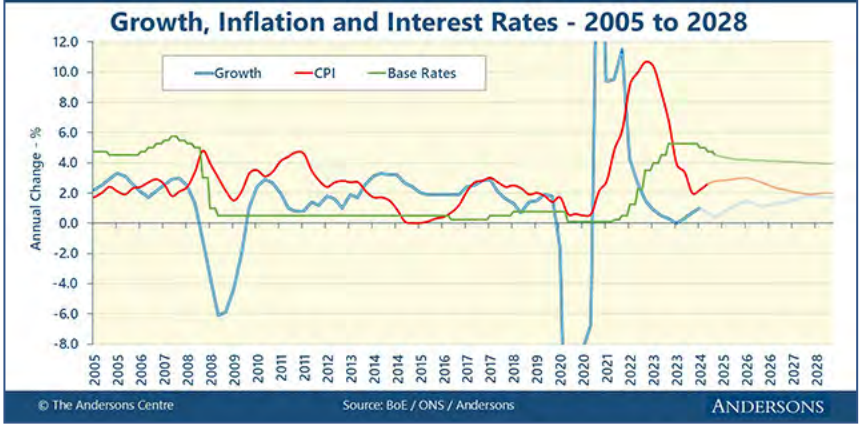
Productivity is key to improving the performance of UK farming – both in financial terms and on other measures such as GHG emissions. Over the past 20 years, productivity growth in UK agriculture has been 'steady' at best. Although it is difficult to make accurate inter-country comparisons of productivity, it is acknowledged that some of our competitors have achieved greater improvements. It is therefore easy to characterise our industry as lagging. However, when looking at other parts of the food chain and the wider British economy, the comparison becomes more favourable. Governments would like to boost farming productivity. However, it is unclear whether there really is a strong policy-focus on this area. Most administrations' answer is to provide capital grants. We would argue that it is business skills, entrepreneurship and other management attributes that are more important. Productivity is a difficult thing to measure and incentivise. Defra's statistics do not include any accounting for 'natural capital' in inputs or outputs.

THE WIDER ECONOMY

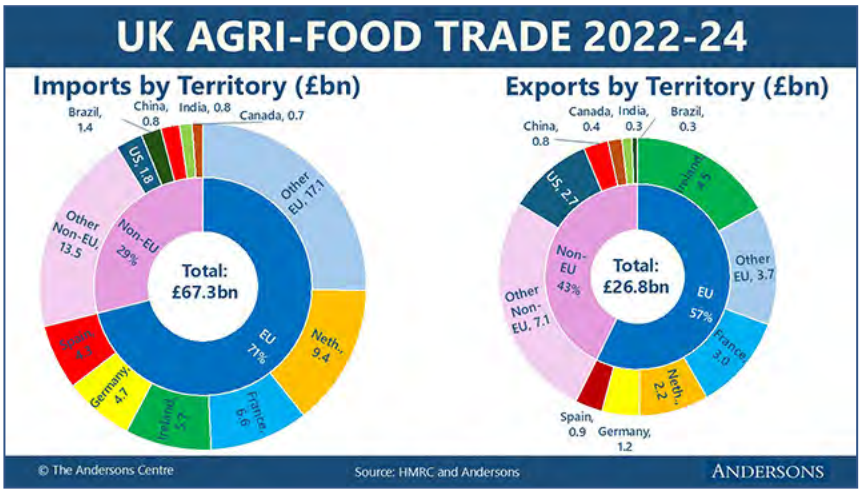


 Source: BoE / ONS / Andersons ANDERSONS

This chart shows some key economic indicators for the UK. Following the Financial Crisis in 2008/09 there was a long period of ultra-low interest rates. The Bank of England then raised them from 2021 onwards to deal with inflation. We expect a series of cuts over the next three years with Base Rates settling around 4.0% in the medium term (barring any more economic shocks). After the surge post-Covid and due to the Ukraine war, inflation reduced back to its 2% target level. It is now rising again and the Bank of England expects it to remain above target into 2027. The effect of Covid on economic growth, and the subsequent bounce-back can be clearly seen. Since the Financial Crisis the average level of UK growth has been below 2% - lower than long-term trends. The new Government's key ambition is to get UK growth higher, although we do not see this in their actions. The latest Bank of England forecasts have UK growth only approaching the 2% level in 2028.

UK farms operate in the wider economy, just like any other business, and it has an effect on their profitability. As was seen from the Farm Business Income figures, diversification income plays a big part on many farms (also, the FBI data were averages and some farms will be far more exposed to consumer spending). Many of these diversified businesses employ a lot of labour – especially in the tourism, leisure, retail and catering sectors. Often this is younger staff at or near the minimum wage. They will be strongly hit by the changes in employment costs. If the economy continues to struggle for growth then the desire of consumers for discretionary spending may drop. There appears a lack of appetite for investment – despite good recent profits and low (by historic standards) interest rates. This may be an issue of 'recency bias' – profits have come down and borrowing costs gone up lately – albeit from record highs/lows. A weakening in the value of Sterling would provide a boost to UK farming profits, but not all sectors are affected equally – depending on where they sell produce and what inputs they buy.

TRADE POLICY



These charts summarise the UK's annual agri-food (and beverages) trade, in monetary terms, for imports and exports during 2022-24. Whilst not to scale, the size of the charts illustrate that imports (£67.3bn) are substantially larger than exports (£26.8bn). Trade with the EU continues to dominate, particularly imports, at 71% of total trade. Within this, the Netherlands, France and Ireland are the most important, being closest to the UK. Fresh produce imports from Spain are also significant. Imports from the US are low (£1.8bn) and this is something that the new US administration would seek to bolster, particularly as UK exports to the US are £2.7bn (~10% of total agri-food exports). Non-EU countries have a bigger share of UK exports, and this has grown in recent years. The fact that UK exports to the EU face more barriers than pre-2021 is a factor here, as is the success of whisky exports to various overseas markets. Trade deals that are currently under negotiation (e.g. GCC, India) have the potential to further increase exports to non-EU regions, but those countries will also be vying for a greater share of the UK market.

TRADE ISSUES

- **UK Government not going to re-enter Single Market or Customs Union**
  - potentially 'Beneficial Alignment' with EU Standards & Regulations - SPS agreement to reduce checks? Talks underway
  - EU has raised prospect of UK joining Pan-Euro-Mediterranean (PEM) Convention
  - may be 'tweaks' to Visa policies but will not address agricultural labour issues
  - any deal(s) will take time and would still leave significant barriers to trade
- **Additional checks on foodstuffs entering UK from the EU**
  - waived since Brexit, but frequency increasing – only marginal effect at farm level
- **Ongoing talks on new trade deals**
  - Gulf Cooperation Council (GCC) talks progressing well, India & Canada less so
- **Effect of deals already done**
  - CPTPP accession late 2024 – little agricultural impact?
  - NZ & Aus deals – effects in beef, lamb, (+ dairy), but only incremental

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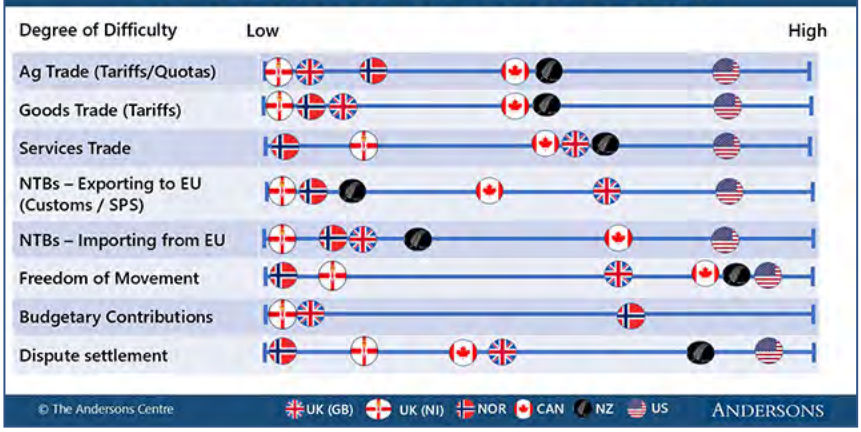
The Labour Government seeks a closer trading relationship with the EU but rules out rejoining the Single Market or Customs Union. Aligning more closely with some EU rules could reduce border checks and ease trade friction. Meanwhile, UK checks on EU food imports are increasing but are unlikely to have a significant farm-level impact. The EU has suggested that the UK rejoins the Pan-Euro-Mediterranean (PEM) Convention, which facilitates trade between members by simplifying rules of origin. Membership includes the EU, EFTA, Switzerland, Turkey, and several Mediterranean and Balkan countries. The UK's FTAs with Australia and New Zealand continue to develop, with increasing transitional tariff rate quota (TRQ) allowances for sensitive goods like beef, lamb, and dairy. The UK formally joined CPTPP in late 2024, though agricultural impacts will be limited. New trade deals are also in progress: an FTA with the GCC is nearing completion, while talks with India have resumed after stalling in 2024 over issues relating to whisky tariffs and migration policies. However, negotiations with Canada remain challenging and were suspended in January 2025 over disagreements on agricultural trade. A key question is whether discussions with the new US Administration will restart. For now, Labour is prioritising improved EU relations over other trade negotiations.

EU TRADING RELATIONSHIPS



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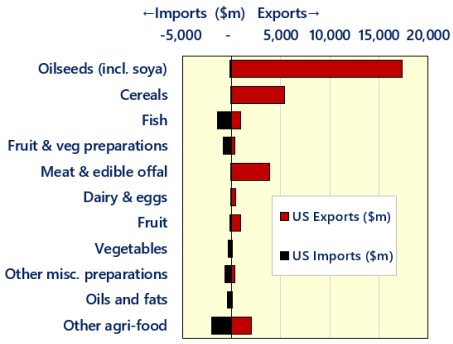
Since 2021, the UK (GB) has traded with the EU via the Trade and Cooperation Agreement (TCA). Whilst this permitted tariff and quota-free trade for goods, it brought about significant non-tariff barriers (NTBs) to trade. Northern Ireland (NI) has remained de-facto part of the EU Single Market and Customs Union for goods, whilst continuing to be an integral part of the UK internal market. As such, the degree of difficulty for NI companies exporting to the EU has been much less onerous than GB. Access for GB exports to the EU is similar to Canada, yet at the UK Border Trade Operating Model (BTOM) is not fully operational, access for imports coming into GB from the EU has been much easier. The Labour Government will seek improvements that will reduce difficulties across several areas, most notably SPS, services and possibly Rules of Origin. That will come with obligations, most likely in the form of greater Freedom of Movement (e.g. via a Youth Mobility scheme which the UK Government has rejected in the past) and potentially increased budgetary contributions. The US meanwhile, is likely to move in the opposite direction with more tariffs being imposed on US-EU trade.

US TRADE WARS

US-China Agri-Food Trade 2022-23



- US-China trade war in full swing
  - Chinese goods facing up to 145% tariffs
  - US exports (incl. soya) facing 125% tariffs
- US imposing "Baseline" 10% tariffs on all imports, incl. UK (also Aus, NZ)
- Customised "reciprocal" tariffs to be levied on others (delayed for 90 days)
  - EU to face a 20% tariff as US claims its exporters face 40% tariff; Japan (24%)
- No additional tariffs on Canada & Mexico
- Trade wars cause upheaval for supply-chains and fuel inflation
- UK and EU are already affected

Source: UN COMTRADE / The Andersons Centre
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This slide summarises the latest situation with the "Trump Tariffs" and the associated trade wars that the US administration is intent in waging, particularly with China. Whilst additional tariffs were announced on 2nd April, some of these have been delayed by 90 days. The situation is fast-moving and this slide summarises the situation as at mid-April 2025.

TRADE OUTLOOK

- Emerging US trade policies, and reactions from other countries, likely to cause shockwaves and upheaval
- Some may diversify trade away from the US/China and would view the UK as an attractive alternative, especially if a trade deal is already in place
- New FTAs need to be in UK national interest (economic / food security etc.)
- The EU will remain crucial, and a relationship re-set would be welcome by most, but negotiations will take time and caution is required
  - it may not be sensible for UK to dynamically align with the EU in all areas (e.g. gene editing; Geographic Indicators' legislation)
  - steps that can be taken now within current frameworks to lower non-tariff barriers (e.g. e-health certification, greater automation of checks) also need prioritising
- A cost-benefit framework is needed to assess whether any proposed trade agreement (incl. alignment with the EU) is indeed beneficial

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The new US administration's trade policy is going to cause upheaval not just in agri-food but in other areas as well. Those countries that have tariffs imposed on their exports (to the US or elsewhere) or who for geopolitical reasons, seek to re-orientate trade away from China, are likely to view the UK market as an attractive alternative. This is especially so for the likes of Australia and NZ who already have FTAs with the UK in place. Although Labour is continuing FTA negotiations with new partners, it is adopting a more cautious approach than the previous Government. Whilst new FTAs should be pursued, the impacts of such deals on economic growth and food security need to be thoroughly evaluated. Also, a greater focus is needed on easements that could be introduced within current frameworks, as a comprehensive SPS/veterinary agreement with the EU could take time. Any new trade agreements reached with partners (either with the EU or non-EU countries) need close scrutiny. The costs and benefits of each require a thorough examination and the findings need to be acted upon.

FARM SUPPORT UPDATE

FARMING POLICY - OVERVIEW

- **Little obvious interest in farming at the top of the current UK Government**
  - *same as previous administrations . . .*
  - other than a vehicle to deliver environmental policy or a source of land for development (despite positive comments on food production)
  - view seems to be, *farming* is a business, like any other business, and thus no special treatment should be expected
- **A Food Strategy is promised** – will this include concrete actions?
  - huge opportunities around diet / health, but seems unlikely Government will want to make the hard choices needed – e.g. taxing unhealthy food
  - plus a '25-Year Farming Roadmap'
- **Devolveds also more focused on environmental issues than farming / food**
- **Money will be the biggest constraint over the next few years**
  - Defra / Devolveds may have big plans, but will there be funding?

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The direction of farm policy has not changed with the election of the Labour Government at Westminster last summer. Agriculture has not been high on any Government's agenda for decades. This administration seems no different and appears less convinced by farming's pleas that it is a special case than previous administrations. The view that farming is largely a vehicle for delivering on environmental policy extends to the devolved administrations too. The UK Government is keen on setting up reviews and commissions, and publishing strategies and roadmaps. This often seems a replacement for the real business of Governing – especially if the report ends up on a shelf and doesn't result in concrete change in policy. Even if Farming (and Food) Ministers across the UK had bold and imaginative plans (and ways to implement them), budgetary constraints seem likely to be a big theme over the coming Parliament.

THE FARMING BUDGET

Farming's 'Real' Budget

- **UK 'Farm' budget largely unchanged in nominal terms since 2007**
  - worth around £1.5bn less in 2007 prices
  - £2.4bn nominal for England far less than the £4bn NFU calculated as required
- **Scotland, Wales and N.I. agricultural funds moved into Barnett formula**
  - no longer ring-fenced
- **Budget for 2026 to 2029 set in summer**
  - Chancellor has set spending increases at 1.3% p.a. real terms post 2025
  - NHS, Social Care, Defence, Infrastructure to get >1.3% - how much left for others?

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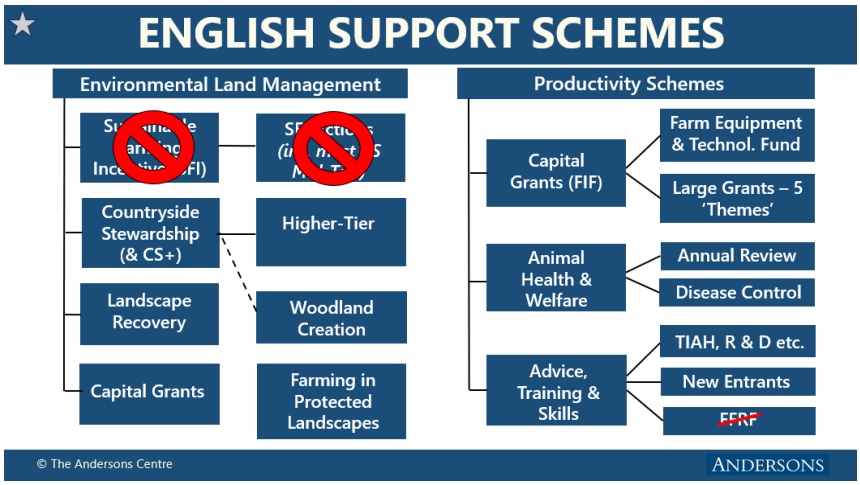
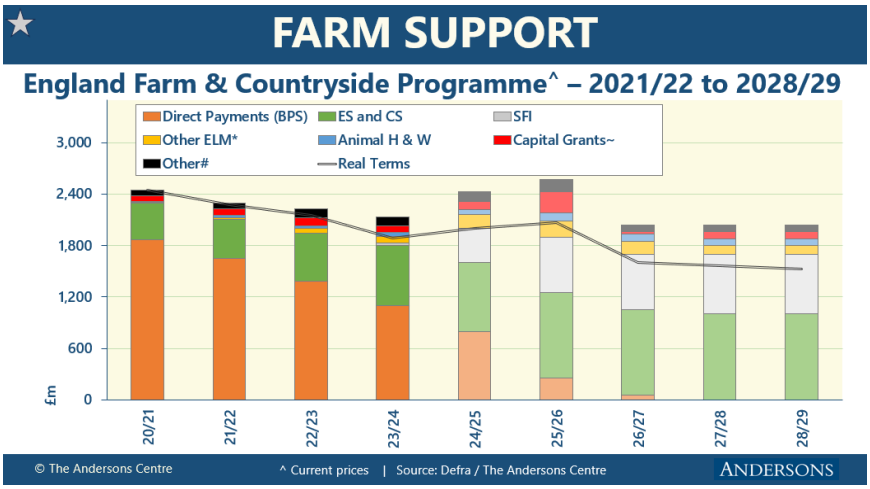
The Government is keen to trumpet the £5bn of support (for England) as the 'highest amount ever'. However, it is for two years; the £200m uplift for 25/26 is the return of unspent funds; and it takes no account of inflation. The chart shows the total farm support funding across the UK – effectively what we used to get under the CAP. This was £3.6bn when it was last substantially changed in 2007. This year, the industry is only getting the equivalent of £2.5bn – a 30% cut in real terms since 2007. The NFU calculated last year that funding needed to be around £4bn in England if we were to meet our environmental commitments. From Brexit until now, funding for agriculture in the devolved nations has been ring-fenced (although it has not stopped the occasional 'raid' on budgets – especially in Scotland). It has now just been rolled into the Barnett formula and the block grant – probably making it easier to move money between budgets. The big question for the coming year is what is future support levels for the three years from 2026/27 onwards? We are not confident of any uplift and there may even be some reduction.



This slide provides a summary of the schemes currently available in England, there is plenty going on. It is not always easy for farmers to navigate this – especially as scheme rules change and various schemes' application windows open and close. The situation is even more complex than can be shown on this graphic. For example, there are over 100 different 'actions' under the 2024 SFI. The 'No Entry' signs indicate the capital grant schemes that were closed by Defra in the autumn. This was to manage budgets as a large volume of applications were being received. Hopefully, by the time the Seminars are running, some, or all, of these schemes will be back open. This is an example of the far more dynamic approach to farm support we have seen in England since Brexit – schemes change much more quickly.

Please note that this slide has been updated since the original Seminars Booklet was compiled to take account of the sudden closure of the SFI Scheme on 11th March.



Defra's Farm and Countryside Programme is the equivalent to the funding under the Common Agricultural Policy. This was set at £2.4bn for England in 2020 at the time of Brexit. Actual spend is shown on this chart. The recent Budget has continued the funding of £2.4bn for 2024/25 (the 2024 'subsidy year'). An extra £200m will be available next year from previous years' underspends. The amounts are at current prices not real terms – there has been significant inflation during this period. The actual value of support (at 2021/22 prices) is shown by the grey line and is down to £1.8bn by 2028. The split in spending from 2024/25 onwards are Andersons estimates. The BPS has effectively disappeared already for next year with payments capped at £7,200 per business.

* Other ELM – Landscape Recovery; Farming in Protected Landscapes; Woodland; Pilots; Tests; Advice
~ Capital Grants – Farming Investment Fund + Rural England Prosperity Fund
# Other – Producer Organisations + Technical Assistance

***Note: this slide has been updated based on additional data published by Defra in March 2025. Based on the pausing of the SFI on 11th March and associated budgetary pressures, Andersons is assuming a 15% drop in funding from 2026/27 onwards. This is a projection and the actual funding levels are set to be announced with the Comprehensive Spending Review (expected in July).**

SFI CLOSURE

- **Closed suddenly to new applications (by Blog post) on 11th March 2025**
  - existing agreements honoured; current applications processed
  - 37,900 agreements (up 18% from January) plus more to process
- **Announcement in summer 2025 about a 'new' SFI for 2026**
  - *significant changes should be expected*
- ***Bizarre approach to administering Defra's 'flagship' scheme***
  - *SFI 2024 only fully opened in November*
  - *appears an issue of money rather than scheme outcomes – Defra's stats show just 3.4% out of England's UAA out of production at 1st Jan*
  - *Steve Reed announced new spending on other schemes on the 25th Feb*
  - *maths seems odd – not yet even in the 2025/26 financial year – for which the Defra budget has been maintained (and extra funds released by cut in BPS)*
  - *will further erode English farmers' trust in the Government*

 ANDERSONS

The SFI Expanded Offer (SFI 2024) was suddenly closed on the evening of the 11th March. It appears that Defra has been surprised by the popularity of the scheme and the budget is all allocated. However, this is odd in the light of Defra Secretary announcing other spending commitments less than a month before. Also, the 2025/26 financial year only starts in April. Budget for this year has already been allocated to Defra – the Comprehensive Spending Review sets funds for the next three years. Given that the BPS is being cut deeply for 2025, it seems odd that funds are exhausted already.

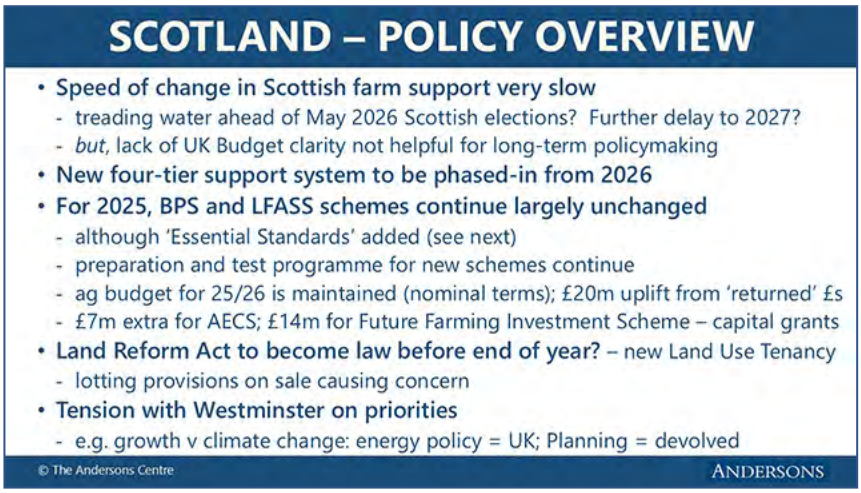
SFI UPTAKE

- **Uptake data as at 1st Oct 2024** – *Jan 25 figures expected soon*
  - 26,200 agreements operating (up 13% from July). 25,300 in SFI2023; 900 under Expanded Offer
  - *BPS claimants around 80,000 (many very small). Defra had 70% uptake target*
  - most popular option is cSAM1 (Soil Management Plan) – 2.94m Ha
  - total English farmed area *circa* 9m Ha ∴ SFI on about 34% of farmland
  - 2nd most popular cIPM4 (no insecticide) – 727,800 Ha
- **Land out of production under SFI – 266,100 Ha – 3% of agricultural area**
  - some of this land would be fallow / low output / in previous schemes ∴ loss of output lower than this
  - uptake (agreement numbers) could double, but not land out of production
- **Need to remember that SFI (ELM) is a 'dynamic scheme'**
  - some options may well alter / disappear (esp. those not offering 'value for money')

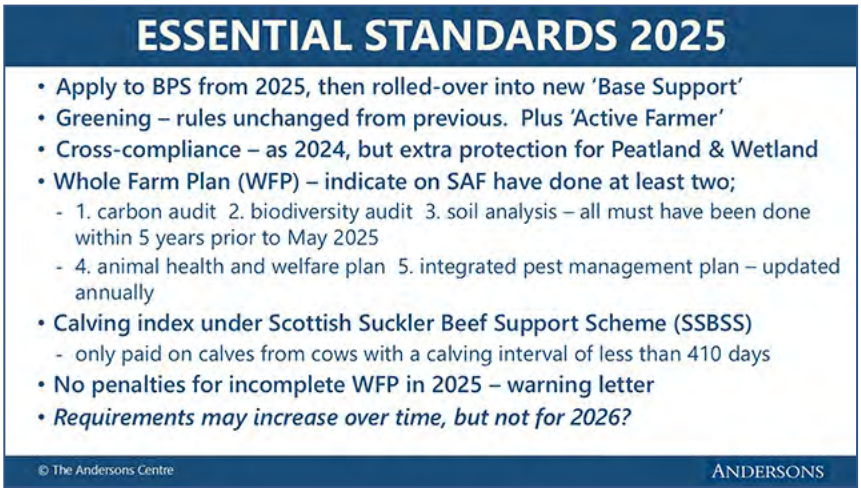
 ANDERSONS

Uptake of the SFI built well during the first part of 2024. There was a slight pause through the summer as the SFI 2024 (aka the 'Expanded Offer') was introduced. An Expression of Interest requirement slowed uptake. Now this has gone, we expect an increase in agreements and areas. Around a third of English farms are in the scheme. This is below Defra's 70% target, but it is likely that the larger businesses have entered. New figures are released every 3 months here - https://www.gov.uk/government/collections/annual-countryside-stewardship-and-environmental-stewardship-summary-data. There have been worries around the scheme driving an increase in un-farmed area (and thus a decrease in food production). Defra is monitoring this and it is unlikely to be large. It should be expected that the SFI will not remain unchanged for 3 or 5 years – we would expect some amendments; perhaps as soon as 2026.

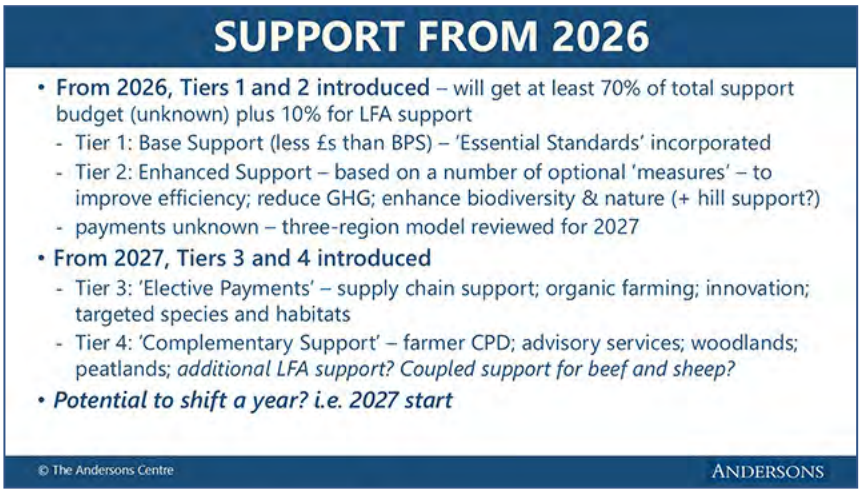
Countryside Stewardship (CS) is the second tier of Environmental Land Management (ELM). It sits above the SFI and is now largely targeted at those who wish to undertake intensive environmental management or land use change. This is because almost all of the previous Mid-Tier options have migrated into SFI. The Higher Tier (HT) has been 'refreshed' for 2025. Unfortunately, applications will not open until the summer and, even then, it will only be available for those with an existing CSHT scheme ending in 2025. Those who's schemes ended in 2024 and those who have been rolling over old HLS agreements, are being offered further extensions. These old schemes often have less attractive payment rates and may not be the best scheme for the farm as it now operates. Another round of Landscape Recovery (LR) was expected in 2024, but it never arrived. We expect this third element of ELM to be open at some point in 2025. There is a question of what happens to existing LR agreements – they were only designed to receive Defra money for two years before private finance stepped in. It is not clear that this finance is available. We are waiting to hear about the availability of capital grants in 2025. The previous Future Farm Resilience Fund (FFRF) advice scheme has now ended. No Government-funded advice is currently available for English farmers.



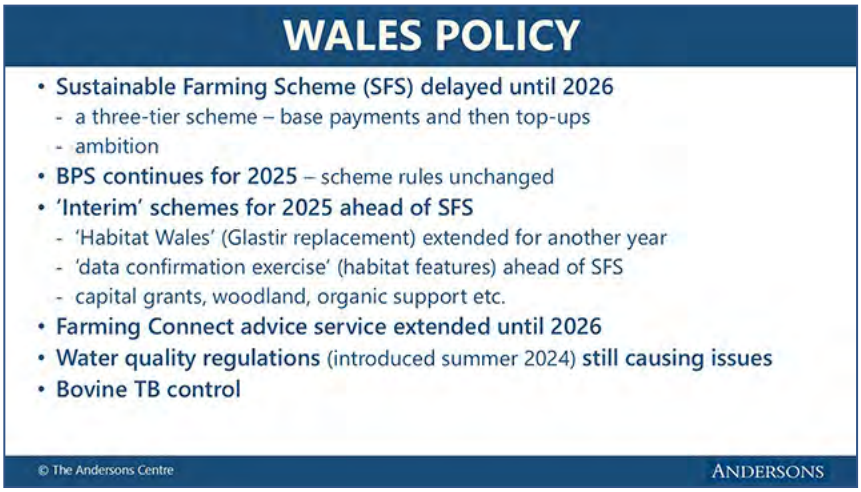
The speed of change in farm support in Scotland continues to be glacial. It is over 5 years since Brexit and, for 2025, the main supports in Scotland will still be the CAP-era BPS and LFASS. There is a sense that the Scottish Government does not want to 'rock-the-boat' – change creates winners and losers and the losers always shout louder. The shape of a new support landscape has been sketched-out, but scheme details are lacking. The Government points to budget uncertainty as one reason why it cannot provide greater clarity. The support budget for 2025 has been largely maintained (in nominal, not real, terms). For 2025 'conditionality' will be added to the BPS in the form of 'Essential Standards' (see next slide). Away from farm support one of the other big policy issues should be the passing of the Land Reform Act in 2025. This (as has become usual) targets large landowners. The new form of tenancy the legislation is meant to bring in may create opportunities for the sector. The UK Government's drive for growth may conflict with the Scottish Government's other priorities.



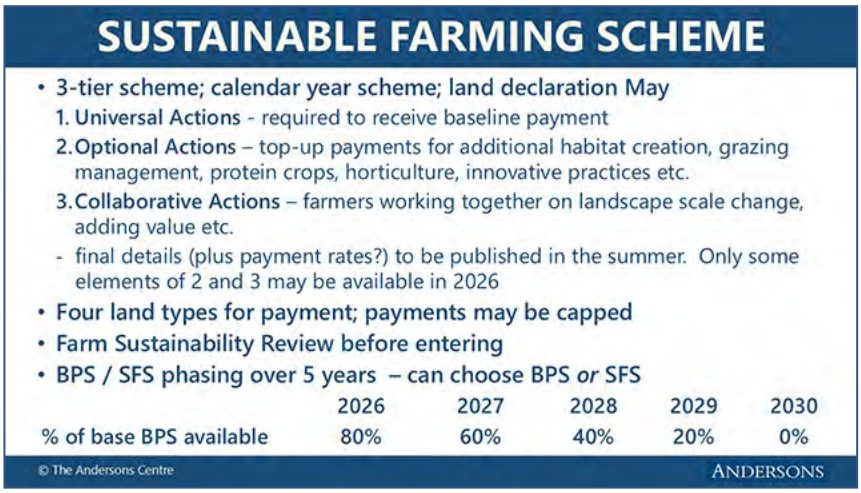
For 2025, BPS claimants will be required to meet 'conditionality' rules – known as Essential Standards. There are three key areas for this – the existing Greening and Cross-compliance rules will remain (plus the existing rules on being an Active Farmer). Then a new 'Whole Farm Plan' (WFP) will be required by claimants. There are five options within this and claimants must have done two – and indicate this on their SAF form. Those claiming the Suckled Beef Calf payment will also have to meet a new rule on calving index. For 2025 it seems that payments will not be reduced if the Essential Standards are not met. The Essential Standards may evolve over time but we would guess that they will remain very similar for 2026. The Essential Standards do not apply to LFASS for 2025 but most LFASS claimants would also be BPS claimants.



From 2026 a new four-tier structure will start to emerge in Scotland. The first major change will see the BPS 'split' into Tier 1 Base Payment and Tier 2 Enhanced Support. Given limited funding, it seems very likely that the Base Payment will be lower than the current BPS. To get back to the same level of income as the BPS, farmers will have to opt for some of the optional Measures under Enhanced Support. Detail on these are vague (there are certainly no published payment rates). The most up-to-date information currently dates back to 2023 (see: www.ruralpayments.org/topics/agricultural-reform-programme/arp-list-of-measures/). The three-region payment model is set to be retained for 2026, but may then be reviewed. Also in 2027, a further two tiers will be added, subsuming many of the present support schemes. It is not clear whether Coupled payments will continue after 2027. They may be included in Tier 4 – Complementary payments.



This slide sets out some of the key policy issues in Wales. The main focus is on the new Sustainable Farming Scheme (SFS) that will replace the BPS and other support schemes. It was due to be introduced this year, but has been delayed until 2026. Therefore, for the current year, the BPS will continue – with its rules unchanged. Because of the delay in the SFS, the interim 'Habitat Wales Scheme', which was meant to last for just a year, has been extended. A data confirmation excercise has been taking place ahead of the SFS to collect information on the habitats on Welsh farms. To help the industry deal with the change to the SFS, the Farming Connect advice service has also been extended. Away from support schemes, one of the big issues in Welsh farming remains the need to be compliant with new water quality regulations. The control of Bovine TB also continues to be another political hot-spot.



The SFS will be made up of three elements. The first is the Universal Actions (UA). These will generate an area payment for farmers (based on different land types). However, there will be far more cost involved in collecting the payment due to the need to undertake the Universal Actions (UA) - details of these are shown on the next slide. Base payment rates under the UA are unlikely to be as high as the BPS as some funding will be diverted to the Optional and Collaborative actions - the other two elements. Farmers will be able to choose whether to go for Optional Actions to top-up their payment. Details of these are not yet available – it is not clear how many Optional Actions will be available when the scheme starts in 2026. More details are expected in the summer. The final element, Collaborative actions, will support farmers to work better together. The SFS will be phased-in. Farmers will have the choice to remain in the BPS or switch to the SFS. The BPS will become steadily less attractive as payment levels are phased down. Once farmers have moved to the SFS they cannot go back to the BPS. There will also be support under the new arrangements to improve the productivity of Welsh agriculture.

SFS UNIVERSAL ACTIONS - DETAILS

- **UAs reduced from 17 to 12** – some combined, some moved, some dropped
  - 'scheme rule' of 10% of fam in woodland removed
  - scheme rule of 10% of land being managed as habitat remains

- Benchmarking
- Continuous Professional Develop.
- Soil Health Planning
- Integrated Pest Management
- Habitat Maintenance
- Temporary Habitat on Impr. Land – to meet 10% Rule
- Management Plans for SSSIs
- Hedgerow Management
- Woodland Maintenance
- Tree & Hedge Planting Plan
- Historic Environment
- Animal Health and Welfare Improvement

+ All farms joining the SFS will need a carbon audit

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The Universal Actions have been the most contentious part of the scheme. Within this there were originally 'scheme rules' that 10% of the farm needed to be in both tree cover and semi-natural habitats. The tree-cover requirement has subsequently been dropped, although the habitat requirement remains. 'Habitat' land covers any semi-natural habitats plus ponds, hedgerows etc. If there is not enough habitat the scheme will pay for it to be created. There were originally 17 Universal Actions (UAs) planned, but these have been reduced and consolidated down to 12. The list on the slide is not yet the final outcome – as discussions are still ongoing. Final decisions are due by the summer. For full details see - https://www.gov.wales/sustainable-farming-scheme-proposed-scheme-outline-2024-html .

NORTHERN IRELAND POLICY VISION

NI Schemes and Outcomes

- Policy co-designed with stakeholders to achieve four key outcomes
- Seeks balance between environmental sustainability and productive farming
- Farm Sustainability Payment replaces the BPS from 2025
- Farming with Nature and Farming for Carbon become central in long-term
- Coupled payments for beef farms but contingent on productivity targets
- Range of other schemes targeting specific challenges within NI farming

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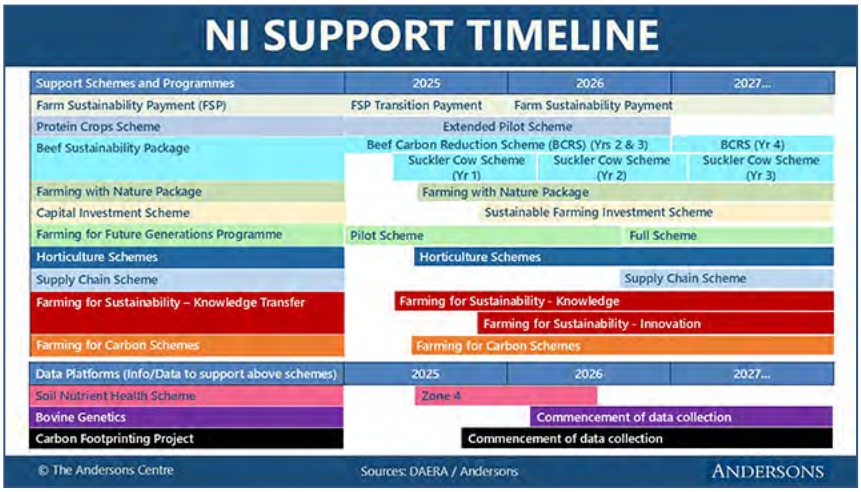
In January 2025, DAERA Minister (Andrew Muir) announced the new Sustainable Agriculture Programme (SAP) for Northern Ireland. The vision for the SAP is summarised in the graphic. The inner circle sets out the intended outcomes and the outer circle depicts the various schemes that have either been introduced or will become effective from 2025. Several of these schemes (e.g. Farm Sustainability Payment (FSP) and the Beef Sustainability Package) were already announced some time ago. Whilst the FSP continues direct payments and replaces the BPS, long-term the focus will shift more towards support for environmental initiatives, particularly via the Farming with Nature Package and the Farming for Carbon initiatives. Further detail on these schemes is anticipated in the coming weeks/months. What is evident is that NI agricultural policy strives to balance better environmental sustainability with improved productive performance. This somewhat contrasts with agricultural policies in other parts of the UK where the environment has a much greater focus.



This is the timeline for new schemes under Northern Ireland's future agricultural policy, subject to budget availability. The Farm Sustainability Payment (FSP) is an area-based safety net for farmers and succeeds the BPS, with payment rates to reduce over time. It will be introduced on the transition basis in 2025 with the minimum area being 5 hectares. Some other schemes, such as the Beef Carbon Reduction Scheme (BCRS), within the Beef Sustainability Package, are already in operation. The BCRS provides headage payments (£75 per eligible animal) for clean beef cattle that meet slaughter age targets and the FSP requirements. The Suckler Cow Scheme will offer around £100 per head, conditional on participating in the FSP and meeting age-at-first-calving and calving interval targets. Farming with Nature, will become the centre-piece of NI agricultural policy long-term and is being co-designed with stakeholders. Farming for Carbon will initially introduce simple carbon reduction measures without impacting output, with future measures evolving based on scientific guidance. The Soil Nutrient Health Scheme is now in its final year and has participation rates of 92-95%. NI is also prioritising data collection in bovine genetics, with further details to be announced. Additional support schemes will focus on knowledge transfer and capital investment to improve long-term sustainability.

The UK Government has placed huge emphasis on economic growth. Almost all of the 'heavy lifting' in this area is being done by reforms to the Planning regime (which does not apply to the devolved administrations). Other supply side reforms, like deregulation, are getting far less focus. And the tax changes introduced so far appear more anti than pro growth. As the largest owners and occupiers of land in the UK the faming sector is obviously affected by changes in Planning and wider land use trends. This is explored in the following section. There will be both opportunities and risks for the change. One of the main risks may be changes in compulsory purchase rules that potentially make it easier for public authorities to acquire farmland and, in some instances, only pay the agricultural and not development value of the land. There is a tension between growth and the Government's stated environmental objectives. Although environmental factors look to have been downgraded in policy-making, they will still be important in the future.

POLICY SUMMARY

- The big policy issue in 2025 is the budget
  - Spending Review in the summer will determine the level of ambition possible for the next three years – mainly environmental, but also for productivity support
  - Devolved Govts freed by Barnett formula to spend more or less on farming
  - best case; a maintenance of spending in current terms?
- More difficult for Devolved Governments to launch new schemes at a time of constrained budgets
- ELM could become a victim of its own success in coming years
  - scheme changes as Defra looks for value for money
- Competing Land Use demands a growing issue – but will any administration actively intervene?
- UK Government doesn't see farming as a 'special case'
  - food production treated like any other business

 ANDERSONS

The primary event in policy terms for farming in 2025 will be the Comprehensive Spending Review - due to be completed in the summer. This will set the support budget for the next three years and thus the level of ambition possible in farm support terms. With the new financing arrangements, what is allocated to Defra will influence the block grant to the devolved administrations. But they will be free to choose their own level of spending on farming. Therefore, an interesting subsidiary question in Scotland, Wales and N. Ireland is whether their Governments will depart from 'English' spending patterns. We forecast that the trend of the last few years will be continued. This will see Governments stating that they have held spending at the same levels – but never uprating budgets for inflation. Hence, the ongoing real-terms decrease will continue. There will be little spare cash to oil the transition to new systems in the devolved nations. With budgets tight in England the schemes we currently have may not continue unchanged. Some of the 'low-value' options in SFI particularly may disappear for new applicants. An overall theme emerging from the new Government is that farming should not expect any special treatment.

10-YEAR OUTLOOK FOR UK FARMING

FARMING IN 2035

Autonomous?

Bigger?

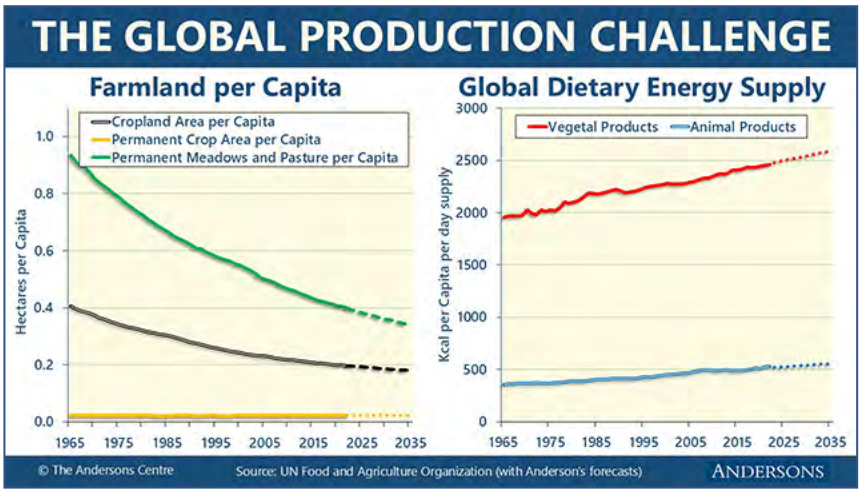
Robotic?

Vertical? / Indoors?

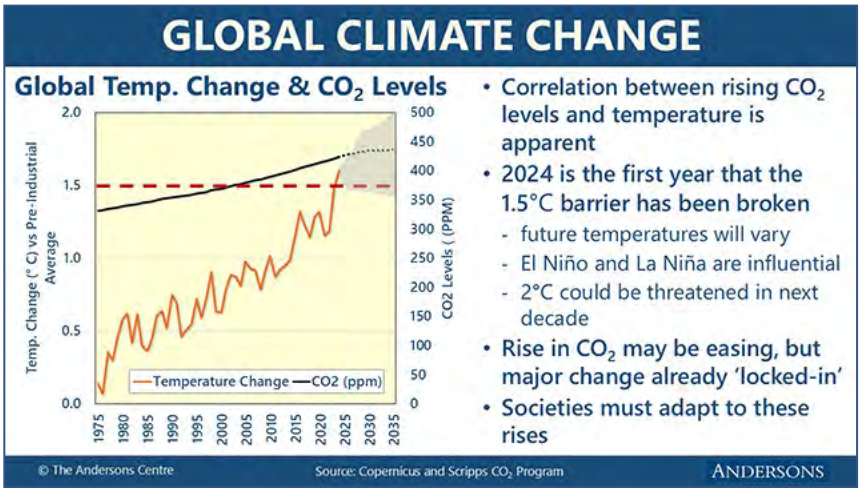
 ANDERSONS

There are many directions that UK farming could go in over the next decade. This slide shows just four of the possibilities. We will spend the session leading up to coffee looking at some of the key drivers of change over the next decade and, importantly, what the outcomes may be.

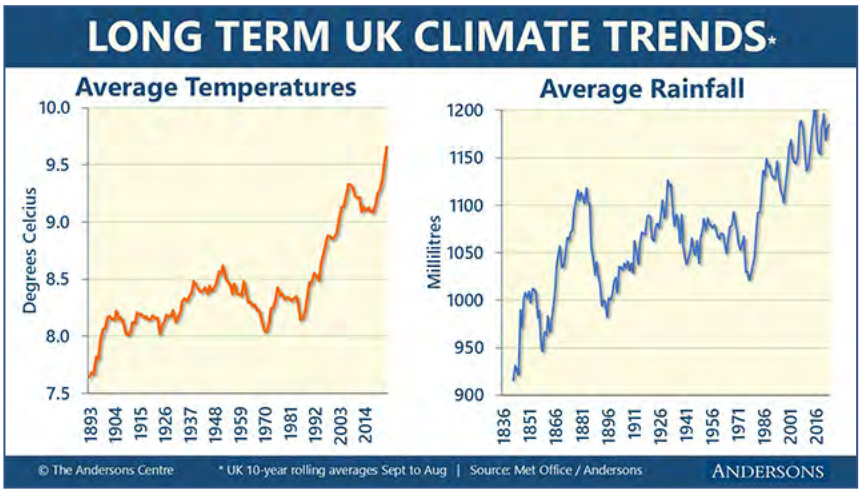
This slide highlights some of the primary drivers for UK agribusinesses over the coming decade, grouped under five themes. We have probably missed a few and they could be categorised differently from how they are shown here. However, it is clear that this is a moment of (perhaps unprecedented) change in UK agriculture. 'Government' has been covered in the previous section. 'Markets and Prices' was touched on in the first part of the Seminar and we will return to this topic in the individual sector outlooks after coffee. Therefore, in this section we are going to focus on the key challenges associated with climate, people and technology.



These charts highlight the challenges currently being faced in global food production. With the population of the world ever increasing, the area being farmed per capita is declining. The continued adoption of technology and improvements in productivity has resulted in increased levels of Dietary Energy Supply (DES). DES is a measure of the number of calories available per person per day. Here it is shown as the world total. It has increased significantly over time. The DES figure, produced by the United Nations Food and Agriculture Organization, takes account of the availability of calories from different food sources. In the case of vegetal products this accounts for only the products which are available once the feeding of livestock is accounted for. Although perhaps not clear from the chart, the share of meat in the DES has risen from 15.3% to 17.6%. We would expect the trends from 1965-2022 to continue, meaning continued innovation and intensification across global farming.

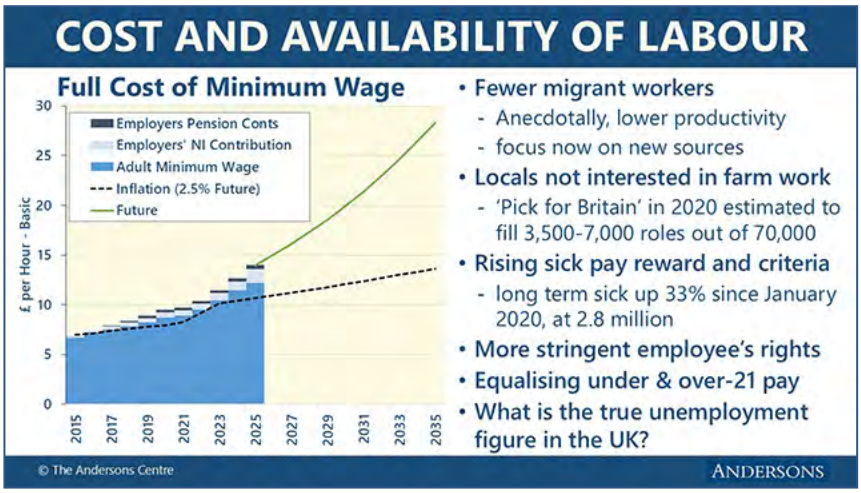


This chart looks at global temperature changes over the past 50 years and associated CO_2 levels in the atmosphere. The correlation between increases in CO_2 levels and temperature change (global warming) is apparent. It also looks as if it could be accelerating. The Paris Climate Agreement of 2015 sought to keep global temperature rises below the 1.5°C level versus the pre-industrial average. This was seen as crucial to mitigating severe climate impacts. This barrier was broken in 2024 and this could become a regular occurrence over the next decade. Of course, temperatures vary and the influences of El Niño and La Niña are important. The last El Niño (which contributes to warmer temperatures in the Pacific) ended in 2024 and is followed by La Niña (which signifies cooler temperatures in the Pacific). This might mean that 2025 temperatures dip back below the 1.5°C barrier, but this is likely to be temporary. Societies will have to grapple with how they can cope with temperature rises exceeding 1.5°C in the next decade.

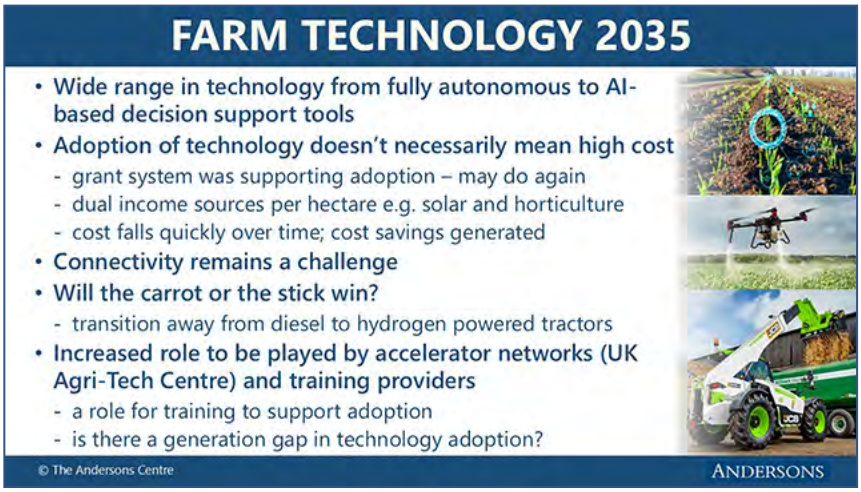


Global temperatures are often quoted but can seem quite remote. Here, we have data for solely the UK, showing just how the climate has been changing for farmers in this country. The change shows no sign of slowing down – we have to prepare for warmer, wetter conditions. The figures shown are 10-year rolling averages. This takes out misleading short-term fluctuations. With over 120 months' data per datapoint, it makes a very robust trend. Over 130 years of data is enough to remove other fluctuations. Whilst we cannot tell what the weather is going to be at any point in the future, it is clearly likely to be warmer and wetter than historically.

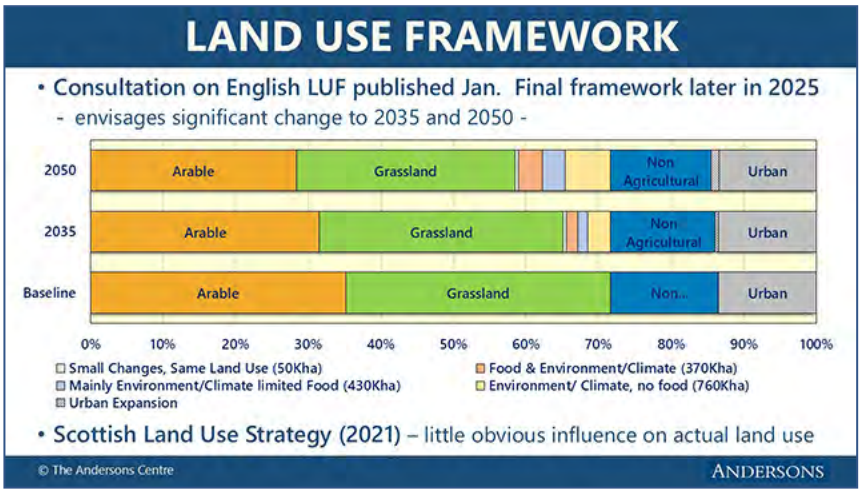
There are several practical adaptations that UK farming is already making. This slides lists some of them. The changes will not all happen overnight and not completed by 2035 – there will be a creeping adjustment as the industry reacts to an altering climate. On a yearly basis there may not seem to be much change, but over the course of a decade the effects will be clear. This analysis is based on a gradual change in the UK climate with no inflection or 'tipping' points.



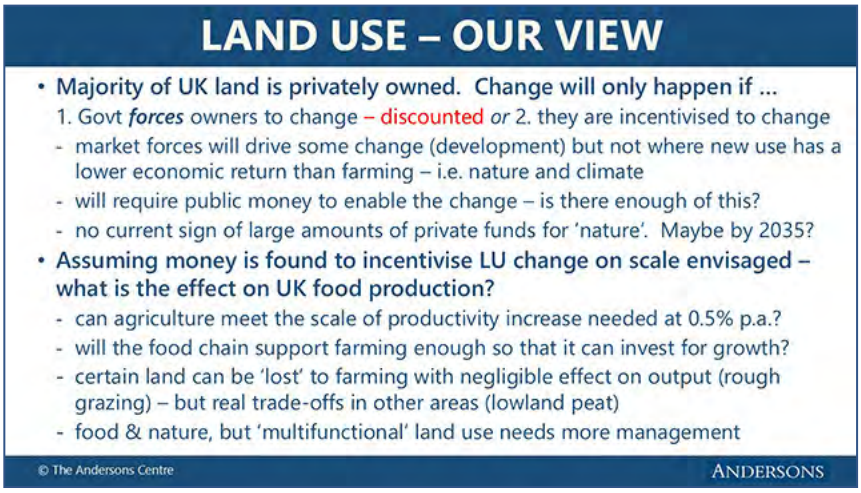
Labour is one of the key concerns of the farming sector for the future. This covers both cost and availability – it is difficult to find (good) staff. The chart shows how the cost of employing someone near the UK minimum wage has risen faster than inflation. Not all farm staff are low-paid of course – some positions have well paid salaries that match other professional jobs. Brexit cut-off the flow of EU workers. They have partly been replaced by those from other sources, although productivity levels per hour worked in areas such as horticulture seems not to be so good. The desire of UK workers to do farm jobs is low. The rise in the number out of the labour force through sickness is concerning, being 42% higher than March 2019 and is now higher than those in unemployment. The employment survey response rate is 20%, down from 40% in 2019 – questioning how much can we rely on figures which underpin UK economic policy.



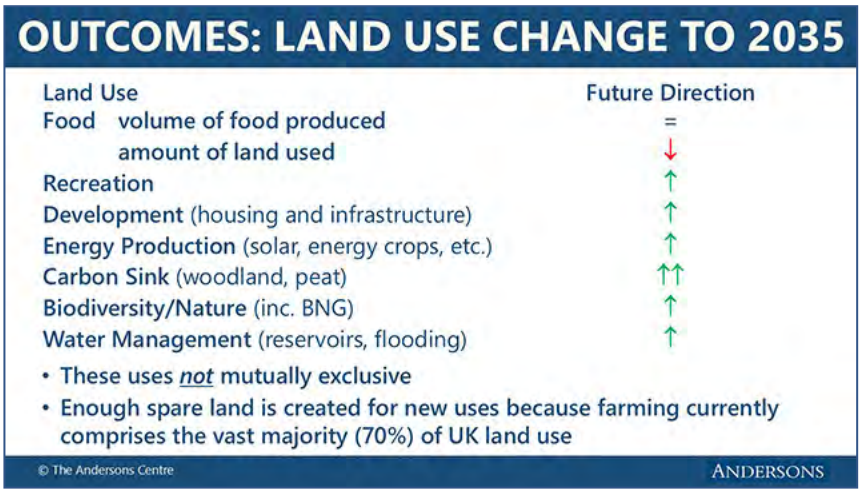
Technology adoption on farm has historically focused on automation, systems that for many farms may not be achievable, certainly over the next ten years. The areas of technology that are liable to see widescale adoption and have a positive influence on productivity will be through decision support systems. These AI tools can take some of the administrative burden off farmers. Cloud-based systems (including cloud-based accountancy) have taken off, but rural connectivity is still a barrier. Another area that is likely to become more widely adopted in the next 10-years is alternative fuel sources, at present this looks likely to be in the form of hydrogen. JCB estimate that running a tractor on battery power would result in machines that cost four times the amount of conventional fuel. Another of the barriers to adoption of technology is education. With Government funding primarily focused on environment, the void in training and education for technology must be filled by accelerator networks and training providers.



In late January, the Government launched a consultation into the production of a Land Use Framework for England. The final Framework is slated for release later in 2025. The consultation documents have drawn criticism from the agricultural sector, despite stating aims of maintaining food security and allowing landowners to make choices about their land use. The consultation has a working assumption that 9% of presently farmed land (largely in the uplands) could need to be turned over to nature and climate. The area required for housing and infrastructure is comparatively small. For example, if the Government's target of 1.5 million new homes in England by the end of this Parliament in 2029 is met (a big 'if') this would entail building on just 30,000 Ha of 'greenfield' land. Scotland also has a Land Use Strategy - for 2021 to 2026. It is not clear it has influenced very much. Possibly the National Planning Framework 4, published late in 2024. Wales has no over-arching Land Use Strategy at present.



Nothing in the proposed Land Use Framework (or its counterpart in Scotland) involves any element of compulsion. Land is owned privately, so it will continue to be up to each individual owner to do what they want with their land (within the law). To incentivise the level of change Defra is suggesting will require a lot of funding. It is currently unclear where this will come from. The Government itself is short of funds. There is hope that private nature markets may grow over time - but their development has been slow so far. If land use change happens on the scale outlined, then UK farming will have to increase productivity on the remaining farmland if UK food production is to be maintained (or even increased). The improvement required seems possible – but it will need the right policy conditions. There may be some structural change in terms of more (intensive) pig and poultry production and less (extensive) beef and sheep.



The use of land in the UK will shift in the years to 2035 and beyond. This slide gives some high-level thoughts on how this might look. Although the arrows are only indicative, it hopefully provides some 'food for thought' for farmers and those that advise them. For an individual landowner, it might be a useful exercise to look at their land and think 'what is the best use of each area' irrespective of what it has been used for up to now. There has been specific concern about large-scale solar. The Government has a plan to see 70GW of capacity installed by 2035. If all of this was ground-mounted (which will not be the case) then it is calculated it would take up less than 1% of the UK's utilised agricultural area.

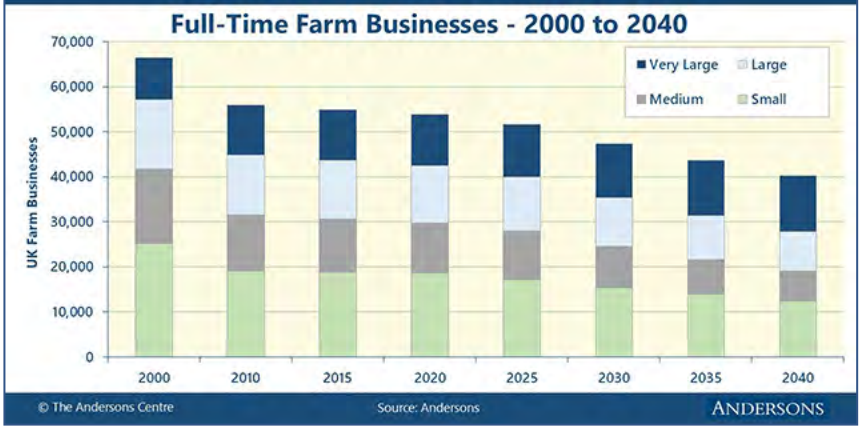
FARMING PRACTICES CHANGE TO 2035

- **Continued focus on more efficient use of inputs (inc. fertiliser & ag-chem)**
  - environment: global – GHG emissions; local – nutrient run-off; *plus profitability*
- **Greater use of technology** – precision to reduce input use / costs
  - robotics – especially to reduce labour use – vital for horticulture
  - plus a data trail to prove environmental credentials
- **More legumes and mixed leys in grassland (+ driven by SFI)**
- **More efficient use of manures** – livestock areas to arable transfers?
- **Advances in plant and animal breeding**
  - N use efficiency; drought tolerance; resistance; 'gene edited' crops by 2035
  - livestock selected for lower GHG emissions
- ***Possibly a divergence between 'agri-tech' approach at one end and a traditionalist approach at the other***

 ANDERSONS

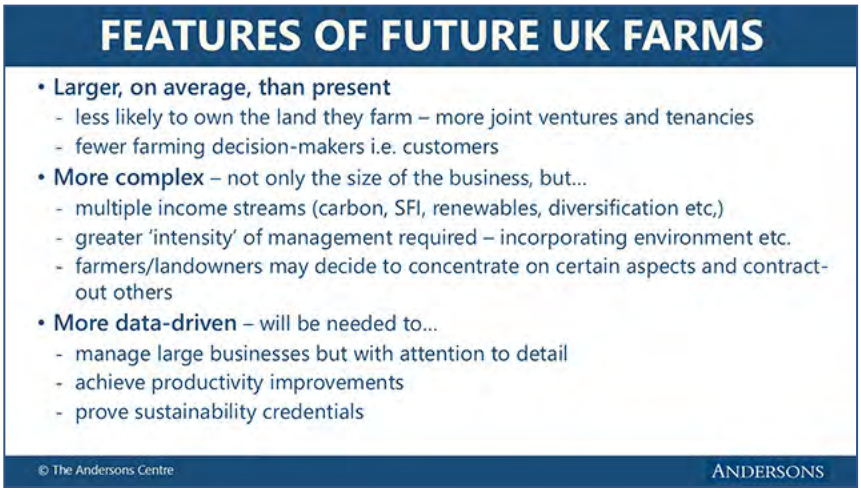
Leading on from the point on previous slides concerning productivity improvements, this will form part of a larger change in farming practices over the next decade. This slide sets out some of our thoughts on the way that farms operate will change. These are industry-level trends. At the farm level some operators may continue to do the same-old-things in the same-old-way. Over time, these businesses will be left behind by their more innovative peers. This shows some top-level trends. In the individual sector analyses that follow in this presentation we will provide more detail on the 10-year outlook for individual sectors.

FARM BUSINESS NUMBERS



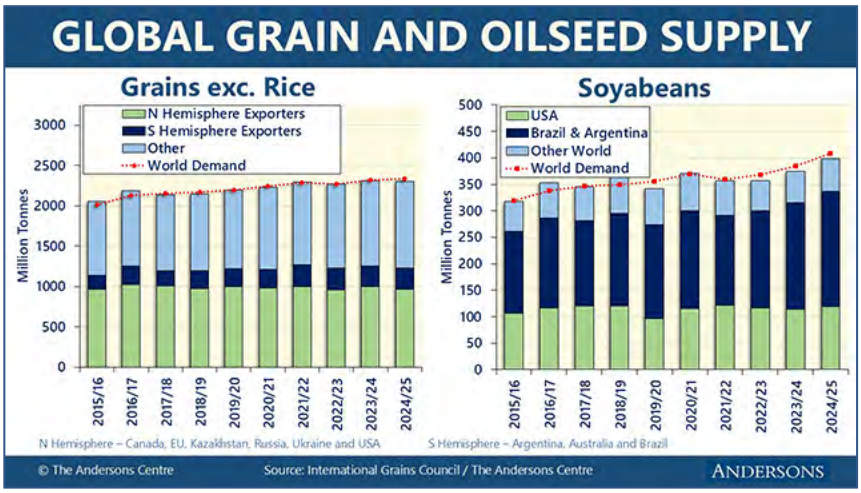
 Source: Andersons ANDERSONS

The next 10 years are going to be a period of significant change in the structure of UK farming. This slide shows farm business numbers – not 'holdings' or 'farmers'. It is from a report that The Andersons Centre has recently produced. It can be seen that, after a period of relative statis in numbers from 2010 to 2020, change will accelerate. One question for farm businesses is 'do they have a plan to prosper through this period of change'? For some farm businesses, developing an 'exit strategy' will be the most logical step to take. Of course, this will create opportunities for others, particularly the best prepared businesses.

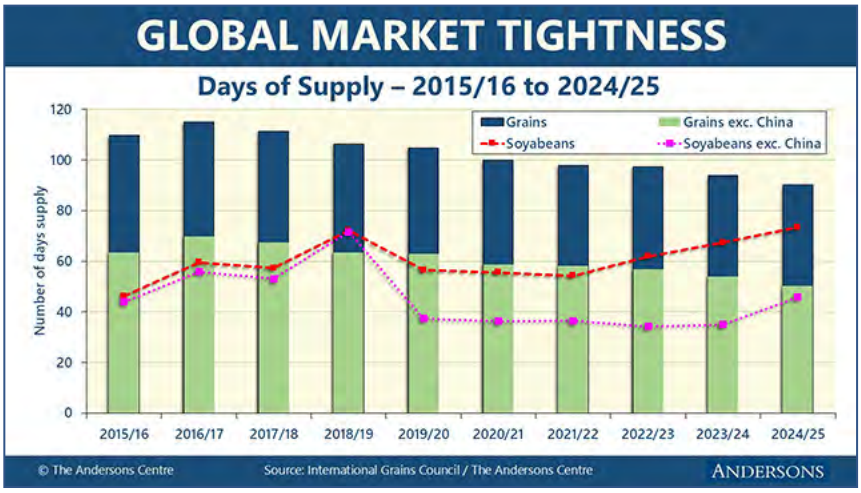


As the numbers of farm businesses change, their characteristics will also alter. On average they will be larger and more complex. This has implications for those that trade with, advise, or otherwise interact with the farming sector. We believe there will be a greater change in farming structures over the next decade than we've seen in the last two put together.

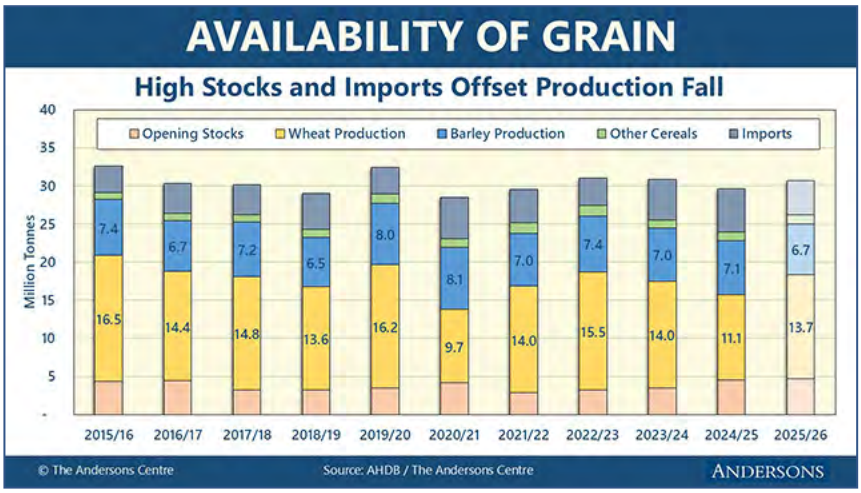
ARABLE CROPS



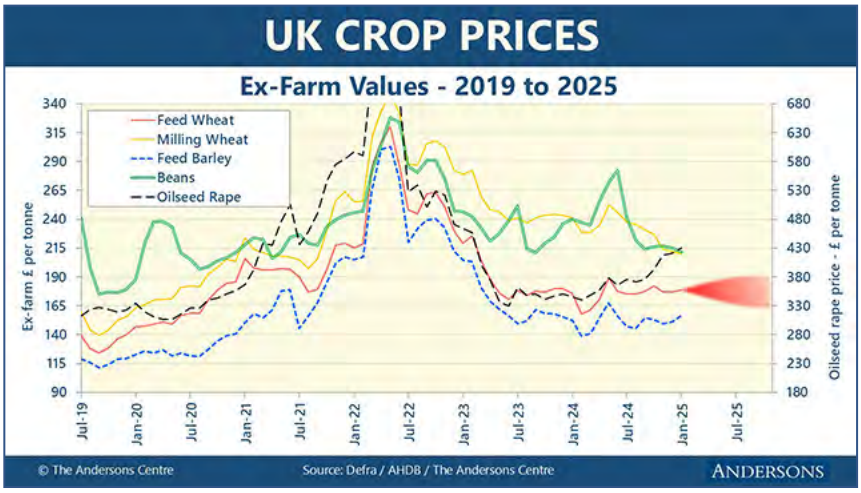
These two charts show the proportion of global grain and soyabean production that comes from the major exporters for each of the respective commodities. The volume of production and demand of grains have moved up largely together over the past three seasons. However, a small gap has now opened and demand is ahead of production. Much of the production picture for grains in 2024/25 (harvest 2024 in the UK) is now fixed, although weather challenges in Brazil could still support old crop prices. The safrinha (second) maize crop in Brazil is planted in February and March and accounts for 75% of Brazil's 120Mt of production. For soyabeans, there is still significant potential for volatility in prices driven by production changes. Since China imposed tariffs on US soyabeans in 2018, South American production of the crop has increased by 24% - filling the gap in availability. Were there to be tariffs on US soyabeans again the impact may be less pronounced due to increased availability from the Southern Hemisphere.



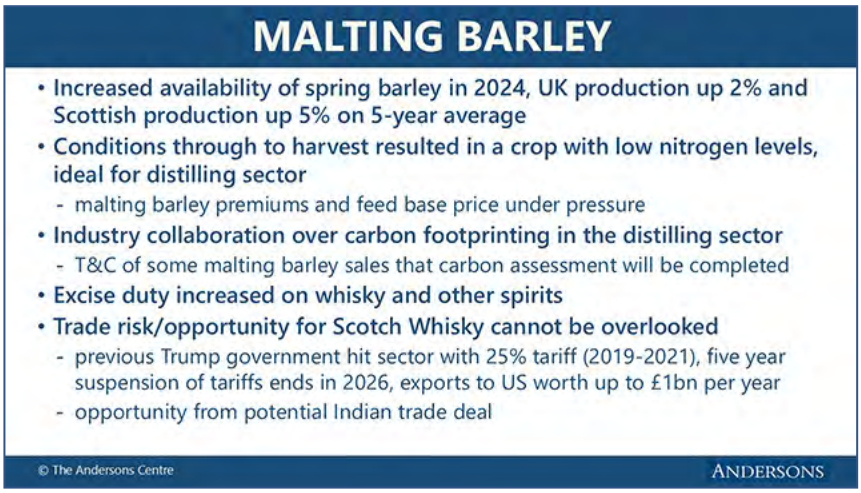
Instead of looking at stocks-to-use percentages, this metric considers how many days of supply of a commodity would be available globally, if production were to cease tomorrow and consumption patterns remained stable. It is evident from this chart that grain markets have become progressively tighter across the past decade; the grain market is leaner. This suggests a risk of sharp price increases in the event of production challenges. For soyabeans, the picture is the opposite, the level of stocks has grown over time, relative to the level of consumption. The world seems relaxed about declining grain availability, and this may be why we have not seen grain prices moving significantly higher in response to tightening stocks.



The production of grain in the UK was down 15% in the UK in 2024/25 (2024 harvest), compared with the 10-year average from 2014/15 to 2023/24. This, in isolation, would lead to a more pronounced increase in grain prices than has been observed. However, the decline in production was more than offset by a sharp rise in imports at the end of the 2023/24 season, resulting in high opening stocks. A further rise in imports is anticipated for 2024/25, resulting in just a 3% drop in availability versus the 10-year average. Another rise in opening stocks for 2025/26 is forecast. With 10-year average yields and imports 2025/26 looks set to be a 'normal' year in terms of overall availability. This will lead to stable-to-lower prices.



This slide shows the path of UK grain and oilseed prices. The UK grain market has been largely stable over the course of the current season. Owing to strong imports of milling wheat, the premium of milling varieties over feed has reduced gradually. With strong availability of barley, the discount to wheat has stayed in the £20-25 per tonne range throughout the season to date. Oilseed rape area has declined considerably in the UK over the past decade. Prices are now reflecting the tightness in that market. Historically, OSR has been approximately twice the value of feed wheat, this has increased toward 2.5 times throughout the year. With strong imports through this season, increased winter cereals area and expectations of large opening stocks in 2025/26, it is difficult to make a case for the benchmark feed wheat price to move out of the £165-£190 per tonne range.



2024 was a good year for malting barley production; poor autumn planting conditions led to an increase in acreage across the UK as extra spring barley was sown. Added to this, dull conditions resulted in low grain nitrogen levels, ideal for the distilling sector. This has had the effect of pressuring both the feed barley base and the malting barley premium. Each year in Scotland, around 950,000 tonnes of spring barley is purchased for malting, primarily for the distilling sector (90%). The Scotch Whisky industry is a pivotal part of this demand. The sector has been challenged by increased excise duty in the latest Government budget. In addition, the sector will be paying close attention to the new Trump administration. During Trump's last presidency tariffs of 25% were levied against single malt Scotch Whisky. This had the effect of reducing the value of exports to the US by 31% from 2019 to 2020; a drop of £118m. There are potential trade opportunities also, a possible deal with India could see the current export tariff on whisky (50%) reduced.

LOAM FARM MODEL

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

£ per Ha	2022①	2023②	2024②	2025③
Output	2,136	1,716	1,385	1,596
Variable Costs	460	754	547	542
Gross Margin	1,676	962	838	1,054
Overheads	507	545	601	637
Rent and Finance	243	256	266	266
Drawings	80	82	86	89
Margin From Production	847	79	(115)	62
Basic Payment (+ SFI④)	163	128+40	93+95	~~55~~ 12+122
Business Surplus	1,009	246	73	~~239~~ 196

① Result ② Estimated ③ Budget ④ SFI payment is shown *gross* - costs of compliance are in farming costs

Source: The Andersons Centre
ANDERSONS

To illustrate the trends in cereal farm profitability, we use our 'Loam Farm' Model. It is a notional business, which has been running for over 30 years to track the fortunes of combinable cropping farms. The 600-hectare farm reflects the challenges many businesses faced in 2024, owing to low yields and falling grain market values. The current estimate for the 2024 cropping year shows a loss of £115 per Ha; this is down from a profit of £18 per Ha in the forecast this time last year. The decline is mainly due to a fall of £120 per Ha in crop revenue. This reduction in margin for the business presents a significant challenge with regard to available cash for the 2025 cropping year. At present, the margin from production for 2025 is forecast to be similar to that of 2023, with far lower variable costs. The 'cap' on BPS payments for 2025 at £7,200 see a sharp fall in the per hectare value from £55 to £12. This has been somewhat offset by the addition of the precision nutrient application standard in SFI.

LOAM FARM - SCOTLAND

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

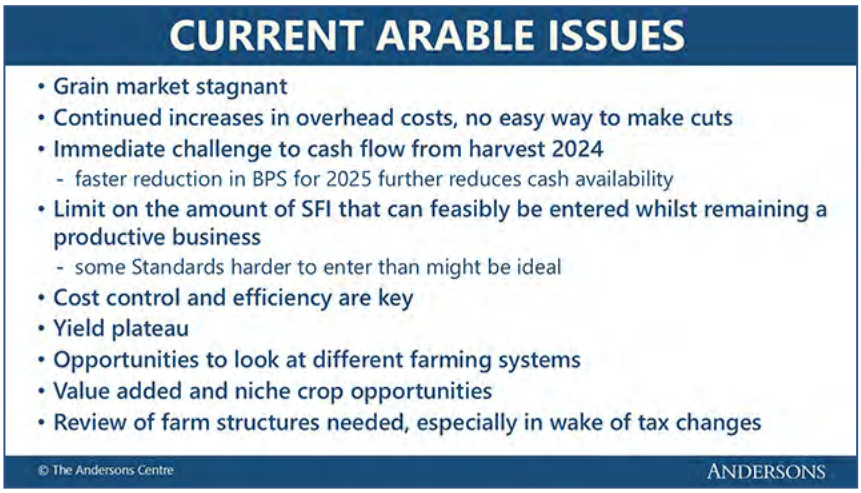
£ per Ha	2022①	2023②	2024②	2025③
Output	1,960	1,445	1,414	1,402
Variable Costs	441	721	502	483
Gross Margin	1,519	723	912	919
Overheads	505	538	594	632
Rent and Finance	237	250	260	260
Drawings	80	82	86	89
Margin From Production	697	(147)	(28)	(63)
Basic Payment	223	223	223	223
Business Surplus	920	76	195	160

① Result ② Estimated ③ Budget

Source: The Andersons Centre
ANDERSONS

To illustrate trends in cereal farm profitability in Scotland we use our 'Loam Farm – Scotland' model. This is a notional business which operates over 600 hectares. Loam Farm Scotland runs a rotation of winter wheat, spring malting barley, winter barley/ oats and winter OSR. Loam Farm Scotland has struggled to make a return over the past two seasons; although returns in 2024 were less weather-affected than England. 2025 looks similarly challenging, largely driven by a subdued malting barley market. At present, Loam Farm Scotland benefits from the continuation of BPS in Scotland, however, it is almost certain that the new Scottish support scheme will be less profitable than the BPS, when it is introduced.

What does a sustainable arable business look like? Historically, the view has been that 250 hectares (600+ acres) was an efficient business scale for combinable cropping. However, size is not a guarantee of success - businesses need to find a point of sustainable growth or focus on the structure of their business. There are many small businesses that continue to be profitable because they have found the right structure. This slide details some of the different approaches these businesses take. All of this leads to fewer decision makers, each farming more hectares. Another present challenge is a pent-up need for reinvestment. This may not just be buildings, but other infrastructure such as field drainage. The cost of new investment is significantly higher than it was, for example a new 15 tonne per hour continuous flow drier costs around £60K, more than twice what it cost in 2015.



This slide presents some thoughts on current key issues in the combinable crop sector. Weather volatility poses one of the most significant challenges outside of the farmer's control. Climate change may be making this worse – requiring more resilient businesses. Cropping conditions for 2024 were poor, at a time when prices and revenue through BPS are falling. Whilst some costs have fallen, labour and machinery costs remain stubbornly high and keep rising. With the integration of environment schemes onto less productive land, the most productive land will have to work harder. Looking at avenues such as accessing premium markets may be an option but, to do this, crops need to be stored well, which comes at extra costs and possibly extra reinvestment. Finally, the requirement for businesses to help the supply chain reach its carbon demands are here.

COMBINABLE CROPS - 2035

	2015	2025	2035
Arable Land Area (MHa)	4.89	4.77	4.65
Wheat Production (Mt)	16.5	13.8	13.5
Animal Feed Consumption (Mt)	12.3	13.3	14.7
Number of Arable Farm Businesses	15,340	13,090	10,710
Average Size of Arable Farm (Ha)	158	166	179
Average Wheat Price (£ per t)	115	190	?
Ammonium Nitrate Cost (£ per t)	260	370	?
10-year Avg Wheat Yield (t per Ha)	7.9	8.1	8.1-8.4
Average Horsepower	158	180	200+

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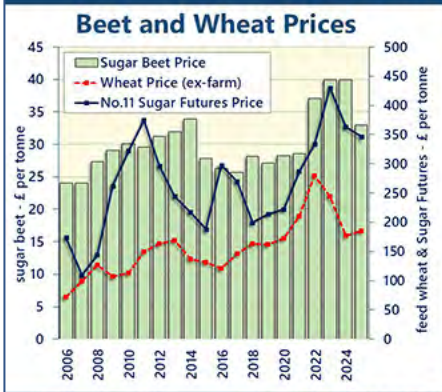
This slide provides some forecasts of the arable sector, both for the current year, but also looking ahead to the next 10 years. It is expected that the wheat area and arable area more generally, will continue to fall in line with the current trends. Combined with an unchanged 10-year average yield, this would suggest wheat production of 13.5 million tonnes in 2035. This figures is below what may be considered 'typical' at present. As has been discussed throughout this presentation, the expectation is that the number of arable farm businesses will fall and the average size of those businesses will increase. Within this, we would expect to see the structure of those businesses change with smaller businesses moving to contract farming agreements, joint ventures and share farming arrangements. The average horsepower of new tractor registrations will exceed 200HP if we see the same increase from 2015 to 2025 over the next 10 years. The big unknowns for the next 10 years are prices of inputs and outputs given the volatility of global markets.

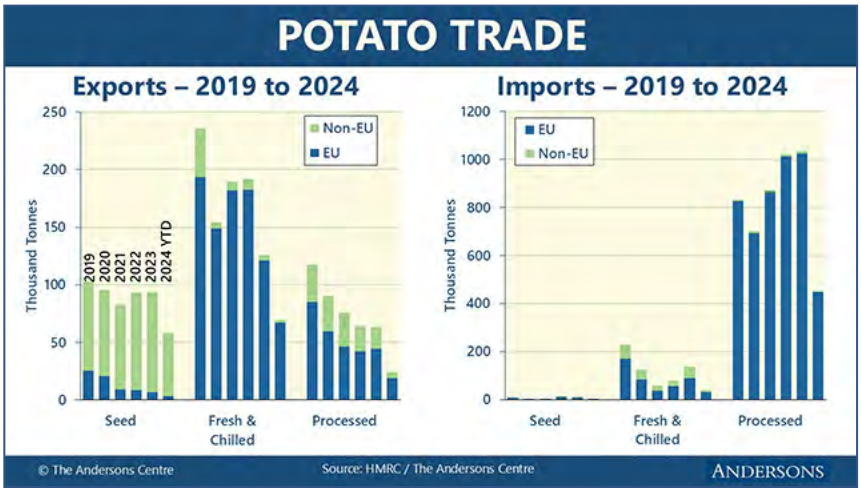
SUGAR BEET



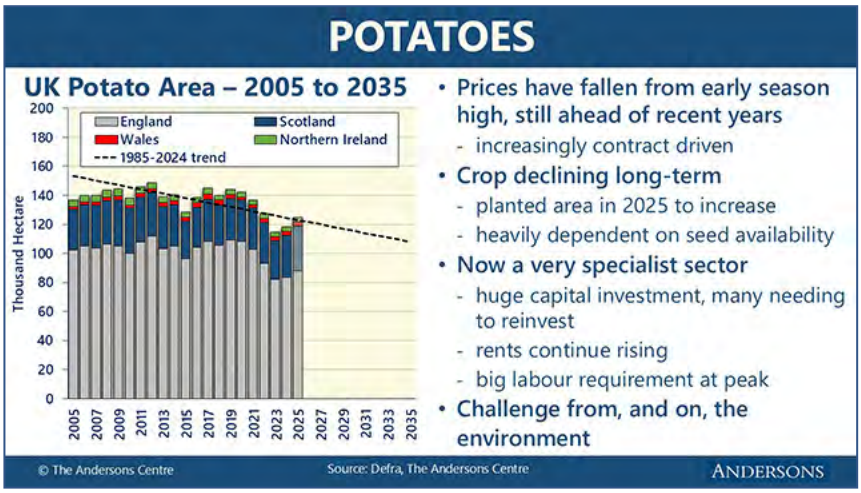
- Reduction in contract price to £33 per tonne for 2025
  - accounts for up to 70% of contract
  - remaining either futures-linked or market-linked bonus (base £30.70 per tonne)
  - effective minimum price £32.31 per t
- Sugar futures down year-on-year
- Even so, an attractive option for growers
  - need consistent yields in excess of 75t per Ha
- Loss of Cruiser SB a big challenge

Source: AHDB / British Sugar / The ICE / The Andersons Centre
ANDERSONS

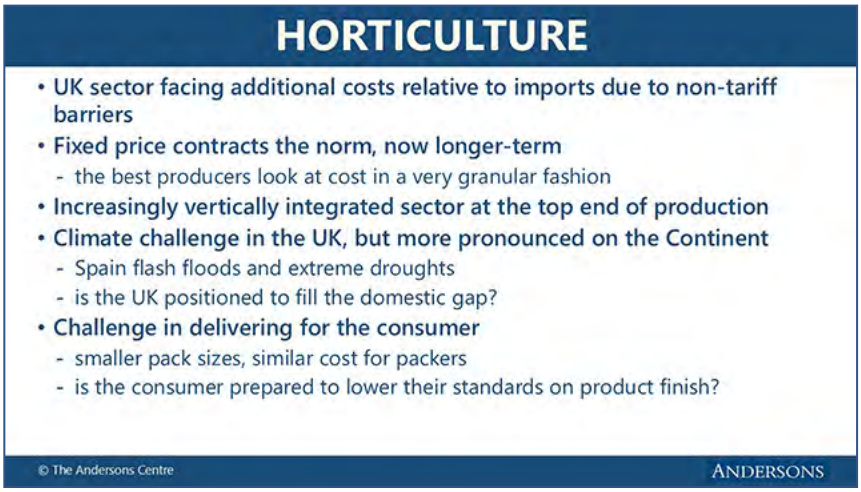
The agreement of the 2025/26 sugar beet contract was a far quicker process than the previous year. The new contract price is down from the £40 per tonne peak but has not fallen to the extent that prices have for other agricultural commodities. Part of the new contract process includes the wider scale roll-out of futures-linked contracts. This element of the contract can account for up to 35% of a growers volume. The value of sugar futures has fallen considerably through 2024 and 2025. One of the major challenges for sugar beet growers is the loss of Cruiser SB, the neonicotinoid has been a key product for the sector and its loss for this season and beyond is significant.



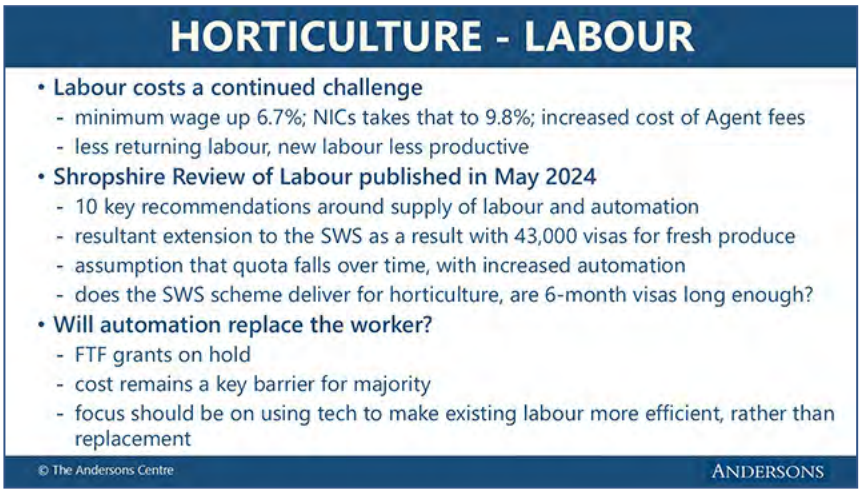
This slide shows the balance of trade for UK potato products - including seed, ware, and processed product. The data is shown in crop years from July to June. One of the noticeable trade challenges post-Brexit has been the steady decline of seed exports to the EU; from 2022 onwards exports to non-EU nations have increased to pick up some of the slack. The UK has seen a noticeable fall in exports of all potato products to the EU, not helped by declining domestic production level. Imports of non-processed product have also fallen, while processed imports have risen considerably. This is perhaps an indication of the relative non-tariff barriers to trade between the EU and UK. Note the different scales on the axes for exports and imports – we have a large net trade deficit in potatoes.



The potato area continues to be in long term decline. However, increases were seen in 2024, and would be expected again in 2025, provided there is seed available. This is driven by improved pricing over the past season – whilst prices have fallen from early season highs they remain ahead of previous years. That said, price transparency remains an overwhelming challenge. The decline in area in recent years has resulted in the sector becoming increasingly specialized and largely dominated by contracted supplies. Many contracts are now moving to a cost-of-production model with an increased appreciation for the risk being borne by the grower. However, the high cost of reinvestment is still a challenge for many growers particularly when considering the need for specialised machinery and storage.



The area of horticultural crops being grown in the UK has declined by almost 20% in the last decade. Cost pressures, notably labour and energy have contributed to this decline. There has been a move to fixed-price contracts that are increasingly long-term deals; a recent example is the 20-year supply contract between ALDI and AC Goatham & Sons for apples. The growing use of fixed price contracts is driving producers to consider cost in an increasingly granular manner and driving vertical integration. There is a concerted effort to review the sector with a focus on supply chain fairness. However, the consumer continues to drive demand with a requirement for smaller pack sizes and high expectations of product quality.



Labour cost remains one of the key challenges for the horticulture sector, with rising National Living Wage levels and National Insurance contributions. In addition, there are only six remaining agencies for sourcing foreign labour and fees have risen. The proportion of returning workers has dropped and, anecdotally, new workers have been far less productive – perhaps by as much as 50%. The Shropshire Review of labour was published in May 2024. It made 10 key recommendations, including the extension of the Seasonal Workers Scheme, although the length of visa for fresh produce was questioned, with six-month visas not suitable for the 9-month picking window for tomatoes for example. The report highlighted that there is an assumption that automation will replace workers over time, but can the ambition be matched on the ground? Automation is expensive, and grant systems that may have supported adoption are currently on hold.

POTATOES AND HORTICULTURE - 2035

- A need to look at new systems to meet year-round demand
  - vertical farming for smaller produce an option but need sustainable energy supply
  - some large scale vertical farming businesses, but with significant losses
- Labour costs to drive automation?
- Food waste needs to be reduced, can consumers adapt to poorer finish?
- Integration of environment to combat reduced availability of actives, beetle banks, pollen and nectar mix etc.
- Less import availability from Southern Europe due to increased climate pressures
- If current trends continue
  - potato area in 2035 – 115Kha (2025 – 125Kha ; 2015 – 129Kha)
  - horticulture area in 2035 – 92Kha (2025 – 98Kha ; 2015 – 122Kha)

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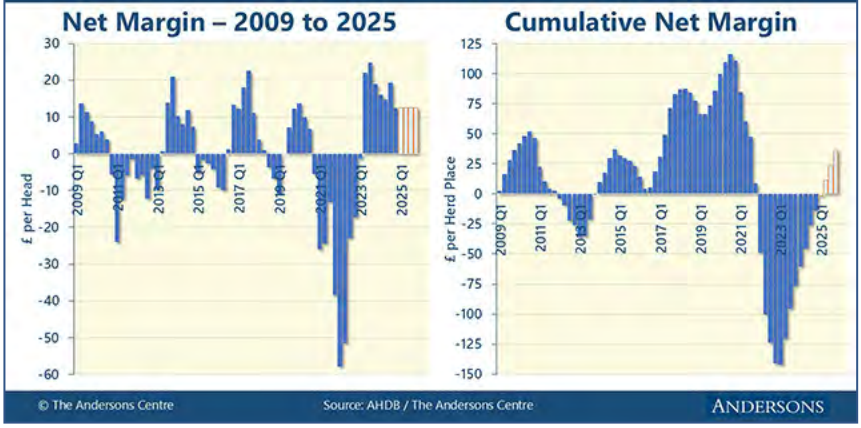
This slide highlights some of the key trends that will impact the potato and fresh produce sectors over the next ten years. It is clear that there is a need to look at new systems to meet year-round demand, be that pairing glasshouses with AD facilities to provide heat and energy, or looking at vertical farming. The costs in vertical farming are significant and often the units need significant areas of energy production to support viability. There have been a few notably big vertical farm developments in the UK, but perhaps these are too far from key distribution links or the consumer to survive. Future systems may need to be inner city or close to main transport links. The cost of labour will be a key driving force behind the adoption of technology. Climate is a risk for the sectors, especially as it reduces import availability, the consumer may need to accept lower finish quality and reduce food waste to continue with the diet they enjoy.

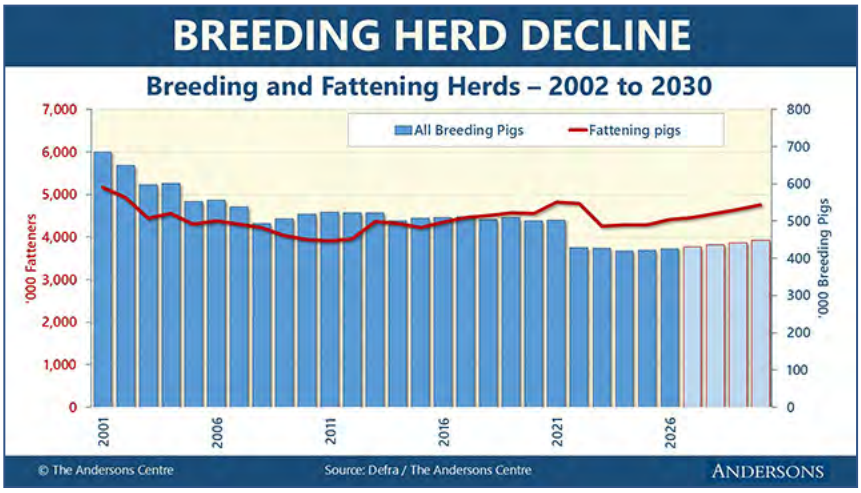
INTENSIVE LIVESTOCK (PIGS AND POULTRY)

PIG NET MARGINS



© The Andersons Centre Source: AHDB / The Andersons Centre ANDERSONS

Commodity prices are volatile. They respond more quickly to market fundamentals than product or service prices. There is no better commodity to demonstrate that than pigmeat. The 'Pig Cycle', demonstrated in the first chart, is formally 100 years old this year. It was named in 1925 by Mordecai Ezekiel, a USDA and UN FAO agricultural economist who later worked on Franklin's 'New Deal'. The downturn in the cycle in 2021 and 2022 was unusually deep – caused by stagnant prices, high costs and disruptions in the supply chain with slaughterhouse closures. The second chart is the cumulative revenue of one sale every quarter since the chart began in 2009 and shows average pig farmers just breaking even, 16 years later. This includes farmers' wages and other imputed costs. Data is supplied by AHDB's Pig Net Margin model.



The considerable losses from pigs in 2021 led to a 15% reduction of the breeding herd in 2022 alone as shown in this chart. Indeed, the slaughter of the breeding herd is evident in the 'fattening pigs' line, where slaughterings included some industry 'productivity' as well as 'production'. Each breeding sow was costing farmers considerable sums but now, getting numbers back up is a challenge. The industry has made initial steps to rebuild (some of) that fall, although we do not believe it will reach 2021 levels for many years, if at all.

As a net importer of pig meat, the UK price is closely related to the EU price, our main trading partner. If the EU price is significantly lower than the UK, the volume of imports increases, lowering domestic prices. The UK price is typically slower to react to changing supply and demand than EU pricing. Here we can see the considerable step up in prices in 2022 then again in 2023. They have since lost some of their gains. These are weekly prices and it shows just how volatile the week-to-week pig price tends to be; a difficult market for businesses to trade in.

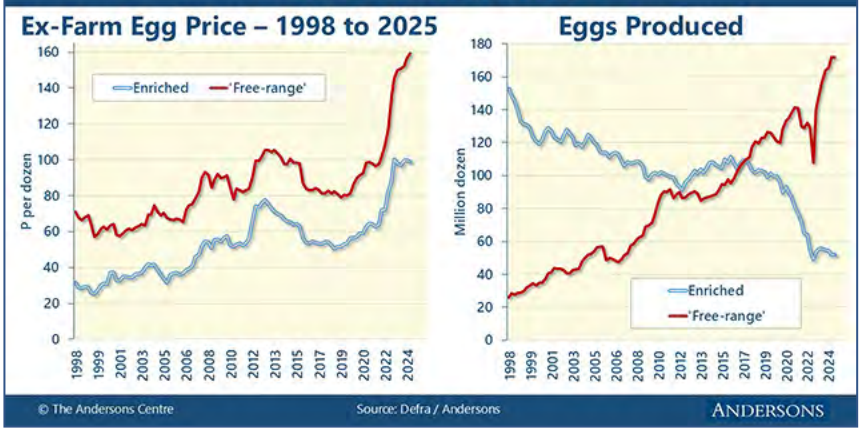
PIG SECTOR ISSUES

- UK pig breeding herd 17% smaller than 2021
  - good recent profits helping regenerate lost income
  - concern over the next pig cycle, new focus on efficiency, rather than herd growth
- Costs, especially feed, cheaper than recent years – margin being made
  - financial damage from big losses will take time to repair
- Ongoing reinvestment decisions – high capital cost
- Concern about ASF – border checks from EU – still not been in UK
- Labour supply and cost an increasing challenge – labour-less farming?
- Pigmeat has had less consumer focus on GHG as far lower emissions
  - local environmental issues around water and air quality instead
  - use of soya (deforestation) may become an issue in the future
  - consumer concerns on animal welfare need to be addressed

 ANDERSONS

This slide lists the current main issues for the pig sector. Historically, the pig herd never fully rebuilt after a harsh cycle, and this time efficiency is the theme, rather than sow numbers. Costs have fallen since the deepest trough in 2022, but perhaps the peak of the next round has already been achieved and the cycle moves downwards again from now on. Labour is going to be 10% dearer from April, so using less will be imperative. Pigs have high feed conversion performance and finish quickly (compared to other farm red-meat animals for example) so have considerably lower GHG emissions making it an environmentally attractive meat.

THE EGG MARKET



 Source: Defra / Andersons ANDERSONS

The demand for eggs is rising, slightly outstripping supply, pushing prices up sharply. The industry has responded rapidly, in particular with free range eggs. The free-range egg price has doubled in 5 years and production is up 40%. All major supermarkets have either transitioned away from selling enriched cage shelled eggs (unprocessed) or have committed to doing so by the end of this year. It appears some will not hit that self-imposed target, but the transition is taking place. The 'dip' in free-range production was when hens had to be housed as a result of Avian Influenza – the eggs were classified as 'barn eggs' during this period. The rules on this have since been changed.

THE EGG SECTOR

- **Shortage of eggs means higher prices than in memorable history**
  - with relatively low feed prices, this is producing excellent margins
- **High margins drive investment in new sheds**
  - few new units going up though – Planning (nutrient issues) a major obstacle
  - could result in margins rising further
  - more imports of eggs than historically (foodservice / manufacturing) - limits price
- **Avian Influenza a threat to free-range units – some currently housed**
  - although change in labelling rules allows eggs to be marketed longer if housed
- **Use of soya in rations an increasing issue across the poultry sector**
  - EU Deforestation Regulations (EUDR), but also consumer focus
- **Prospects for the sector look good**

 ANDERSONS

This slide sets out current issues in the laying hen sector. It has certainly been a good year for egg producers in the UK; prices are high and the ability for others to expand into the space is curtailed by Planning restrictions. That makes growth difficult but helps keep prices buoyant. The ongoing risk of Avian Influenza is real, with some cullings in the UK over winter. Nobody wants a national housing order again. There is no vegetable protein as good as soya and so its use is difficult to avoid. It is associated with the loss of tropical wilderness, but it can be grown in other habitats. Poultry is not the only sector that uses soya, but chickens are hungry animals, so the focus falls here.

BROILER PRODUCTION POSITIVE

Poultry Slaughtered - UK

Growing Range in Value

Retailer/Brand	Kg/bird	£/kg	£/bird
ASDA Essential	1.50	2.69	4.03
Waitrose Essential	1.50	3.20	4.81
Duchy Organic	1.45	11.25	16.30
Poulet de Bresse	1.50	30.00	44.90
Fine & Wild	2.1	47.17	108.50

 ANDERSONS

This chart demonstrates the rise in broiler chicken slaughterings in 30 years. Following a big rise to 2018, growth has slowed but continues upwards. The table summarises the 20-fold range in prices for what is fundamentally the same species, just farmed and marketed in very different ways. ASDA's Essential comes with no multibuy savings, is "typically fresh for 7 days", and has 8 ingredients. The Fine and Wild is sold frozen and is presented online with wine-matching suggestions of white Saint Aubin 2020, a Burgundy wine at £45.50 per bottle.

THE BROILER SECTOR

- Prices have risen over the past year
- ASDA only retailer not committed to lower stocking densities
  - maximum of 30kg of chicken per m^2 versus Red Tractor 38kg per m^2
- Already competition for space – move creates 20% less shed capacity
  - even more of an issue if ASDA commits
- Difficult to build more sheds quickly – Planning main issue, but also build capacity and willingness to invest
- Margins improving slowly – better prices and lower feed costs
  - labour remains an issue plus energy costs
- Commodity meat becomes added value in some farm systems – big range in per kg prices
- Turkey production now 25% of production 30 years ago

 ANDERSONS

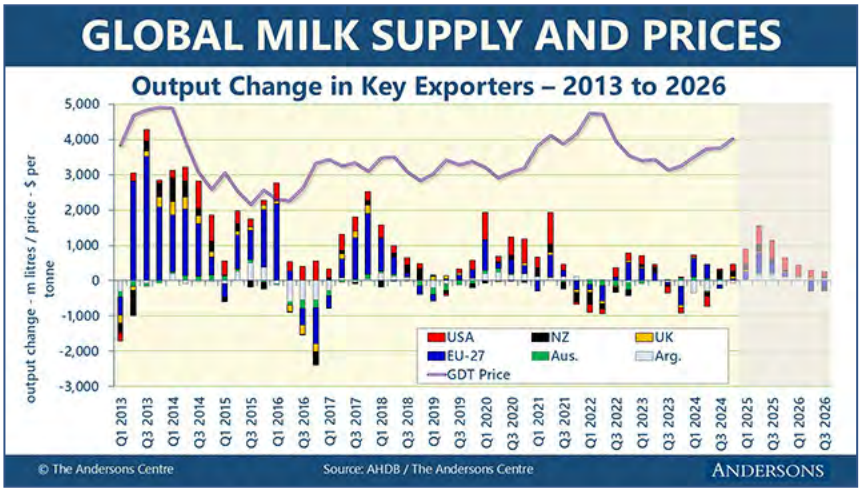
Like the egg sector, the poultry meat sector is doing well too. Growth is slowed by similar Planning barriers to new sheds. This is compounded by retailers dictating stocking rates. This is different to the Better Chicken Commitment (BCC) - breeds and systems do not change as they do under BCC. BCC is too costly for 'mainstream' chicken. For welfare reasons this is commendable, but increasing space per bird in a shed by 20% is the same as reducing each shed bird count by 20%; a considerable decline. However, it does appear that the decline in output at the point of slaughter is less as mortality is lower and growth rates higher, but there is still a lower crop for each 'cycle' of the shed. Table chickens have been seen as the ultimate meat commodity, with prices remaining very low. But in recent years, some growers have found ways to add considerable value to the bird. The turkey industry is really only a Christmas event in the UK now, and all year round turkeys are rare. Even the Nix Pocketbook has stopped listing them for this year.

PIG AND POULTRY SECTOR - 2035

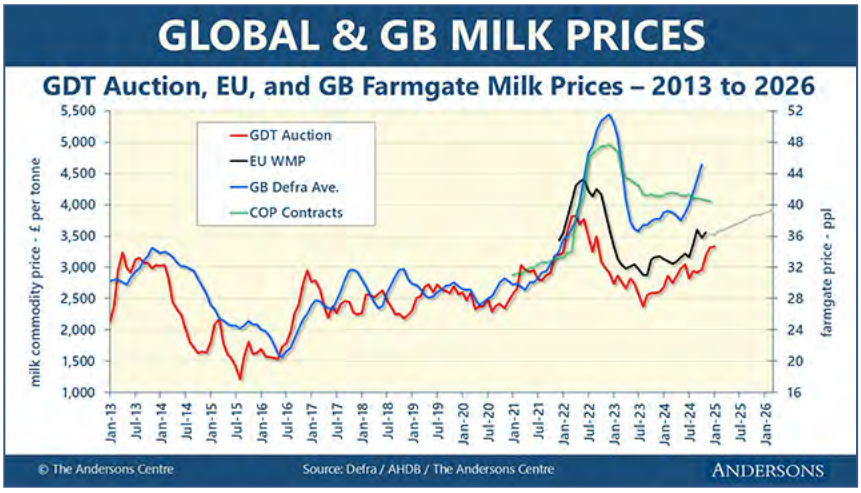
PIGS	2015	2025	2035
Net Margin (£ per head)	-£3.50	+£18.70	?
Pork price (ppkg lwt)	102	172	?
Breeding sow numbers ('000)	507	421	450
POULTRY			
Free-range Egg Price (p per doz)	98	160	?
Total Eggs Produced (million dozen)	795	886	1,000
Broilers Produced (million)	953	1,140	1,350
Most Profitable Farming Sector	✓	✓	?

 ANDERSONS

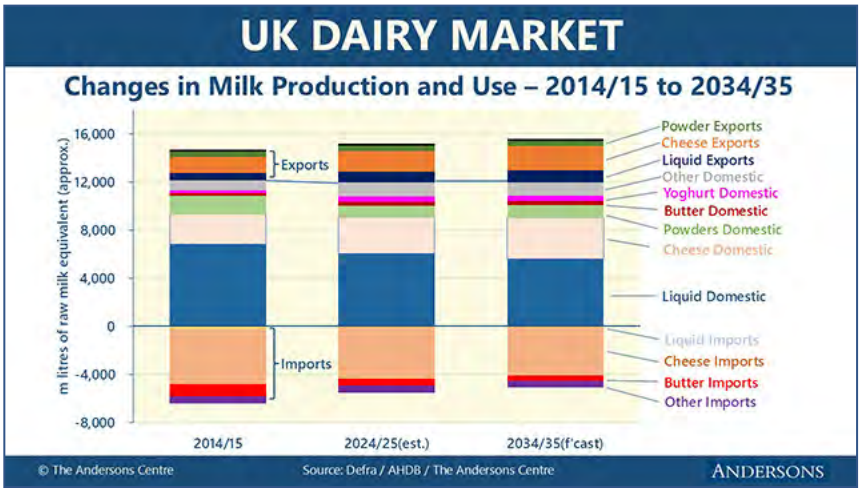
This slide provides some summary trends for the pig and poultry sector plus our ideas for where the industry might be by 2035.



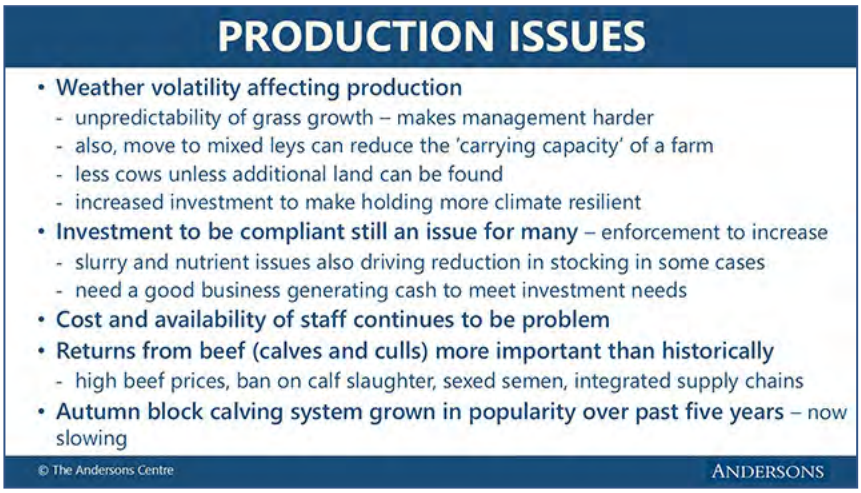
The top six milk exporting nations in the world are New Zealand, the EU, UK the USA, Australia and Argentina. Together, they account for around 80% of global milk exports. Therefore, the production from these areas tends to 'make the market' in terms of global prices. Global dairy demand has increased by 2% per year over the past decade. This equates to 1,400m litres per quarter. This growth is not consistent quarter-on-quarter and there are surges and lulls in demand. However, when milk output growth falls below the growth in demand, prices tend to firm (albeit often after a lag). Over the past five years, global output growth has been relatively stable and this has translated into commodity prices (illustrated on this chart by the Global Dairy Trade (GDT) auction price) remaining in a tight range. The change in price around 2021/22 was driven more by the post-Covid commodities boom and the fallout from the Ukraine invasion rather than supply fundamental. Prices have moved up as output has been subdued. Extra production is forecast to come forwards through into 2026, but not a huge surge. This bodes well for future prices.



This shows global commodity prices and the GB farmgate milk price. The 'world price' for milk is taken to be the Global Dairy Trade (GDT) auction price (dominated by the large New Zealand co-op, Fonterra). The GDT price has been converted into £ per tonne (rather than $ per tonne) so the influence on GB markets is easier to see. Although the lines are 'fitted' – being on different axes, there has been a close correlation between the world price and the GB price (often with a few month's delay). For recent years we have also shown the European Whole Milk Powder (WMP) prices too. This is partly because the GDT price is so closely linked to the Chinese market, but also because, due to our location, the EU market has a big effect on the UK. The European futures market suggests further rises are possible. GB prices have become separated from EU and Global values. The causes are not completely clear, but UK production growth has been low, whilst demand from processors has been strong. Co-ops such as Arla and First Milk are delivering and driving up prices across the market. Lastly, it appears that price rises have been secured from retail customers to reflect higher costs in the supply chain.



The UK dairy market has changed over the past decade and will continue to do so. In 2014/15 the liquid milk market took almost 50% of UK milk production. For 2024/25 we estimate this has declined to 42%. By 2035 it might be down to 37% or less. This is due to the reduced volumes of fresh milk being consumed in the UK, despite a growing population. It is not due to the rise in 'alternative' milks (they have very low market shares), it is just less milk being drunk – the decline of breakfast cereals has played a large part. However, overall, production (and therefore usage) of milk across the UK has risen. Cheese production in particular has increased – both displacing imports and driving higher exports. On the chart 'Domestic' refers to products consumed in the UK made from UK milk. UK production of categories such as yoghurt and butter have also risen. Liquid exports (and imports) is milk being traded across the Irish border. The volume of milk going south for processing has grown noticeably.



Climate change is affecting UK dairying. Good, predictable grass growth makes it easy to plan and manage the feeding of a herd. The last few seasons have seen unpredictable forage output. This is causing some farms to slightly reduce cow numbers to manage the risk. The extensification trend is also driven by the need for (expensive) slurry storage (and somewhere to spread it) and a different approach to swards (influenced by the SFI in England). It is not always easy to find extra land to grow a business. Many progressive businesses take on a second unit to grow. The issue of staff has been mentioned elsewhere in this presentation and continues to impact the dairy sector. Calves and culls were just seen as by-products of dairying historically. However, they now make a strong contribution to profits. Autumn block calving has provided a good 'halfway' house between intensive high-output systems and extensive spring calving operations.

DAIRY – 'SOCIAL LICENCE' TO PRODUCE

- *Doing nothing that consumers or the wider general public find offensive*
- Example – calf slaughter. Now 'solved' through processor bans
- Other animal welfare issues may arise in time?
  - calf separation; access to grazing etc.
- Focus on inputs used in milk production
  - soya (mainly pigs and poultry at present); feed additives (Bovaer)
- Reducing the carbon footprint of dairy products
  - impossible to reduce to zero, but sector need to show progress – harder over time
  - productive efficiency – tension between intensive and extensive?
  - breeding gains
- Water, soil and air quality. Plus improving biodiversity
  - general public views on living close to intensive dairy unit?

 ANDERSONS

It may sound like business jargon, but having a 'social licence to operate' is critical to dairying (as it is to other sectors of UK agriculture). It is defined as *'the ongoing acceptance of a company or industry's standard business practices and operating procedures by its employees, stakeholders, and the general public'*. The slide outlines a number of areas where the dairy sector could be challenged. It has proved successful in the past at changing practices to meet society's expectations – for example around the euthanasia of bull calves. A successful industry should have no practices it is ashamed of. This is not just to make selling products easier, but also to attract people into the sector.

FRIESIAN FARM MODEL

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

p per litre	22/23①	23/24②	24/25②	25/26③
Milk	47.1	36.7	41.5	42.0
Total Output	50.2	39.7	45.0	45.4
Variable Costs	23.6	17.6	17.8	18.5
Overheads	14.8	15.1	17.2	17.7
Rent, Finance & Drawings	7.0	6.9	7.2	7.2
Total Cost of Production	45.3	39.6	42.3	43.3
Margin From Production	4.9	0.1	2.7	2.1
Basic Payment (+ SFI④)	1.6	1.3	1.0+1.5	~~0.6~~ 0.4+1.5
Business Surplus	**6.5**	**1.4**	**5.2**	**4.0**

① Result ② Estimated ③ Budget ④ SFI payment is shown *gross* - costs of compliance are in farming costs

 Source: Andersons ANDERSONS

Profitability figures from our Friesian Farm model are shown. This is a notional 220+ cow business in the Midlands with a milk contract on a constituent basis. It has a year-round calving system, like much of the UK industry, but it is trying to maximise yield from forage. The figures are for milk years – April to March. The 2022/23 milk year saw a big increase in prices compared to the previous year. Although costs went up a lot as well, many dairy farmers made record profits. The 2023/24 year saw a decline in farmgate milk prices. With costs 'sticky' on the way down, the business only broke even from its farming activities. For the 2024/25 year just ending however, this farm has gone into the SFI. This adds a useful amount to the bottom line (although there are costs to the scheme which are included in the farming margin). Milk prices have firmed, also helping profitability. Overhead costs are up for 2024/25 – labour costs are playing a large part in this. The outlook for 2025/26 currently looks solid. The BPS continues to decline, with payments per farm limited to £7,200 in England.

FRIESIAN FARM MODEL - SCOTLAND

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

p per litre	22/23①	23/24②	24/25②	25/26③
Milk	46.9	36.5	41.3	41.8
Total Output	50.5	40.0	45.3	45.7
Variable Costs	24.5	18.1	17.5	18.0
Overheads	15.0	15.3	17.4	17.8
Rent, Finance & Drawings	6.9	6.9	7.1	7.1
Total Cost of Production	46.4	40.3	42.0	42.9
Margin From Production	4.1	(0.3)	3.3	2.8
Basic Payment	1.8	1.8	1.8	1.8
Business Surplus	**5.9**	**1.5**	**5.1**	**4.6**

① Result ② Estimated ③ Budget

 Source: Andersons ANDERSONS

Our Scottish version of Friesian Farm is a notional 130 hectare holding in central Scotland with 200+ milking cows. The figures differ from the English model in that milk prices are slightly lower, beef prices are higher, the farm does not grow maize, and some costs are higher due to the longer winters. The profitability story is much the same over the years shown as for the English dairy farm. The 2023/24 saw a dip in returns as a result of lower milk prices – this is despite lower variable costs as feed and fertiliser prices fell. The 2024/25 year just ending has delivered better returns due to higher milk (and beef) prices. This is despite Overhead costs pushing up. The budget for the upcoming milk year shows the decent returns largely continuing. One key point of contrast with English Friesian Farm is the steady contribution of the unchanged Basic Payment.

CURRENT DAIRY ISSUES

- **Milk prices on an upwards trajectory** – albeit slowly
  - global markets still finely balanced - GB prices above historic levels
  - might be a 'cap' on prices – return to 50ppl looks very unlikely
- **Cost base has risen** – variable costs have dropped from peak but still higher
  - overheads continue to creep up – continual focus needed to restrain spend
  - best businesses maximise use of grazed forage to reduce costs
- **Dairying manages to be both a labour *and* capital intensive sector**
  - cost of a herdperson circa (£30-£45K) – but also *availability*
  - has become more of an issue as herd size grows
  - capital depreciation on an AYR system circa 4.5ppl
- **Environmental issues with dairying** – all farms will soon need a carbon audit
- **But, good profits being made by good operators**

 ANDERSONS

This slide presents some thoughts on current issues in the dairy sector. Milk prices are moving in the right direction for farmers – but it is a slow and steady upwards progression. There is not huge pressure for price increases, either at global or UK level. Cost pressures mean that strong prices are required to deliver profit. The sector has some big challenges to face around sourcing (good) labour and the requirement for capital investment. There are opportunities to do things differently, thereby lowering production costs in the sector. Some of these are around forage production, reducing fertiliser use, and making best use of slurries and manures (which are being expensively stored). Efficiency savings will often be good for the planet as well as the bottom line.

UK DAIRY SECTOR IN 2035

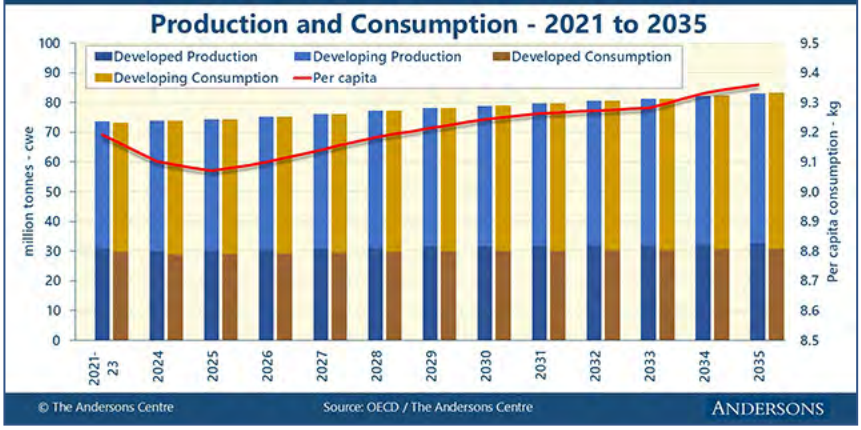
- 8,400 dairy businesses (currently 9,700) in UK
- UK dairy herd down by 5% to 1,715,000 head
  - total milk production slightly up – average yields continue to rise
- Average herd size >200 cows
- Increasing divergence between seasonal and AYR systems
  - increasing automation for (intensive) AYR producers to help deal with labour issue
- Liquid milk market below 40% of UK production
  - products (value added) key to driving a good milk price
- Average GHG emissions per litre down 20% - genetics + efficiencies
- Slurry remains an issue – more on-farm processing and small-scale AD
- A bigger (by volume) and better industry taking advantage of global opportunities

 ANDERSONS

Looking forward a decade to 2035, there will be fewer dairy farmers. The decline in dairy farms will be slightly less as one business managing multiple units becomes more common. This simply continues a trend seen for many years. The size of the sector will be larger however – if measured by the volume of milk delivered. The 'hollowing out' of the middle ground of milk systems will become more pronounced – some farms will become more extensive, focusing on milk from forage and block calving. Others will push for maximum output. The decline of the fresh liquid milk market will continue, but its size will still be a unique feature of GB dairying. However, exports will be increasingly important to support our domestic industry. We believe there is scope to make significant savings on GHG emissions from UK dairying – and save costs at the same time.

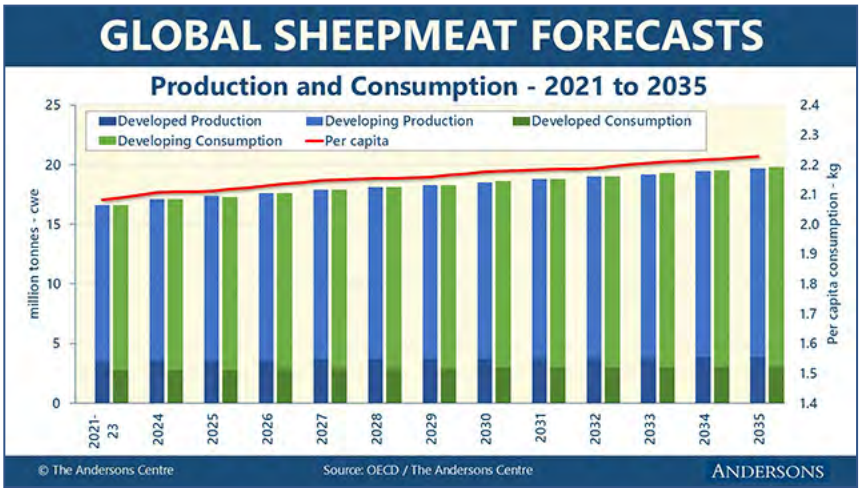
GRAZING LIVESTOCK (BEEF AND SHEEP)

GLOBAL BEEF FORECASTS

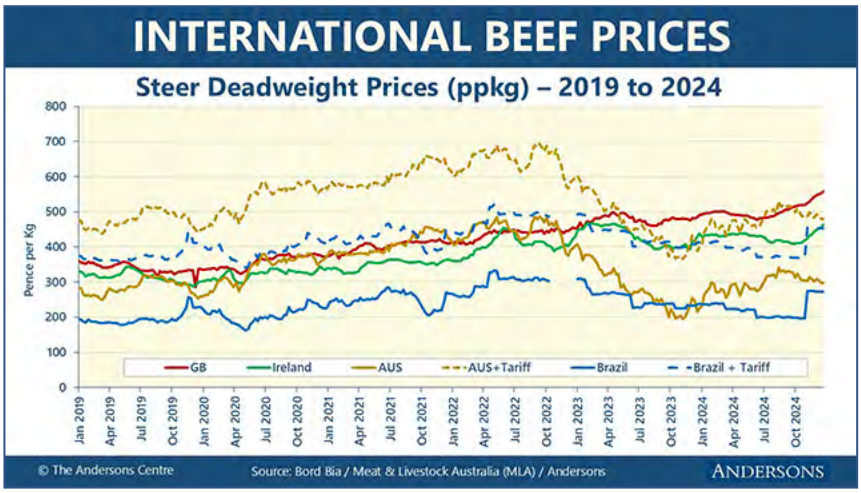


 Source: OECD / The Andersons Centre ANDERSONS

The OECD produces forecasts of beef production and consumption (until 2033). Andersons has extrapolated these an extra two years to get to 2035. Not surprisingly, production and consumption match very closely as long-term storage is not widely practiced. The figures have been split between developed countries and developing nations. Production and consumption of beef in developed countries (the darker lines) is forecast to be static. Global growth will largely be concentrated in developing nations. Using world population growth estimates, it is possible to calculate the global average per capita consumption of beef. Whilst the population is forecast to rise from 8 billion (average 2021-23) to nearly 9 billion by 2035, the growth in beef consumption outpaces this. Therefore, the per capita consumption line increases. Within this, there will be significant variations between countries. For example, the average American consumes between 25-30kg of beef per year. A large proportion of the 1 billion population of India would consume no beef.

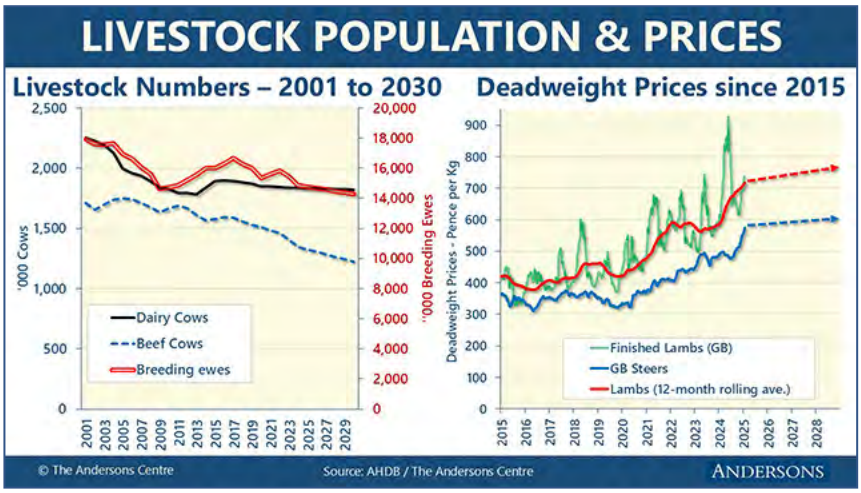


A similar analysis to beef has been undertaken for sheepmeat where production and consumption is far more heavily weighted towards the developing world. Developed countries including large producers such as the UK, New Zealand and Australia produce more than they consume and thus export significant quantities to developing nations. As with beef, the production and consumption trends in the developed world are not forecast to change greatly to 2035. Growth will largely be in developing nations. Average per capita consumption will increase, but it is worth noting the differences between sheepmeat and beef – around 2kg per year of the former is consumed on average compared with around 9kg of the latter. However, whilst it may not be particularly clear from the charts, per capita sheepmeat consumption is forecast to grow by a bigger percentage over the next decade – 7% as opposed to 2% for beef.



This chart compares UK beef prices with key global competitors. Brazilian prices remain over £1 per kg lower than GB, with the gap widening in 2023 as UK prices rose and Brazilian prices fell. By late 2024, Brazilian prices surged due to strong export demand and droughts, yet remain lower than GB even with the UK Global Tariff (UKGT). UK retailer commitments to British beef supports domestic prices, and any Brazilian imports must meet SPS regulations. Australian prices fell in 2023, further affected by a weaker Australian Dollar. Although they recovered in 2024, Australian beef remains competitive with UKGT applied. Expanding Tariff Rate Quotas (TRQs) for Australian beef will add downward pressure on UK prices. Irish beef now faces a growing price gap versus GB. Whilst UK retailer commitments favour British beef, international prices—especially from Australia and Brazil—are influencing Irish prices.

The average of 2022-24 data from OECD gives an overview of sheepmeat supply and demand. The chart shows domestically consumed production and exports (demand) on the positive side of the axis. Exports are shown on the negative side. A red marker is also included to show total production (supply) which is a sum of domestically consumed production and exports. There are some big producing regions such as China and Africa but they export relatively little. Instead, trade is dominated by the exporting giants such as Australia and New Zealand (NZ). The UK is also a significant exporter, accounting for 7% of the global total. The US is an insignificant producer and whilst its imports share (12%) is sizeable, it could represent a long-term growth opportunity for UK exporters. That said, the EU is on the UK's doorstep and accounts for a similar share of imports. Therefore, it will remain the key export market for the UK in the near future.



This chart outlines British (GB) beef and lamb prices from 2015. As the lamb price is highly seasonal, a 12-month rolling average is also included. Prices have risen significantly in the past decade, due mainly to tight supplies within the UK. This is partly due to commitments by UK retailers to source British meat. Globally, supplies have also generally been tight over the period. Looking ahead, given that livestock numbers in the UK are falling whilst the UK population is still rising and global supplies are projected to remain relatively tight, this suggests that the long-term trend for beef and lamb prices is upwards. Of course, that is contingent on UK demand remaining robust. If there is an economic downturn, then consumers will be more likely to switch to cheaper sources of protein (e.g. chicken, pig meat). That said, despite the cost-of-living crisis in the UK during 2022-23, demand remained strong.

★ MEADOW FARM MODEL - ENGLAND

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

£ per Ha	22/23①	23/24①	24/25②	25/26③
Output	1,619	1,623	1,761	1,795
Variable Costs	871	707	775	721
Gross Margin	748	916	986	1,074
Overheads	631	641	653	672
Rent, Finance & Drawings	325	337	342	336
Margin From Production	(208)	(62)	(9)	66
Basic Payment (+ SFI④)	184+22	150+22	114+22	80 47+~~178~~
Business Surplus (Deficit)	(2)	110	~~290~~ 128	~~291~~ 113

① Result ② Estimated ③ Budget ④ SFI payment is shown ***gross*** - costs of compliance are in farming costs

 Source: The Andersons Centre ANDERSONS

'Meadow Farm' is a notional 154-hectare (380 acre) beef and sheep holding in the Midlands, consisting of grassland, with wheat and barley mainly for livestock feed. There are 60 spring-calving suckler cows with all progeny finished, a dairy bull beef enterprise and a 500-ewe breeding flock. The 2022/23 year was challenging – although output prices were high, costs rose substantially (feed costs were especially expensive). Cuts in the value of the BPS meant the farm made a loss overall. In 2023/24, the gross margin improved due to lower costs and stronger livestock prices. The farm again makes a loss from production albeit much lower than 2022/23. Output has risen again in 2024/25.

This farm was not proactive in getting its SFI application submitted on time. As a result, it has no SFI income coming in for 2025/26 despite originally budgeting for it. This, coupled with the further reductions in BPS support, mean that the farm's business surplus for 2025/26 will be less than 2024/25, despite Meadow Farm making a margin from production for the first time in years.

MEADOW FARM MODEL - SCOTLAND

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

£ per Ha	22/23①	23/24①	24/25②	25/26③
Output	1,638	1,633	1,779	1,797
Variable Costs	870	714	643	701
Gross Margin	768	921	1,136	1,096
Overheads	642	650	662	682
Rent, Finance & Drawings	322	333	339	332
Margin From Production	(196)	(63)	135	81
Basic Payment & SSBSS	258	258	261	261
Business Surplus (Deficit)	63	195	396	342

① Result ② Estimated ③ Budget

 Source: Andersons ANDERSONS

Scottish 'Meadow Farm' is a notional 154-hectare (380 acre) beef and sheep holding in the Scottish Lowlands. Consisting mostly of grassland, barley is grown for livestock feed. There is a 60-cow suckler herd with all progeny finished, a dairy bull beef enterprise and a 500-ewe breeding flock. The 2022/23 year was challenging due to increased costs resulting in a sizeable loss from production. Unlike England, support has not changed, so it still generated a business surplus. For 2024/25, strong livestock prices and lower variable costs have increased the farm's gross margin and it makes a £135 per Ha margin from production. Unlike the English farm, there were no estra SFI-related costs in the year. Overhead costs continue to increase for 2025/26. This, coupled with livestock variable cost increases, lower the projected margin from production and overall business surplus for next year.

MEADOW FARM MODEL - WALES

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

£ per Ha	22/23①	23/24①	24/25②	25/26③
Output	1,587	1,566	1,649	1,716
Variable Costs	862	704	632	693
Gross Margin	725	862	1,016	1,023
Overheads	631	641	653	672
Rent, Finance & Drawings	325	337	342	335
Margin From Production	(231)	(117)	21	15
Basic Payment	158	158	159	159
Business Surplus (Deficit)	(74)	41	180	175

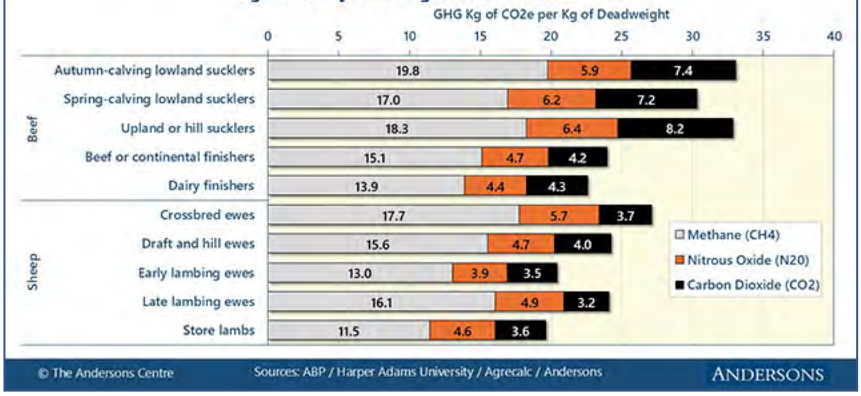
① Result ② Estimated ③ Budget

Source: Andersons
ANDERSONS

The Welsh 'Meadow Farm' is a notional 154-hectare (380 acre) beef and sheep holding. It consists of grassland, with spring barley mainly for livestock feed. There are 60 spring-calving suckler cows with all progeny finished, a dairy bull beef enterprise (35 head) and a 500-ewe breeding flock. Like its English and Scottish equivalents, 2022/23 was challenging due to elevated costs. The situation steadied somewhat in 2023/24 due to strong livestock prices. 2024/25 has seen a further improvement in livestock prices which have absorbed overhead cost increases and a £21 per Ha production margin is projected. Whilst the BPS remains in place in Wales, it provides a cushion against potential production losses. Although the Sustainable Farming Scheme (SFS) is now delayed until 2026, this farm should review its enterprise mix and streamline its operations, ahead of these changes, particularly as the Farming Connect scheme is also extended to help fund this.

BEEF AND SHEEPMEAT GHG EMISSIONS

By Enterprise System - 2022-23



Sources: ABP / Harper Adams University / Agrecalc / Andersons
ANDERSONS

Andersons is a partner within the ABP PRISM 2030 programme which uses Agrecalc to quantify emissions across ABP's beef and sheepmeat supply-base. Using data from 350 UK farms, the average emissions by enterprise system are summarised on this slide. Total GHG emissions are expressed on a per Kg of deadweight produced basis over a 12-month period. This deadweight produced is based on sales less purchases over the year assessed. GHG emissions are generally higher on suckler beef farms than on more intensive dairy-beef systems (but there are exceptions). Sheep systems are generally lower emitters than beef. Methane accounts for more than half of emissions in all cases and reductions will be needed across all areas to meet national-level targets. Notably, these are 'gross' emissions and they do not consider the sequestration that is taking place on farms. Further work is needed on accurately quantifying carbon sequestration.

UPLANDS FARMS

Challenges	Opportunities
• **Economic uncertainty:** removal of BPS, financial instability	• **Agri-Environment schemes (ELM):** payments for environmental actions
• **Environmental Schemes:** perceived administrative burden, lack of clarity	• **Environmental branding:** premiums for local & sustainable produce
• **Trust in Government:** communication issues and new scheme doubts	• **Native breeds:** could provide niche opportunities if linked to above
• **Social:** depopulation, ageing farmers, way of life threatened	• **Carbon and biodiversity:** projects could offer new revenue schemes (but verify their suitability)
• **Connectivity:** poor broadband, lack of digital skills inhibits opportunities	• **Other diversification:** consumers / tourists eager for new experiences
• **Traditionally limited alternatives to extensive livestock and tourism**	• **Connectivity:** access to Starlink?

ANDERSONS

Uplands farms are often overlooked, yet they account for over 40% of the UK's farmed area. So, in terms of land-use the uplands is significant, albeit facing many challenges. These range across economic, environmental and social spheres. But numerous opportunities also exist, particularly via the wide range of agri-environment schemes which are now available. These, in turn, can support initiatives to improve environmental branding, adopt native breeds as well as engaging in schemes to sequester carbon and to enhance biodiversity. If considering such initiatives, particularly in terms of carbon, it is crucial that these schemes have robust verification processes. Consumers are increasingly seeking new, distinct experiences which uplands farms should be ideally positioned to provide. Satellite broadband can circumvent many of the connectivity challenges (e.g. connecting to ground-based infrastructure) that uplands areas have been experiencing.

UPLANDS FARM MODEL - ENGLAND

- 300 Ha (176 Ha of pasture/silage; 24 Ha semi-improved; 100 Ha moorland)
- Sheep (800 ewe upland (spring) flock), beef (90 spring calving sucklers)
- Proprietor, 1 FT family worker and casual labour

£ per Ha	22/23①	23/24①	24/25②	25/26③
Output	721	755	844	842
Variable Costs	529	403	383	385
Gross Margin	191	352	461	456
Overheads	225	235	238	246
Rent, Finance & Drawings	162	168	171	167
Margin From Production	(196)	(51)	52	43
Basic Payment (+ CS/SFI④)	136+78	110+78	83+78	~~57~~ 24+104
Business Surplus (Deficit)	18	137	214	171

① Result ② Estimated ③ Budget ④ SFI payment is shown *gross* - costs of compliance are in farming costs

Source: Andersons
ANDERSONS

'Uplands Farm' is a 300 Ha notional upland farm (250 Ha owned, 50 Ha rented) with 100 Ha of Moorland, 50 Ha in SDA, and 150 Ha in non-SDA. It runs 90 spring-calving suckler cows, finishing all but 15 replacements, and produces 375 finished lambs, 100 breeding ewe lambs, and 405 store lambs sold before the end of autumn. In 2022/23, high costs caused a £196 per Ha production loss. It was reliant on both the BPS and CS payments to generate a £18 per Ha Business Surplus (£5,400 in total). In 2023/24, rising prices and lower costs improved performance and offset the further decline in the BPS, resulting in a £137 per Ha Business Surplus. Financial returns have improved further during 2024/25 due to high prices and better productivity. For 2025-26, the recently announced reduction in BPS, to £24 per Ha from £57 per Ha, impinges on profitability. The farm's CS agreement has ended and it goes into the SFI for 2025/26. Still, the farm is projected to make a £171 per Ha surplus (£51,300 in total).

UPLANDS FARM – GB COMPARISONS

£ per Ha	22/23①	23/24②	24/25③	25/26④
Standard Production Margin	(196)	(51)	52	43
English BPS + CS / SFI	136 + 78	110 + 78	83 + 78	24 + 104
English Business Surplus	18	137	214	171
Scottish BPS	164	164	164	164
Coupled Support	27	28	29	29
LFASS	37	37	37	37
Scottish Business Surplus	32	178	282	273
Welsh BPS	143	142	141	141
Glastir / Habitat Wales Scheme	78	78	46	46
Welsh Business Surplus	25	169	239	230

① Result ② Estimated ③ Budget ④ CS/SFI/Glastir/Habitat Wales payments are shown *gross* - costs of compliance are in farming costs

Source: The Andersons Centre
ANDERSONS

As upland farm performance in England broadly reflects market conditions across Britain, its production margin is used as a standard model for Scottish and Welsh upland farms. Support levels vary, with Scotland receiving the highest payments, as BPS remains unchanged alongside coupled support and LFASS. In 2022/23, the BPS in Wales was similar to England's (and lower than in Scotland) but has declined only slightly since, in sharp contrast to England. By 2025/26, Welsh BPS will exceed England's. In 2024/25, the farm joined the Habitat Wales Scheme, which replaces Glastir with lower payments. Overall, business surpluses are projected to be higher in Scotland and Wales than England next year. However, for hill farms across England, as participation in the CS/SFI schemes varies significantly, each farm's performance will also vary widely.

GRAZING LIVESTOCK ISSUES

- **Market prices have defied cost-of-living pressures over the past three years**
  - reduced supply and good consumer demand (plus exports)
  - prospects look reasonable going into 2025 – maybe with some settling of prices
- **Costs have risen** – although grazing livestock tends to be 'low-cost' (excl. labour)
- **Managing the shift from BPS to environmental schemes** – adds complexity
- **Creating efficient production systems** – grassland management (extended grazing), better feed usage, lower N use, minimum scale, consistent specifications
- **Lowering GHG emissions in red-meat supply chain** – stagnating (UK) demand?
- **More disease pressure due to mild weather** – Bluetongue, Schmallenberg etc.
- **Greater competition from imports** – Australia + NZ trade deals
- **Exploiting export opportunities in added-value markets** – GCC, Japan, Korea
- **Structural change** – many businesses without succession; joint-ventures not widely understood; contract rearing

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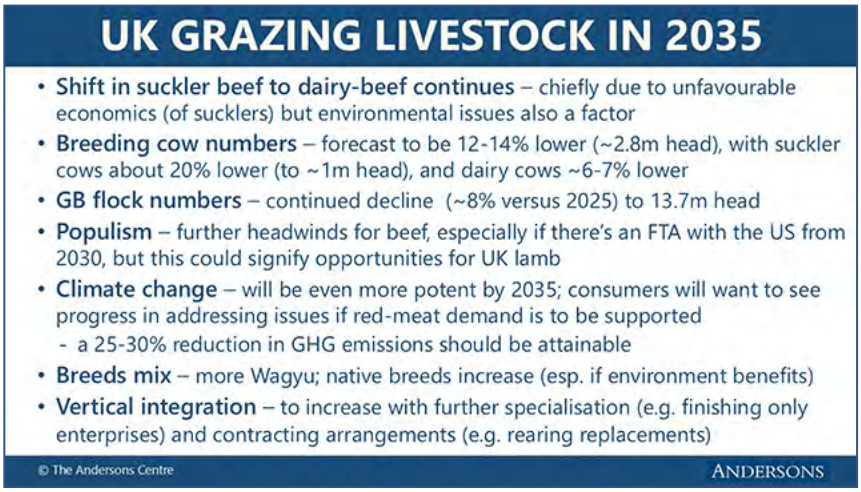
Both beef and sheep producers have seen high prices in recent years, despite the cost-of-living crisis. Tight supply has supported markets, and consumer demand remains strong. However, converting these prices into consistent profits is challenging. Grazing livestock farming is low-cost compared to other sectors, but factoring in (unpaid) labour weakens performance. In England, and the wider UK, declining profitability of support is a concern. Whilst agri-environment schemes such as the SFI and CS offer opportunities, they are complex and incur compliance costs. Coupled with growing pressure to cut emissions, this drives the need for efficiency improvements. Support changes may make the losses on some farms untenable, leading to more restructuring. This creates opportunities for efficient and innovative farms but challenges such as succession need much greater attention.



The shift from suckler to dairy-beef will continue to 2035 and beef from the dairy herd will dominate supply; economics and emissions being key drivers. Land use change (e.g. increased forestry, re-wetting) will lead to fewer ewes, particularly in the uplands. Populism, especially in the US, will create challenges for beef as the US will seek to reduce its imports, thus leaving a greater surplus on the global market which will compete with UK produce in some segments. Climate change looks set to continue (possibly accelerate). Consumers will therefore pay much closer attention to their emissions, and the ruminant livestock sector will need to show significant improvements on this. That said, consumer demands for high-end beef will remain. This should help breeds such as Wagyu to continue to grow, but there are also opportunities for native breeds, particularly if they align with environmental benefits. Vertical integration will also continue to increase in the sector.

SUMMARY AND IMPLICATIONS

The 2024 year looks set to be a mixed bag in terms of profitability. The combinable crop sector has suffered through bad weather and weaker markets. Even here, there is a wide range of performance – making generalisations about a 'good year' or 'bad year' is becoming more difficult. But, many livestock producers will have had a 'good year'. This pattern of profitability looks like it could continue through into 2025. The big policy issue over the next few months is the settling of the budget for UK farm support – watch this space. The overall level of funding is at least, if not more, important than the systems put in place – such as the SFI. In the medium term, the pressures on farming to produce food in a sustainable way, and also produce enough profit to reinvest for the future will only increase. Political decisions (such as the APR change and employment costs), a general feeling that they are not 'valued', and probably even the weather have served to sour the mood of many British farmers. This is holding back the sector in the short-term.

Throughout the presentation we have looked forward to 2035. We do not expect all our forecasts to be exactly right, but the overall direction-of-travel in many areas is clear. Hopefully, our forecasts will generate some thinking and discussion (perhaps over lunch). This slide summarises a few of the main points. The final comment to make is that Andersons feels there is a bright future for UK farming.

Please get in touch if you have questions relating to this presentation

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Notes

Notes

GLOSSARY OF ACRONYMS

AD	Anaerobic Digestion
AECS	Agri-Environment and Climate Scheme (Scotland)
AHDB	Agricultural and Horticultural Development Board
AI	Artificial Intelligence
AI	Artificial Insemination
APR	Agricultural Property Relief (for Inheritance Tax)
ASF	African Swine Fever
AYR	All-Year Round (calving)
BCMS	British Cattle Movement Service
BCRS	Beef Carbon Reduction Scheme (NI)
BCP	Border Control Post
BoE	Bank of England
BPS	Basic Payments Scheme
Brexit	British Exit (from the EU)
BSE	Bovine Spongiform Encephalopathy
BTOM	Border Trade Operating Model
CAP	Common Agricultural Policy
CCC	Committee on Climate Change
CGT	Capital Gains Tax
CH4	Methane
CPD	Continuing Professional Development
CO2	Carbon Dioxide
CoP	Cost of Production
CPI	Consumer Price Index (Inflation)
CPTPP	Comprehensive and Progressive Trans-Pacific Partnership
CSO	Central Statistics Office (Ireland)
CS	Countryside Stewardship
CSHT	Countryside Stewardship Higher Tier
CU	Customs Union
DAERA	Department of Agriculture, Environment & Rural Affairs (NI)
Defra	Department for Environment Food & Rural Affairs
ECB	European Central Bank
EFTA	European Free Trade Association
ELM	Environmental Land Management
EU	European Union
FAO	Food & Agriculture Organisation (of the UN)
FBI	Farm Business Income
FBS	Farm Business Survey
FBT	Farm Business Tenancy
FETF	Farm Equipment and Technology Fund
FFRF	Future Farm Resilience Fund
FIF	Farming Investment Fund
FiPL	Farming in Protected Landscapes
FIT	Feed-In Tariff
FSA	Food Standards Agency
FSP	Farm Sustainability Payment (NI)
FTA	Free Trade Agreement
FTF	Farming Transformation Fund
GB	Great Britain
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GDT	Global Dairy Trade
GHG	Green House Gas
GVA	Gross Value Added (economic output)
HMRC	His Majesty's Revenue & Customs
HP	Horsepower
IHT	Inheritance Tax
IPM	Integrated Pest Management
KPI	Key Performance Indicator
Kt	'000 Tonnes
LFA	Less Favoured Area (Uplands)
LFASS	Less Favoured Area Support Scheme (Scotland)
L/L	Lowland
LU	Land Use
LU	Livestock Units
MFN	Most Favoured Nation
Mt	Million Tonnes
N	Nitrogen (fertiliser)
N2O	Nitrous Oxide
NFI	Net Farm Income
NFU	National Farmers Union
NI	National Insurance
NI	Northern Ireland
NLW	National Living Wage
NTB	Non-Tariff Barriers
NTM	Non-Tariff Measures
NZ	New Zealand
OBR	Office of Budget Responsibility
OECD	Organisation for Economic Co-operation & Development
ONS	Office of National Statistics
OSR	Oilseed Rape
PEM	Pan-Euro-Mediterranean
PPL	Pence per Litre
PV	Photovoltaic (Solar)
R & D	Research and Development
RD	Rural Development
RICS	Royal Institution of Chartered Surveyors
RoW	Rest of World
RPA	Rural Payments Agency
RPI	Retail Price Index (Inflation)
SAF	Single Application Form
SAP	Sustainable Agriculture Programme (NI)
SAWS	Seasonal Agricultural Workers Scheme
SFI	Sustainable Farming Incentive
SFP	Sustainable Farming Payment (Wales)
SFS	Sustainable Farming Scheme (Wales)
SLDT	Short Limited Duration Tenancy (Scotland)
SQQ	Standard Quality Quotation (sheep price)
SPS	Sanitary and Phytosanitary
SSBSS	Scottish Suckled Beef Support Scheme (Scotland)
SSSI	Site of Special Scientific Interest
TB	(Bovine) Tuberculosis
TCA	Trade and Cooperation Agreement
TFP	Total Factor Productivity
TIAH	The Institute for Agriculture and Horticulture
TIFF	Total Income From Farming
TRQ	Tariff Rate Quotas
UA	Universal Actions
UK	United Kingdom
UKGT	UK Global Tariff
UKSPF	UK Shared Prosperity Fund
UN	United Nations
US	United States
USD	United States Dollar
USDA	United States Department of Agriculture
WFP	Whole-Farm Plan
WG	Welsh Government
WMP	Whole Milk Powder
WTO	World Trade Organisation

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