ANDERSONS

Outlook 2023

ANDERSONS
the FARM business CONSULTANTS

50 years 1973-2023
ADVISING THE UK FARMING INDUSTRY

Contents

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Outlook 2023 has been compiled with contributions from Consultants within the Andersons businesses. It is published by Andersons the Farm Business Consultants Ltd, which co-ordinates the presentation of the Andersons businesses throughout the UK.

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INTRODUCTION TO Outlook 2023

2023 marks fifty years since the founding of Andersons the Farm Business Consultants – then David Anderson and Co. As such, in this edition of Outlook we not only provide the usual analysis and commentary of where the farming sector is heading, but also indulge ourselves a little and look back over the past five decades as well.

It is easy to state that the agricultural and food industries are 'unrecognisable' from the early 1970's. Indeed, there has been huge change in many areas. Our article comparing 1973 with today highlights some of these. However, the fundamentals perhaps don't change as much – the desire to grow good crops, raise healthy livestock, look after the land, and pass something worthwhile on to the next generation. Farming remains a business too and profit needs to be made. Helping farmers and farming families achieve the financial results they want was the reason Andersons was originally founded. It is something we are still proud to be doing fifty years later.

The coming years look set to be a period of change as the agricultural industry deals with shifting farm support, volatility in prices for inputs and outputs, adopting new technology, and meeting society's expectations on environmental protection. However, at times over the past five decades we could probably have written very similar things. Our industry is still here and undoubtably in ten or fifty years' time there will still be farmers. We look forward to continuing to help the industry prosper in the future.

We hope that you find Outlook 2023, written by members of all the Andersons' businesses, both informative and stimulating and, as ever, wish you all the best for a successful 2023.

50 years 1973-2023 ADVISING THE UK FARMING INDUSTRY

John Pelham Nick Blake David Siddle Richard King
Directors, Andersons the Farm Business Consultants Limited

Farm Profitability Prospects

RICHARD KING

Cost increases have been the big issue in terms of farming economics in 2022 – and they look set to remain a key concern during 2023.

Profits were generally good in 2021. Output recovered after the weather-affected 2020 year and prices were firm, aside from some notable exceptions such as pigs and horticulture. With Covid receding, many farm diversifications, especially in the tourism sector, had a successful year. Costs started to rise during 2021, but mostly only from the autumn – meaning their effect over the whole year was limited.

Total Income from Farming (TIFF) since 2000 is shown on Figure 2 below. TIFF shows the return to all entrepreneurs in the industry for their management, labour and capital invested – simplistically, the profit of 'UK Farming Plc'. It is Defra's preferred measure of the aggregate returns in the farming and horticultural sector. All the data is in real-terms (at 2021 prices) and is Defra data up to 2021.

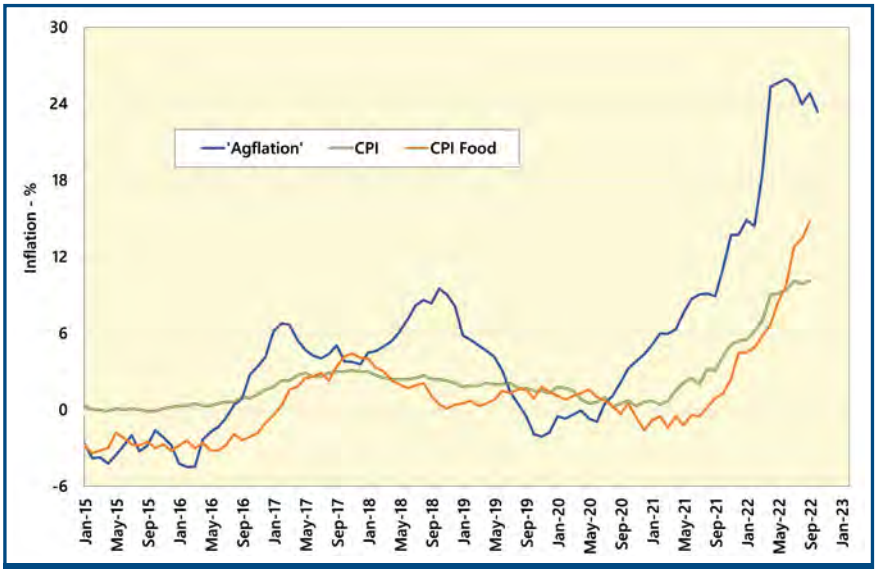
> ***Cost increases have been the big issue in terms of farming economics in 2022.***

We have provided an estimate for TIFF for 2022, and forecasts for 2023 and 2024.

For 2022, the impact of the accelerated cost increases start to be seen. We predict profit will fall from its 2021 high, but 'only' by 15-20%. This is because of two main factors. Firstly, rising costs will be partly offset by rising income – driven by high prices in two of the biggest sectors – dairy and combinable crops. Secondly, the full effect of cost increases will not have been felt, even in 2022. Much fertiliser was purchased at low(er) prices in 2021; electricity prices only started to peak in the autumn; and many costs linked to general inflation levels in the economy (such as labour) take a while to catch up with the unexpected surge in price levels.

Profits will also be affected by changes in support. In England, the

Figure 1 **'Agflation' – 2015 to 2023**



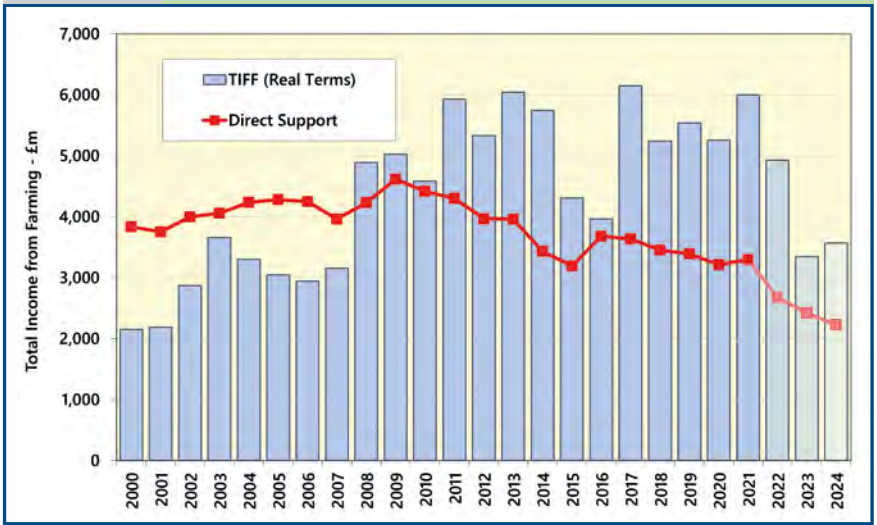
Source: Defra / Andersons
Andersons' Agflation index builds upon Defra price indices for agricultural inputs and weights each input cost (e.g. animal feed) by the overall spend by UK farmers. Andersons then provides a more up-to-date estimate of the price index for each input cost category. The Agricultural Output figure is calculated using the same method.

Agricultural Transition sees the BPS cut by a minimum of 20% in 2022 compared to 2020. Although the money is to be 'recycled' through other schemes, it is not clear it is all going to be spent this year with the gradual rollout of ELMs. Furthermore, whilst the farm support budget is guaranteed until 2024, it is fixed at current prices – with a high rate of inflation, the real term's value drops quite quickly.

Looking to 2023, the forecast is sobering. Higher costs in some areas seem 'baked in', for the short-term at least, with no signs that energy prices are going to fall quickly back to past levels whilst the Ukraine conflict continues. In other areas, such as the wage rates for seasonal workers, the 15% increase in 2022 is irreversible. There will be inflationary pressure on many other inputs as individuals and businesses put up prices to try and keep up with inflation.

Output prices in some sectors may also weaken. In the arable sector global markets will have had more time to adjust to the restrictions on Ukrainian exports (or, indeed, shipments may increase in volume). Demand, both globally and in the UK could decrease for some commodities if there is an economic downturn and consumer spending falters.

Figure 2 **Total Income From Farming and Support - 2000 to 2024 (Real terms, 2021 prices)**



Source: Defra / Andersons

> ***Looking to 2023, and the forecast is sobering .... our forecast for 2023 currently sees UK farming profits dropping by up to a third.***

Like farm profits, TIFF is simply the residual once costs have been taken from outputs. Relatively small changes in either can produce a big change in the profit. Our forecast for 2023 currently sees UK farming profits dropping by up to a third. This puts them towards £3bn in real terms – levels last seen in the difficult years around the turn of the millennium. Our, very tentative, forecasts for 2024 show some improvement based on reduced energy costs.

If our forecasts prove correct, after a run of quite profitable years, the UK farming sector faces more difficult times.

The TIFF series began in 1973 – the same year as David Anderson and Company. Looking back over the past 50 years, the best five-years for profit were right at the beginning of the period – 1973 to 1977 saw TIFF average £9.4bn (at 2021 prices). A further high point was seen between 1992 and 1996 where profits were £6.9bn on average. By contrast, the five years 1999 to 2003 recorded the lowest average TIFF, at just £2.8bn per year, principally as a result of strong Sterling, wet seasons, and animal disease.

Economic Prospects

GRAHAM REDMAN

UK inflation has been low for 30 years, but is now high. CPIH (Consumer Price Index including Housing) reached 10.1% in September 2022; almost three times higher than a year earlier. Andrew Bailey, Governor of the Bank of England, in his July 2022 Mansion House speech, highlighted three major economic disturbances that have conspired to cause inflation:

1. The uneven re-opening of the economies from lockdowns and staggered supply chain restart
2. The war in Ukraine which is primarily driving energy and food inflation
3. The decline in the UK workforce since 2021.

Each point will be resolved at different rates. Most economic forecasters expect CPIH to reach double figures over the next few months and then slow to between 4% and 5% by the end of 2023.

The uneven rebound from the global lockdowns was always going to cause economic turbulence as manufacturers responded at differing speeds. Supply chains are interwoven like a net, not a chain. One missing bolt and a machine cannot be completed. One missing bracket and the kitchen cannot be fitted. Farming, of course, is the same.

> ***Most forecasters expect [inflation] to reach double figures over the next few months.***

The war between Russia and Ukraine inevitably disrupted economies further. Sanctions, port closures, market uncertainty, and geopolitical risk fed into the economic turmoil. The world has already adjusted, with oilseed prices and grains falling from their initial price spikes, but many farm commodity prices are still elevated from the disruption.

The UK workforce has shrunk by 300,000 people since the start of Covid. The number of people employed or looking for work in the UK was 34.2 million in the fourth quarter of 2019, but by the summer of this year the figure was 33.9 million. The pandemic encouraged retirement, slowed training and left a large number of people on sick-leave with 'long-Covid'. UK job vacancies are at an all-time record and nobody should now be unemployed. Demand for workers is unmet, and salaries and incentives are rising. It is an employee's market. Skills are more valuable than simply time. Smart employers recognise it is cheaper to look after staff than to re-recruit in these conditions.

The weakness of Sterling against other foreign currencies (particularly those we trade with most, the Dollar and Euro), also drives UK inflation. As the Pound 'strengthens' it grows relative to other currencies, meaning it can buy more Euros or Dollars and therefore more goods from abroad (they effectively become cheaper in Sterling). The opposite is therefore the case as well. Sterling has fallen to its lowest point ever against the US Dollar in late September 2022 and has also fallen sharply against the Euro. Imports are therefore more expensive when converted into Sterling. UK production can also therefore be sold at higher (Sterling-based) values on export markets meaning home produced goods also go up in price. Consumers do not win. Nobody knows how long the Pound will remain this weak, or whether it will fall further. This means that forecasting inflation is particularly difficult.

Commodity prices move instantly as a result of currency movements,

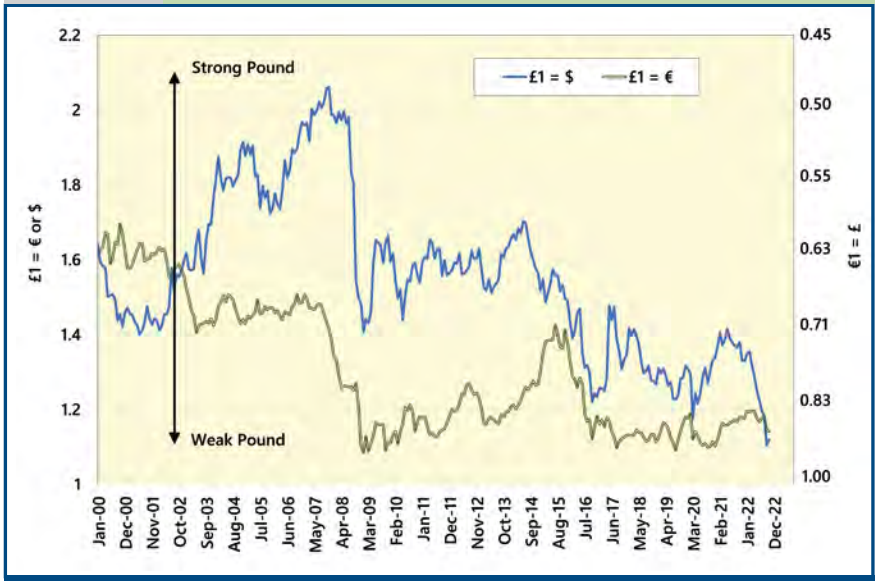
so often keep pace with inflation. This provides some comfort for farming where a weak currency has historically boosted profits. Farming fortunes also often prosper in times of hardship, certainly as people need to eat regardless of how rich or poor they are feeling. It will be other, less essential sectors, possibly cars, perhaps gadgets, or holidays that may take a downturn. Many 'farm' business are now involved in diversifications that rely on disposable income – these could come under pressure.

> ***A recession in the UK is almost inevitable.***

Rising costs of living, led by energy prices but also driven by higher mortgage costs, are making consumers concerned and slowing spending. A recession in the UK is almost inevitable. Government has a substantial debt to fund, to pay for the Covid measures, whilst supporting vulnerable households from increasing prices. Government's decision to introduce un-costed tax cuts as the route to growth looked flaky to (almost) everybody, and soon unwound in the face of financial market pressures. Whilst more orthodox policies are now in place, the credibility of the UK's financial management has been undermined and borrowing costs for Government and the public will be higher. With spending constrained and rising interest rates there may well be a decline in the now elevated house prices (in real terms).

Inflation erodes debt at the same rate as it erodes capital. It is only those in debt who prosper in these conditions (a silver-lining for the Government?). However, it also lifts borrowing costs. As Figure 9 in the later Finance article shows, the last time inflation was at the current level, base rates were 15%. There is a long way to go yet; markets are pricing UK Base Rates rising to between 5% and 6% by summer 2023.

Figure 3 **Exchange Rates: £ versus € and $ – 2000 to 2022**



Source: BOE / Andersons

Last year we said *'The coming year, 2022, will be unsettled'*. The 2010's had little political unrest, no new major wars, no massive economic disruption, and relative calm in the commodity markets. We also said *'we must hold tight because the commodity markets, which provide the greatest level of volatility of all asset classes, never promised to be anodyne or predictable.'* How true that turned out to be. This coming year the markets look like they may be energy-led. We would expect consumers to buy less. Many will; others will overspend and then complain. Covid has accelerated the move to a cashless economy, which for many means they have less understanding of how much they have spent or borrowed. Whilst Government finds itself paying more in social welfare, farmers are likely to see declining financial support. Defra is steering the farmer along different routes, harder, but arguably more sustainable for long-term support.

> ***Markets are pricing UK Base Rates rising to 5% to 6% by summer 2023.***

Rahm Emanual, former Mayor of Chicago once stated; *'never let a serious crisis go to waste'*. By that he meant that such situations encourage you to do things you thought you could not do before. Perhaps 2023 will be that serious crisis for you?

Farm Policy

CAROLINE INGAMELLS

Fifty years ago, the Foreword to the Fifth edition of the John Nix Pocketbook included *'this edition [of the Pocketbook] has been brought out only one year after the last because of the rapid changes that have occurred in product prices and, especially, costs during the past year'*. Sound familiar? The difference in 1972 being, we were about to join the EU (or the EEC as it was back then) and accede to its farm support system. Fifty years on, we are no longer Members and are setting our own farm policy and support measures.

Each of the devolved regions are continuing to develop their own schemes. In the short-term, however, the BPS will continue, with amendments, in all parts of the UK. Both Scotland and Wales, have made significant announcements regarding future support in the last year, although neither has released any scheme detail. These will be considered more fully in the Devolved Nations' articles that follow.

In England, BPS payments continue to be phased out as part of the 'Agricultural Transition'. Payments received in 2022 will be at least a fifth lower than 2020. Given that 50% of this year's BPS was paid in the summer, the payment arriving into bank accounts as you receive Outlook will be much smaller than usual. This needs to be factored-in to cashflows. In 2023, payments will be at least 35% lower than in 2020. In 2022 the Lump Sum exit scheme opened, running from April to the end of September. This allowed those 'retiring' to capitalise their future stream of income from the BPS into one single payment. Applicants have until 31st May 2024 to complete any land transfers. This scheme is not expected to open again.

> ***Given that 50% of this year's BPS was paid in the summer, the payment arriving into bank accounts as you receive Outlook will be much smaller than usual.***

More information is known about De-Linking. It is planned to take place in 2024, although there have been 'rumours' this may be brought forward a year. However, when it does happen, there will be no requirement to apply for it; it will just happen. This will mean future BPS payments are not linked to the requirement to occupy land, claimants can reduce or increase their farmed area but will continue to receive the same future stream of income - albeit reducing under the BPS phase-out. A reference amount will be set using the average of the BPS money received in 2020, 2021 and 2022. The key point is that this could have implications for those who have changed land occupation during this period. It is expected that a claim will have to be made in 2023.

The suite of Environmental Land Management (ELM) schemes to replace the BPS in England are appearing slowly. The Sustainable Farming Incentive (SFI) is the first part of the ELM to be launched. This comprises of a number of 'Standards' looking at specific issues on farm. Each Standard includes three 'ambition' levels – Introductory, Intermediate and Advanced, with different payment rates. At the time of writing, only four 'Standards' are available – see Figure 4.

Nutrient Management, Integrated Pest Management (IPM) and Hedgerow Standards should be available shortly (perhaps even

before Outlook is published) plus Advanced levels for Soils and Moorland. Other Standards will be added through to 2025. With a limited number of Standards available, and 'per Ha' payment rates not high, the total sums of money available are limited at present. Unlike the BPS, there is a cost in meeting SFI requirements which reduces the margin available. The scheme makes most financial sense where the farm is already doing a lot of the scheme requirements. The figures will be different on every farm. As a result of some modelling work Andersons has done for the NFU, a (very) rough rule-of-thumb is that half of the SFI payment can be taken up in compliance costs. Somewhat surprisingly, the two Soils Standards cannot be used on land already entered into Countryside Stewardship (CS) unless it is in a very limited number of CS revenue options. This means there is currently a complicated analysis to see which scheme is better on farm. 2023 will be the last year to apply for a new CS agreement.

The next few months will see the launch of pilots for the Local Nature Recovery (LNR) scheme – the long-term successor to CS. In addition, 22 projects have already been selected to pilot the Landscape Recovery (LR) scheme – the third element of ELM. These will be bespoke agreements to deliver landscape-scale and ecosystem recovery through long-term, land use change projects. A budget of £12m has been allocated to the LR Pilots, but it is hoped that private investment can also be attracted.

A new round of free farm advice under the Future Farming Resilience Fund (FFRF) is available. There are 17 different providers available, including Andersons under the Ricardo consortium. Each provider is offering a different range of services and Andersons offers three days equivalent of consultancy time including a one-to-one farm visit, detailed report and follow-up session.

Figure 4 **Sustainable Farming Incentive (SFI) Standards – as at Autumn 2022**

£ per Ha		Actions
Arable and Horticultural Soils Standard		
Introductory	£22	Test soil organic matter *(within last 5 years or in first year of agreement)* Undertake a soil assessment and produce a management plan *(in first year of agreement and then update annually)* Have 70% of land entered into Standard with winter *(Dec to Feb)* cover Increase organic matter on a third of the land area each year *(cover crops, straw, manure etc.)*
Intermediate	£40	*All of the above, plus* Of the 70% winter cover, 20% of land must be in multi-species green cover
Advanced	tbc	From 2023, but likely to include min-till requirement
Improved Grassland Soils Standard		
Introductory	£28	Test soil organic matter *(as arable, above)* Undertake a soil assessment and produce a management plan *(as arable, above)* Have 95% green cover over winter (<5% bare)
Intermediate	£58	*All of the above, plus* Have 15% of the land in the Standard planted to herbal leys
Advanced	tbc	From 2023
Moorland and Rough Grazing Standard		
Introductory	£265 fixed + £10.30 per Ha	Verify and record soil types (inc. peat) and associated vegetation *(one sample per 10 Ha)* Evaluate public goods potential of moorland (update annually) Identify opportunities to enhance public goods
Intermediate and Advanced Standards to be introduced later		
Animal Health and Welfare Review		
Pigs – £684 Sheep – £436 Beef – £522 Dairy - £372		Annual payment for 3 years. Available to BPS claimants with a minimum of 50 pigs, 20 sheep or 10 cattle. To pay for a vet visit to discuss animal health, use of medicines and undertake diagnostic tests

Source: Defra / Andersons

Money is also being directed at 'productivity' schemes to improve the efficiency of English farming. As we write, we are expecting the next round of the Farming Equipment and Technology Fund (FETF) to open, offering 40% grants for a set list of capital items, pre-identified as being able to improve the productivity of farm businesses; further rounds are planned in 2023 and 2024. The same is expected with the Farming Transformation Fund (FTF), for larger items of spending with grants of between £25,000 and £500,000 (based on a 40% grant rate); funding is expected to open in rounds for specific 'themes' over the next couple of years. The Slurry Investment Scheme also falls within this heading and the first round of funding, for six-month slurry storage with covers, was expected to be available shortly after writing. Again, further rounds are expected in 2023 and 2024.

Rural economic development (i.e. a replacement for the previous LEADER and Growth Fund) will be funded through the new UK Shared Prosperity Fund (SPF) and the Rural England Prosperity Fund (REPF). The SPF will be applicable across all of the UK, and will fund development in all areas, not just rural ones. It therefore appears that less funding will be going to rural areas than under past EU schemes. However, the REPF money is ring-fenced, so will boost the rural allocation. It seems likely that the REPF money

will be channelled through the same grant system as the main UK SPF, but it is possible there will be a dedicated rural 'strand'. Each Local Authority (LA) has to produce a 'Local Investment Plan' for the UK SPF. This means funding will be targeted at different projects depending on the LA, but is likely to include such things as farm diversification (including tourism enterprises), the conversion of redundant farm buildings for other uses, food processing, marketing ventures etc. The REPF is expected to be available from the 1st April 2023 and funding will run through to March 2025.

The Environment Act has not had much direct effect on farming to date, but it does introduce a number of measures that will be important in the years to come. Firstly, the concept of Local Nature Recovery Strategies which will be an England-wide system, establishing priorities and mapping proposals for actions to drive nature's recovery and provide environmental benefits. The Act also includes the statutory requirement of 10% Biodiversity Net Gain (BNG) on development, requiring developers to show there is a 10% gain in biodiversity after a development is completed. This is expected to commence in 2023, although some Local Planning Authorities are already requiring BNG. If biodiversity cannot be increased onsite it may be possible for developers to buy BNG credits, where land use has changed to increase biodiversity, offsite. Land managers are increasingly seeing the ambitious targets for nature recovery and for reductions in Greenhouse Gas (GHG) emissions as having potential for new income streams. As yet the ways of monetising this for farmers are still developing – but BNG is backed by legislation so, by this time next year, it seems there should be an active market.

> ***Unlike the BPS, there is a cost in meeting SFI requirements which reduces the margin available.***

Legislation surrounding Nutrient Neutrality has also been a problem for developers, resulting in a number of new building developments being refused Planning Permission. The introduction of the Nutrient Mitigation Scheme, (due to open in autumn 2022), will provide funding to Natural England (NE) to establish 'strategic mitigation schemes', such as areas of wetlands and woodlands, prioritising those catchments which will have the greatest impact in unlocking frozen housing developments. NE will then be responsible for accrediting the schemes. 'Nutrient Credits' will be available for developers to purchase to offset any increase in nutrients caused by the development – a possible further income for land managers interested in changing their land-use. It is not clear how this scheme might interact with private nutrient schemes.

Lastly, the Government has renewed its commitment to a 2023 Land Use Framework for England. It is clear from all that has been discussed there is competing demand for land on our small island - restoring biodiversity and nature recovery, de-carbonising the economy and adapting to climate change, while also building all the new homes, solar farms, woodland and transport infrastructure promised by the Government (and not forgetting the need for food production!). This is covered in more detail in the 'Topical Issue' article at the end of this section.

Agricultural Trade Issues

MICHAEL HAVERTY

Whilst 2021 saw UK-EU trade decline in monetary terms, as a result of the UK formally leaving the Single Market and Customs Union, 2022 has seen a strong recovery (see Figure 5). There are several factors driving this resurgence. Firstly, inflation has driven up prices and the monetary value of trade throughout 2022. Secondly, lack of labour availability, particularly in pig meat and poultry meat, has also been driving increased imports from the EU. Lastly, although some UK SMEs have discontinued supplying into the EU, larger enterprises have replaced some of this volume as they have more capacity to manage the increased regulatory burden now associated with UK-EU trade.

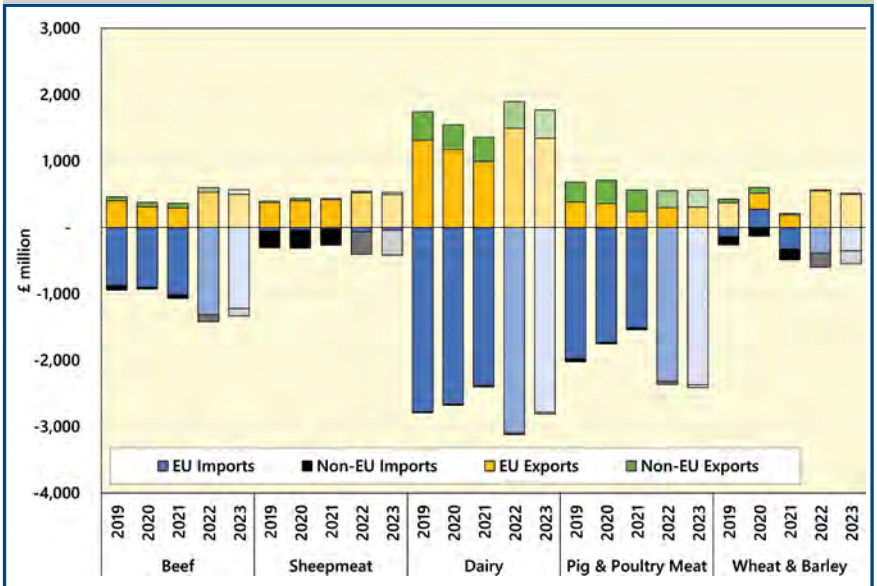
As 2023 approaches, the Free Trade Agreements (FTAs) concluded with Australia and New Zealand will shortly be ratified by Parliament, signifying increased competition from imports. As Figure 6 shows, this will be limited initially, but the scope for increased tariff-free imports from these countries will grow in the years ahead. But it is important to recall that just because tariff-free quota is available to Australia and New Zealand, it does not necessarily mean that it will be filled.

For instance, New Zealand's exports of lamb to the UK are currently a long way short of its existing Tariff Rate Quota (TRQ) allowance of 114Kt.

In a positive move for the UK sheepmeat sector, the UK has re-started lamb exports to the US for the first time in over 20 years. Whilst this is welcome, such trade only tends to build slowly.

At the time of writing, Northern Ireland (NI) Protocol issues, which have bedevilled UK-EU trade relations since the onset of Brexit, remain unresolved. That said, there has been a noticeable improvement in the tone of discussions in recent weeks. This gives cautious grounds for optimism that the issues can be resolved in early 2023, to potentially coincide with the 25th anniversary of the Belfast Good Friday Agreement in April. The bespoke data system recently developed by UK authorities, which delivers near real-time visibility of goods' movements between GB and NI, has been crucial. This was a key demand from EU negotiators to allow greater flexibility on implementing the NI Protocol.

Figure 5 **UK Agri-Food Trade with EU and Non-EU Regions – 2019 to 2023**



Source: ONS / HMRC / Andersons

Whilst issues remain around the role of the European Court of Justice, VAT and competition rules, the central stumbling block remains agri-food trade and its associated Sanitary and Phytosanitary (SPS) rules. The resolution of this issue will likely require some form of tailored SPS agreement between the UK and the EU. Many have advocated a Swiss-style SPS agreement in the past, whereby the EU would permit frictionless access in return for the UK dynamically aligning with EU regulation. The prospects for this sort of agreement are now remote, due to the Retained EU Law Bill announced by the UK Government which will end the special status of EU law in the UK statute book. This Bill includes a sunset clause by when all remaining retained EU Law will either be repealed, or assimilated into UK domestic law. This will create scope for divergence in the future and would render a Swiss-style SPS agreement unworkable.

It remains to be seen what form an eventual SPS agreement to manage the Protocol issues will take. The UK would prefer a New Zealand-style arrangement, with physical check rates being as low as 1% on meat. The EU does not favour this, given the UK's size and proximity to the EU Single Market. A bespoke UK(NI)-style arrangement will need to emerge if this issue is to be truly resolved.

There is also likely to be further progress during 2023 on other trade deals that the UK is negotiating. Chief amongst these are the UK's application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP), and FTAs with India and the Gulf Cooperation Council (GCC). In contrast with the Australian and NZ trade-deals, these FTAs could create opportunities for UK agri-food exports.

Whilst India and the CPTPP countries are potentially the largest markets, they are also distant from the UK. Furthermore, nine out of the eleven CPTPP countries already have FTAs with the UK (when Australia and New Zealand are included). British produce will face stiff competition from Antipodean suppliers in this region. The Indian market is very price-sensitive, apart from selected higher-end niches where there will be some scope for UK produce to gain greater market share.

> ***It is important to recall that, just because tariff-free quota is available to Australia and New Zealand, it does not necessarily mean that it will be filled.***

The GCC market, which comprises of six countries including Saudi Arabia, the UAE and Qatar, may offer the best potential for British produce. Sales of dairy produce to the GCC have averaged at £38 million per annum in recent years. An FTA would permit the UK to access a market of 66 million people. Although these markets are also price-sensitive, an estimated 30% of consumers in Saudi Arabia and UAE have very high incomes and, for them, price is not a challenge. That said, significant hurdles remain, particularly in terms of the Halal requirements for lamb in these countries and efforts are underway to address these via the Demonstration of Life Protocol. If British food brands can successfully leverage their strong international reputation for quality produce, then the GCC market could be lucrative.

Lastly, the UK Border Operating Model looks set to be, finally, implemented in late 2023. This will create some added friction for EU-UK trade, but is also set to treat imports from the EU and non-EU countries equally. This could mean some reductions in trade barrier for non-EU imports, although the detail on the specifics of future UK import control regulations is awaited. Overall, export trade with the EU will continue to dominate in the agri-food sector, but notable niches can emerge in non-EU markets over the longer-term. All the while, import competition from non-EU countries will increase as the 2020's progress.

Figure 6 **Combined Tariff-Free Access to the UK due to Australian & NZ Trade Agreements**

Commodity	Current TRQ Access# (Kt)	New FTA TRQ Access (Kt)				Unlimited Access From	Global Imports (Kt)*	AUS & NZ Imports (Kt)*
		Year 1	Year 5	Year 10	Year 15			
Beef	5	47	92	149	230	Year 16	238	2
Sheepmeat	128	60	97	125	175	Year 16	55	44
Cheese	8	48	96	Unlimited		Year 6	470	Negligible
Butter	28	13	27	Unlimited		Year 6	69	1
Other Dairy	0	20	20	Unlimited		Year 6	735	Negligible
Wheat	0	80	Unlimited			Year 5	1,742	7
Barley	0	7	Unlimited			Year 5	82	Negligible

Source: HMRC / UK Government / Andersons
Estimates denoted in Kt terms are rounded. Pig and poultry meat imports not deemed sensitive and will have unlimited access from Year 1 of application, but imports from Australia and NZ likely to be negligible.
*# This is access granted under the UK's current WTO Schedule and relates to TRQ specifically allocated to Australia and NZ. * Based on annual averages during 2019 to 2021.*

Land Prices and Rents

GEORGE COOK AND AMELIA ROME

Trying to provide meaningful comment on land prices and rents gets ever more challenging. We have just experienced a year where we have become used to expecting the unexpected.

Figure 7 below shows the real-terms change in land prices over the last two decades. Whilst values were already moving upwards, they really took-off following the Financial Crisis of 2007-09. This brought in ultra-low interest rates, making the purchase of land more affordable. March 2009 saw the starting of Quantitative Easing (QE). During the ensuing period some £895 billion of additional funds have been pumped into the economy by the Bank of England. Some of this money found a home in UK land.

These policies set the conditions for inflation which has been triggered by Covid and the war in Ukraine. Central banks have somewhat belatedly woken up to the fact that inflation is not a brief blip in the economy, but something far more serious, and are now raising interest rates to levels that are causing many distress, but were prevailing only 10 years ago (see Figure 9 in the Finance article).

So how does this affect land values and rents and what other factors might also be important, such as:

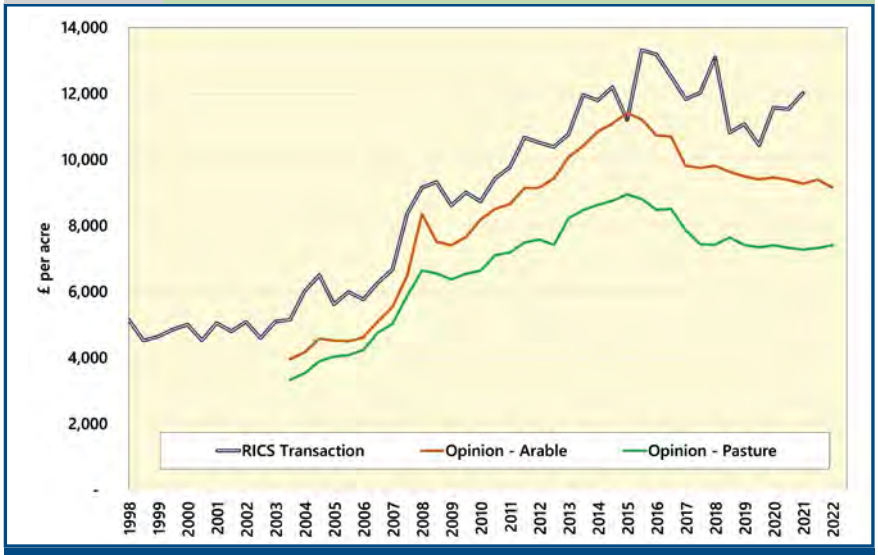
- Farm profitability
- Tightening environmental legislation
- The tax regime, especially 'rollover' relief from Capital Gains Tax

Agricultural land prices are subject to the basic economics of supply and demand. Demand for land has grown off the back of previously low interest rates, rollover funds, improved production yields and favourable commodity prices. But supply, as ever, has remained constant – we can't make more land (it's possible but uneconomically expensive). The area of land marketed each year is stagnant.

After several years of indifferent performance arable and dairy farmers have, for both the previous and current year, become very profitable. However, it's fair to say the red meat grassland sector is not faring as well, with increasing feed and fertiliser prices not matched by improved sale prices. A declining BPS, a large part of profit on these farms, adds to the problem.

Environmental legislation is increasing pressures to reduce

Figure 7 **Land Prices – 1998 to 2022 (Real Terms)**



Source: RICS / Misc Agents / Andersons

> *Demand for housing, and the subsequent rollover funds generated, is unlikely to go away with the political aim to build more houses.*

stocking density and manure loading levels in England, which has also added to demands for land. In Wales, the introduction of NVZ regulations and the related nutrient loading per hectare is also fuelling demand for land both in that country and in neighbouring counties over the border in England.

Demand for housing, and the subsequent rollover funds generated, is unlikely to go away with the political aim to build more houses.

Other drivers include those seeking to absolve their consciences by buying land for rewilding and for carbon sequestration projects. This all adds to the demand. Finally, in times of high inflation, farmland has traditionally proved to be a useful hedge for capital-rich investors.

Trends shown in Figure 7 indicate land prices have been relatively flat for a few years. With rising interest rates, it might be thought this trend would continue or even see prices fall. However, all of the other reasons above indicate an increasing demand for land, which is likely to be reflected in the prices paid for bare land.

Turning to rents, here some similar factors as set out above are at play. For reasons such as good recent profits and environmental requirements, it seems likely that FBT rents will remain firm in the short-term. This is despite the now significant reductions in BPS payments, and the policy failure to date in coming up with a simple and realistic set of rules for the SFI scheme and other related ELMs projects.

Average FBT annual rents per hectare continue to see a rise year-on-year. With inflation now running at around 10%, an increase of this magnitude is required to prevent a real-terms decline in the value of rents. The average FBT costs upwards of £240 per Ha (£97 per acre) for the whole of England. The East of England continues to be the area with the highest FBT rents, with data showing top end rents pushing upwards of £430 per Ha, with some agreements in excess of £500 per Ha for cash cropping.

> *Overall, we see land prices and rents remaining robust for the coming year, despite higher interest rates.*

AHA rents are still technically determined by the productive capacity of the holding; there seems little current prospect of rents falling to reflect reduced BPS payments and, in certain areas, there is pressure from landlords to remove tenants from the farm to enable them to pursue non-farming income streams which they perceive to be more profitable.

Overall, we see land prices and rents remaining robust for the coming year, despite higher interest rates. As always there is much to consider for each individual business, and no two farm businesses are the same. The benefits from having a long-term strategic plan to complement the day-to-day have never been more important.

Finance and Banking

JAMIE MAYHEW

Since the last Finance and Banking article in Outlook 2021, where Covid-19 recovery was reviewed, there have been significant, unexpected, changes in the agricultural industry. Although the aftermath of Covid-19 saw the rate of inflation increase, the events in Ukraine at the beginning of 2022 have seen 'Agflation' surge.

Financially, some farm businesses have benefitted from the war in Ukraine, particularly those growing combinable crops. Many will have bought 2022 harvest inputs cheaply (compared to the second half of 2022) whereas the sales from this harvest have benefitted from the market reaction to the Ukraine crisis. Therefore, significant profits (and consequently cash) have been generated from the 2022 season. Milk price increases during 2022 have helped protect (or even enhance) dairy incomes. Conversely, the intensive sectors – horticulture, pigs and poultry – are under desperate financial pressure from unprecedented inflation in wages, feed costs and energy, without matching price increases (and indeed, in some cases, price deflation).

Before cash surpluses are drawn or re-invested, it is important to review cashflow for the next 12-18 months, as Agflation has led to a significant increase in working capital requirement. Although grain prices for 2023 remain at high levels, the cost of inputs has rapidly increased. For example, a combinable crop business could expect to pay over 50% more for their inputs than in 2022, as demonstrated in Figure 8. This could be where a significant proportion of the cash generated from the 2022 season might be tied-up.

> ***Before cash surpluses are drawn or re-invested, it is important to review cashflow for the next 12-18 months, as 'Agflation' has led to a significant increase in working capital requirement.***

Proactively planning future cashflow requirements will allow more time to make calculated business decisions. Lenders are likely to be more receptive and

Figure 8 **Feed Wheat Growing Cost – 2022 and 2023 Harvests**

£ per Ha	2022 Harvest	*2023 Harvest*
Seed	80	*110*
Fertiliser	280	*720*
Sprays	205	*240*
Total Variable Costs	**565**	***1,070***
Labour & Power (inc. depreciation)	430	*570*
Admin & Property	100	*110*
Finance	20	*50*
Total Overheads	**550**	***730***
Total Cost	**1,115**	***1,800***
% Increase		*61%*
Example – 100 hectares of Wheat		
Total Cost	111,500	*180,000*
Cost Increase		*68,500*

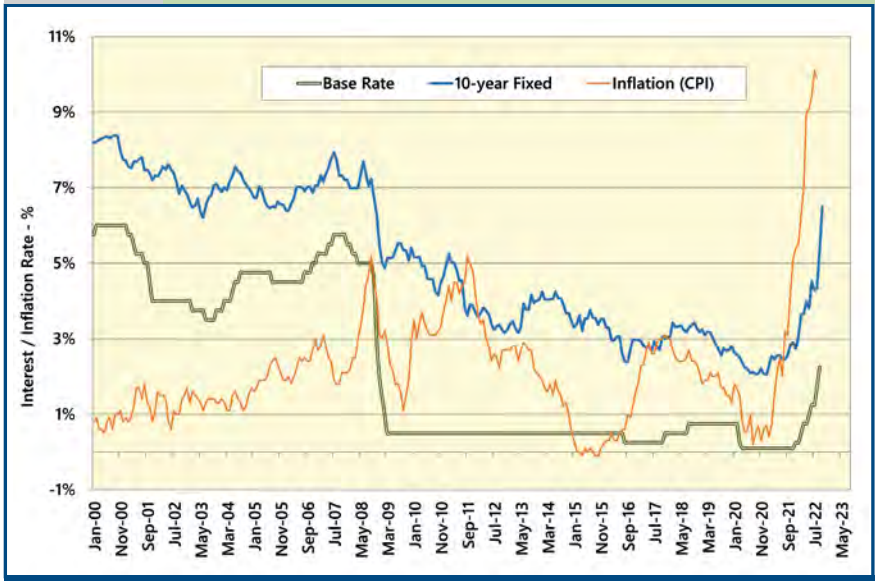
Source: Andersons

> *There is still a strong appetite from lenders, whether it be to help fund short-term cashflow or invest in new projects.*

understanding to requests if businesses have planned ahead, managing expectations. Panic phone calls to request overdraft extensions will not be well received.

Despite the recent increase in the base rate, and the speculation of further increases to over 5%, money is still relatively cheap compared to 50 years ago. Looking back to 1973, base rates, or the minimum lending rate as it was known, reached 13%. Depending on the circumstances, there is still a strong appetite from lenders, whether it be to help fund short-term cashflow or invest in new projects. As has been suggested in the past, any borrowings must be carefully scrutinised to ensure that the debt is serviceable. Perhaps the historic 'stress test' of the base rate of 6% will need to increase to 10%? Consideration should also be given to whether now is the right time to invest, or to just focus on existing debt servicing, or even cash retention.

Figure 9 **Base and 10-Year Borrowing Rates and Inflation – 2000 to 2022**



Source: BoE / AMC / Andersons

Many businesses will require additional short-term finance over the coming months as the cash surpluses from previous years may not cover the increased working capital requirement. For the grower of combinable crops, despite high profits in 2022, and profitable 2023 budgets, 2024 will see the Basic Payment rate at roughly 50% of the 2020 level; there is the potential for the 'perfect storm' where commodity prices have 'normalised', input prices remain high, and BPS is much reduced.

The advice must be to manage current profits carefully – they may be better retained on the business balance sheet rather than used for investments that increase the cost of production. Using cash surpluses to build up cash reserves in the business may help mitigate future additional borrowings and be used to fund working capital and possible cash deficits. Planning ahead could not be more essential.

Topical Issue-

Future UK Land Use

ANNABEL GARDINER

During the Second World War there was an increase of approximately 2.6 million hectares of arable area (crops and rotational grass), to aid the war effort in food production. This shows dramatic change in land use is possible if the stakes are high enough. Usually, though, changes are more gradual. The arable area has drifted downwards since WWII and there are just over 6 million hectares in arable rotations now.

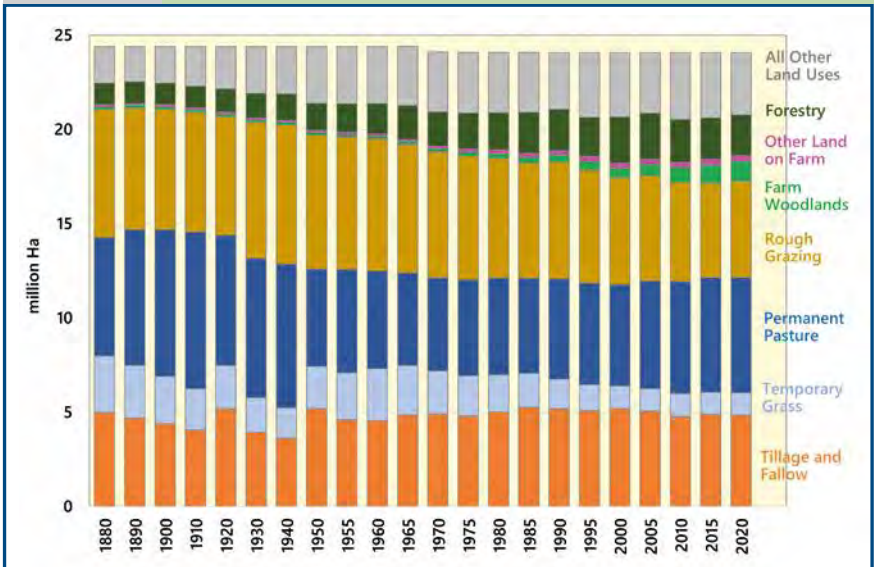
The dominant use of land in the countryside has always been food production, with over 70% of the UK land area being farmed (c.f. EU average of 43%). Now, however, there is an ever-increasing demand on land from a variety of sources and balancing these will be one of the big challenges in the years ahead.

Whilst the arable area has reduced over the last 50 years, yields have increased (in 1945 the average UK wheat yield was 2.7t per Ha, and today it is around 8t per Ha). Even with population growth, if we reverted to our post-war arable land quantity, could we become virtually self-sufficient in food? In theory, probably 'yes', but, in practice, the issue is a change in consumers' tastes. The UK is close to self-sufficiency in some sectors (for example lamb and poultry) and almost in others (beef), however some produce is only part self-sufficient (pig meat is only 66%). However, it is the food we cannot grow that drives imports. Whilst UK self-sufficiency in 'indigenous' food was 74% in 2021, it was only 61% in all foodstuffs. As an example, in 2020 the UK consumption of avocados was 100,913 tonnes.

> ***The dominant use of land in the countryside has always been food production, with over 70% of the UK land area being farmed. Now, however, there is an ever-increasing demand on land from a variety of sources.***

Even after a pandemic and the Ukraine war, there has been no shift in Government policy to aim for any specific level of food self-sufficiency. The food market will be left to itself

Figure 10 **UK Land Use – 1880 to 2020**



Source: Defra / Misc Sources / Andersons

and it will be consumer demand that ultimately drives land use. Trends such as vegetarianism and veganism may reduce livestock numbers and the need for both grassland and crops to feed them. A return to local food and seasonal produce may offer opportunities to reduce imports. However, these changes may be relatively slow and small-scale.

Food technology may play a part in altering land use patterns. Land could be released for other uses if food could be produced more intensively. Beyond the usual productivity improvements, there are 'transformative' technologies such as insect farming, cultured meat and vertical farming. Currently the world's largest vertical farm is being built near Lydney, Gloucestershire, to produce leafy salads; it is the size of 96 tennis courts. The initial investment in these technologies is significant and therefore the concept may be slow to expand, however if payback is proved, we could see more production of this type in the UK.

If Government intervention is unlikely to be seen in the food market, it certainly will be in terms of the environment. In England, Environmental Land Management (ELM) it being introduced. Whilst elements are designed to work alongside productive agriculture, it is likely that some farmland will be re-purposed for environmental benefit. In 2017, 27% of the UK land area was part of National Parks, Areas of Outstanding Natural Beauty, or other environmental designations. The Government has a target to raise this to 30% by 2030 under its '30 by 30' commitment.

Climate change is a major land change influencer. To meet Greenhouse Gas (GHG) capture targets, the UK Climate Change Committee (CCC) has recommended that we should be planting 30,000 hectares of new woodland per year up to 2050. Some parts of the UK have already seen significant afforestation, driven by both timber and, more recently, carbon considerations (the growth in woodland area can be seen on Figure 9). This has tended to be low-output hill land. This trend is likely to continue, especially if the economics of upland beef and sheep farming remains marginal. However, there is a wider question of the effect of widespread tree planting on communities and landscapes.

Within Government's strategy of a net-zero carbon emissions target there are plans to increase solar panel land to 0.3% of the UK area. The energy crisis may lead to current food producing areas moving towards the production of other energy sources such as bio-energy crops; based on CCC projections 1.4 million hectares of energy crops are required to meet the UK's bio-energy demand by 2050.

Restored and re-wetted peat could be a key feature of future land use in the UK; 12% of the UK land area is peatland which is a significant carbon sink. Re-wetting upland peat bogs may be (relatively) uncontentious – although, even here, there is tension between this approach and farming and forestry. However, restoring highly-productive areas of lowland peatland such as the Fens to a more 'natural' state brings the conflict between food production and climate change mitigation sharply into focus.

The environmental charity, Rewilding Britain, also has targets for rewilding on a large scale. Rewilding is a form of ecological restoration, with an emphasis on recreating an area's 'natural uncultivated state.' Rewilding Britain has an aim for nature recovery across 30% of Britain's land area by 2030 (equivalent to approximately 7 million hectares). Of this, 5% would be fully rewilded and the remaining 25% in 'nature friendly land uses'. Whilst taking land out of production at this scale is unlikely, it is yet another demand on land.

Health is another influence on future land use in the UK. Currently 63% of UK adults are overweight or obese, leading to the NHS spending £18 billion per annum on obesity-related disease. The need for a huge cultural shift is evident, and utilising agricultural land to produce the food and nutrients that we need, and not what we want, will be key. Henry Dimbleby's National Food Strategy sets out a need to 'escape the junk food cycle'. What happens in the wider food chain will be important to this, but the report also states that farming cereals for livestock feed should no longer be a priority, and Defra should be prioritising fruit and vegetable production.

Development of land for settlements and infrastructure will also continue. A growing population, and a change in the way people live, will lead to an ongoing need for more housing. However, currently only approximately 1% of land is residential; there would have to be a huge number of homes built to significantly affect UK land use.

For the first time in decades, the Government is recognising that the competing demands for land need to be balanced. An English Land Use Framework is due to be published in 2023. Although this will not be prescriptive in setting out what specific areas of land must be used for, it will provide a steer on the future direction.

Food security is a big issue as we have seen over the last few years, however there is nothing to suggest that there will be such a shift in Government policy towards self-sufficiency as there was in WWII. In terms of land use, it will be environmental policy, the energy crisis and climate emergency that will be the biggest drivers of change.

Combinable Cropping

SEBASTIAN GRAFF-BAKER
AND JOE SCARRATT

In order to accurately assess the underlying prospects for combinable crops we have to look beyond the current circumstances and focus on the key factors that determine profitability; particularly those which lie within our control. We also need to give some thought to how we measure profitability and, indeed, over what time period.

In the early 1970's the wheat price was in the region of £28 per tonne (excluding deficiency payments of £24 per hectare) and typical yields averaged between 4 and 4.5 tonnes per hectare. This together with straw created a total wheat output in the region of £132 per hectare. Fifty years later and following the events of 2022, the prospect for the same hectare of wheat is a yield of over 9t per Ha, selling for, say, £250 per tonne. So, with yield increasing by at least twice and price by between 8 and 9 times, the UK combinable crop grower should be better off? In 1972 we spent 45% to 50% of the sale value of wheat on costs to get it into store (i.e. growing, labour and machinery costs); fifty years on and, despite huge increases in yield and price, combined with a substantial reduction in the number of UK cereal growers, we are now spending between 55% and 60% to do the same. Given that wheat, together with the other combinable crops are basic commodities, it is perhaps no surprise that the underlying profitability is in decline. After all, that 1972 sale price of £28 per tonne is equivalent to £296 today, if one were to apply the Bank of England's inflation calculator.

> ***We need to give some thought to how we measure profitability and, indeed, over what time period.***

This, perhaps simplistic, analysis overlooks one key input and the associated cost – an input that has exercised a few for many years and is now becoming a priority for us all. Whilst we share the climate, our soils reflect the underlying geology of the particular farm, together with its recent management. If you can forgive the misuse of Harold Wilson's now famous quote, 'fifty years is a long time in the health of soils'.

It appears that, as an industry we have, on average, depleted soil organic matter - albeit inadvertently. This has resulted from the increased use of synthetic crop nutrition and crop protection products, and perhaps excessive cultivations, without maintaining the beneficial effects of grazing livestock and crop diversity as part of a wider rotation. In the past this has been based on commercial logic, assessing combinable crop profitability only using the convention of annual profit and loss, without placing a cost on the reduction of soil organic matter.

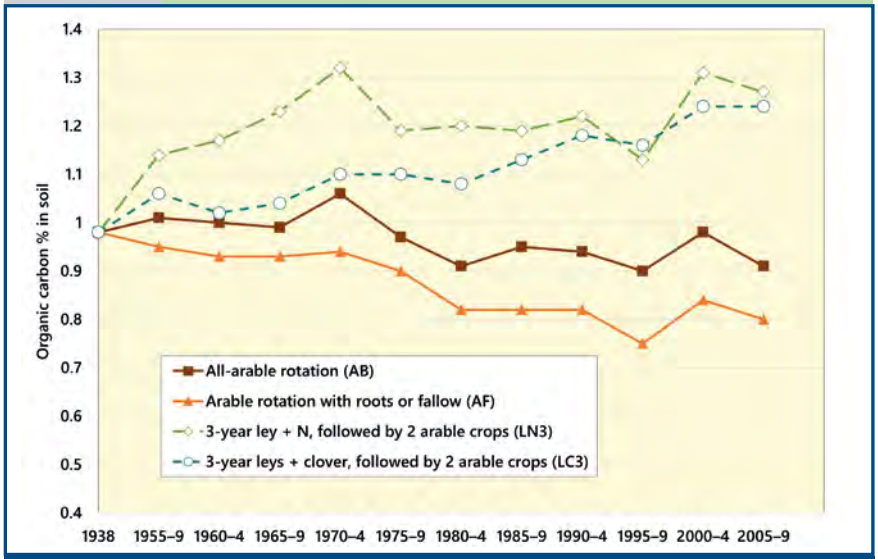
Ironically, the potential changes in working practices required to stop the decline and improve soil health may be something that the market is willing to support just at the same time as the industry is becoming increasingly well-informed. There are already the beginnings of farming businesses being paid to sequester carbon in order to help reduce atmospheric carbon dioxide emissions, using soils that have low levels of carbon as a result of past farming practices. Clearly one of the key issues is to find the balance between continuing to produce combinable crops in a way that generates profit from year-to-year whilst delivering a reward from sequestering carbon and in doing so increase the health of soils. With the right management this, in turn,

should improve yields and ultimately profitability. Restoring soil health is a long-term undertaking which, as an industry, we need to buy into at all levels, not least land tenure/security.

If we look at the current circumstances, the unanticipated high profits from the 2022 harvest, as a result of selling 2022 harvest crops into a post-Ukraine invasion market, grown with fertiliser purchased at pre-Ukraine invasion prices, will be seen in bank accounts from this autumn. For many, this will come after a very profitable 2021 harvest year too.

The now 'permanent' £1,000,000 of Annual Investment Allowance will lead many to apply these profits to reinvestment in equipment. The effect of inflation has increased the working capital requirement (and the associated risk) of combinable cropping. Uncertainty surrounding future fertiliser availability has encouraged many to secure 2023 and perhaps even, for some, 2024 harvest fertiliser early. Commitment to buy fertiliser at 3 to 4 times the 2021 price would logically point towards a corresponding commitment to sell a proportion of the harvest at a price which should generate an acceptable level of profit and with a manageable level of risk. The increase in working capital requirement may require some to increase the level of security where funds are borrowed and will result in an increase in finance costs. But, where cash surpluses exist from 2022, the opportunity to reduce long-term borrowing should be taken where appropriate. We wrote in our previous 'Business Matters' publication how a move to regenerative farming often requires an 'investment' in terms of a period of lower business returns. Perhaps this is an appropriate time for some to make that investment.

Figure 11 **Soil Carbon in Rothamsted Soil Trial – 1938 to 2009**



Source: Rothamsted Research (see www.ncbi.nlm.nih.gov/pmc/articles/PMC5439491/ for full details)

> ***High output and input prices, compared to historic averages, exacerbates what is already a wide range in financial performance between the good and the very good growers.***

High output and input prices, compared to historic averages, exacerbates what is already a wide range in financial performance between the good and the very good growers. The range in performance has been wide and is growing, as we have commented on previously. But when key input and output prices soar, the additional profit from attention to detail (effectively output per unit of input use) is clearly seen.

For the combinable crop sector, the opportunity to reflect on the last fifty years is particularly pertinent since it helps to identify the issues that need addressing in the years ahead – investment in soils and people and how best to measure the returns have to be priorities.

Potatoes and Beet

NICK BLAKE AND
JAMIE MAYHEW

Sugar Beet

Publication of the 2023/24 harvest price as early as July 2022 and with £40 per tonne available, depending on commitment, was a surprise for many growers, and a sign of the pressures from high commodity crop prices on all processors.

A cash advance on a proportion of the 2022/23 crop, along with increased guaranteed price gave further confidence to the sector.

Similar to potatoes (more of which later), the 2023 contract felt like a critical moment for the industry. There was a good chance that if the price didn't meet expectations, it would have resulted in a significant reduction in area, supported by buoyant cereal prices. Attracting growers back to crop, having left it, would have required a further increase.

The pressure from virus yellows has generally been low in 2022, but is still a major threat for growers in future seasons. The drought conditions in Eastern England have led to some poor crop development and late start to the harvest – the yield potential from heavier land in drier seasons has to be questioned.

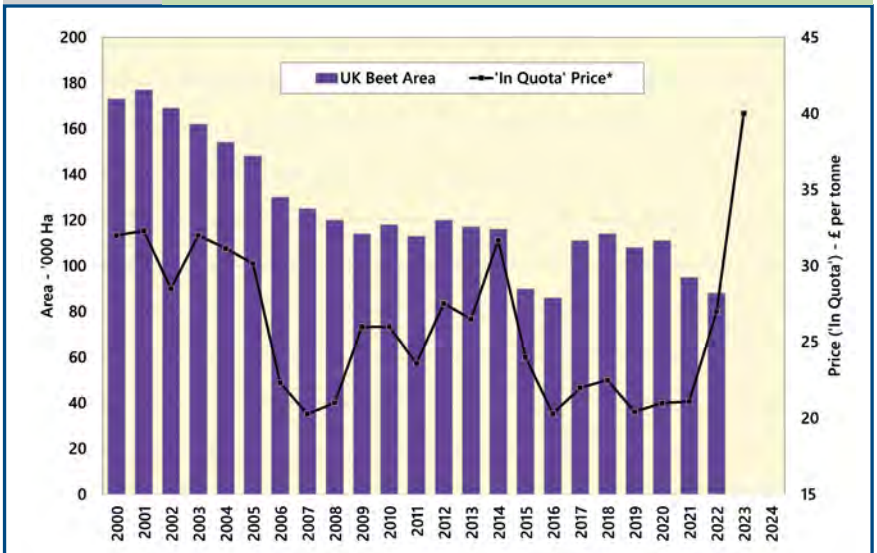
Overall, whilst given a reprieve for the moment, the future is still unclear for a crop that has a significant impact on farming in Eastern England.

> *The 2023 [beet] contract felt like a critical moment for the industry. There was a good chance that if the price didn't meet expectations, it would have resulted in a significant reduction in area.*

Potatoes

For many growers with irrigated crops, the standout memory of the 2022 season, after the overall dramatic increase in cost, was the unrelenting drought, and consequent demand on irrigation. This commenced early in the season and continued almost without break, through to harvest (and for some during harvest!). For those with water

Figure 12 **Contract Sugar Prices and Beet Area – 2000 to 2023**



Source: British Sugar / Andersons

available, the warm sunny weather has produced some respectable yields.

The cost of irrigation is often highlighted in this section (see Outlook 2021), and the 2022 season will be no exception. This year has been a record year for costs. Increased electricity and fuel, and the diverse systems in place widely influence the actual cost of application. The component costs of application (labour, energy, reels & booms, pipes, underground infrastructure and licence fees) now exceeds £200 per Ha per application (£80 per acre) in some parts of the country.

Storage costs are also under the spotlight. It's not just energy which is driving storage costs up; boxes at between £100-130 per box delivered (depending on capacity), timber to replace boards and the availability/ cost of labour to repair them.

The recent increase in demand for on farm commercial/industrial storage means there is a significant opportunity cost of these buildings. Recent analysis suggests this could be in the order of £20-25 per tonne based on a non-farming rental figure £5 per ft^2. Adding box cost, plant maintenance, labour for management and outloading costs, comfortably brings the cost up to £40 per tonne. Weight loss, sprout control and the cost of capital are all further additional costs to factor in, before energy. Energy cost varies according to store efficiency, electricity price and length of time in store. The range here is significant, but as a grower, factoring in all of the above, storage could cost in excess of £75 per tonne for the season. Clearly the impact on 3rd party storage will depend on the component parts of individual arrangements.

> ***A reduction in [potato] area is both necessary and inevitable.***

Discussions on contracts for the 2023 crop have commenced early, although at the time of writing, many growers are no further forward in reaching agreement. A reduction in area is both necessary and inevitable. A number of growers are choosing to exit (faced with the demand for additional capital to grow the crop), restructure for a permanent reduction, or take a temporary holiday/short term reduction. Getting the resulting cost structure right is vital. Where previously letting the land to third parties helped the numbers add up, there may not be so many takers for 2023.

The creation of GB Potatoes as a successor to the AHDB Potatoes is in its infancy, and other than headline Aims, and the proposed levy rates (Growers at £10 per Ha – a significant reduction on the AHDB levy), it is unclear how both will be converted into grower benefit.

It's the 50th anniversary of Andersons, and in that time the marketplace for, and consumption of, potatoes has changed dramatically. In 1970, the Basket of Goods (used as the basis for calculating inflation) included just 'Potatoes' and 'Potato Crisps'. In 2022, this has expanded to Unprocessed Potatoes (which includes loose and pre-packed - old, new, and baking) and Potato Products (incorporating Crisps (single and multi-packs), Frozen Chips and Prepared Mash Potato).

Horticulture

JOHN PELHAM

The key characteristic of most horticultural crops grown in the UK is their high labour requirement for establishment, husbandry and harvest (notable exceptions would include vining peas and carrots).

Figure 13 provides an indication of the number of worker hours per tonne required to produce a range of horticultural crops and how this compares with cereal production (which occupies the majority of the UK cropped area).

For many growers, wages account for between 40-60% of all business costs (c.f. cereal crops at 10–20%), making the economics of horticultural crops highly sensitive to changes in employment costs.

Since the introduction of the National Living Wage in 2016 there have been significant rises in the minimum hourly wage rate, culminating in the unprecedented 2022 single year increase of 15%. Figure 14 shows the annual increase – in pence per hour – for the period 2000–2022.

Over the last seven years the hourly rate paid to seasonal workers (before holiday pay, pension and employers NI) has increased from £6.50 to £10.10 per hour – or by 55%. In practice, the true increase for many will be at least 80% when other employment costs (e.g. pension, licence fees, accommodation) and declining employee productivity are taken into account.

> *For many growers, wages account for between 40-60% of all business costs, making the economics of horticultural crops highly sensitive to changes in employment costs.*

In 2022 significant cost inflation in other areas – such as packaging, transport and energy – has combined with the employment cost spike to create unprecedented increases in the costs of production for most horticultural businesses. By way of illustration, Figure 15 shows soft fruit cost inflation in 2022, adapted from work undertaken by Andersons for British Berry Growers.

Figure 13 **Worker Hours Requirement for Selected Horticultural Crops**

Crop	Hours per Tonne: Indicative Range	*Hours per Tonne: Indicative Median*
Cereals	1–2	1.5
Cauliflower	18-26	22
Broccoli	20-28	24
Parsnip	18-24	21
Leeks	35-55	45
Asparagus	250-350	300
Lettuce	32-44	38
Dessert Apple	20-40	30
Pears	30-40	35
Cherries	150-210	180
Strawberry	120-160	140
Raspberry	300-400	350
Blueberry	400-600	500

Source: Andersons

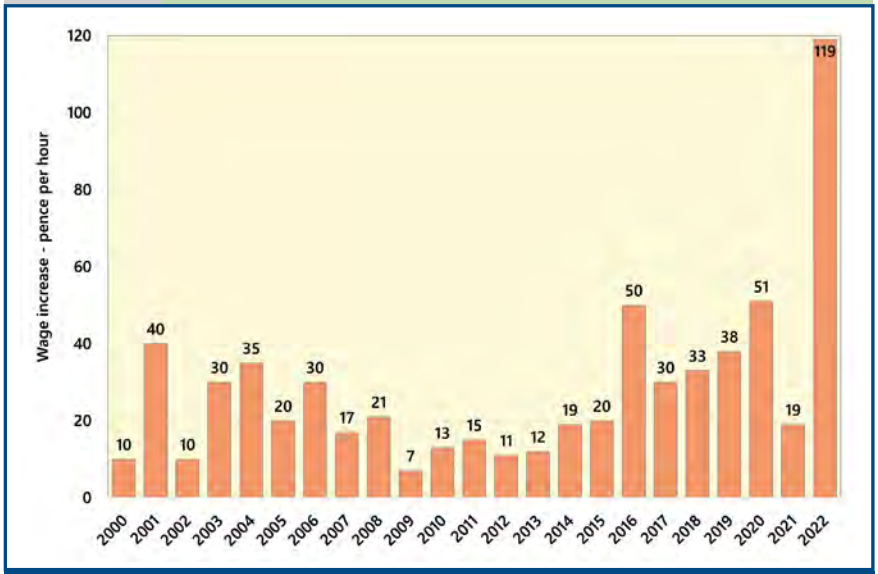
Very few, if any, growers would have been making profits in 2021 of 15%+ of turnover – so without sale price increases, or productivity gains, these crops will inevitably have become loss-making.

> ***In some cases growers are seeing price deflation, as consumers adjust their spending habits to the same inflation that is driving up growers' costs of production.***

So what are the opportunities for increases in sale prices for UK horticultural produce? The evidence for the 2022 season to date suggests that they may well be limited; in some cases growers are seeing price deflation, as consumers adjust their spending habits to the same inflation that is driving up growers' costs of production.

Ultimately the sale price of any item – horticultural crop or otherwise – simply reflects the relationship between demand and supply.

Figure 14 **National Minimum/Living/SAWS Wages Increases – Pence per hour – 2000 to 2022**



Source: Andersons

European Funding for Producer Organisations (including UK growers) since the late 1990's has seen a revolution in the volume and quality of horticultural produce available to the consumer, at a static or declining price. The continuing expansion of production – seen by so many producers as the way to protect or increase profits – becomes a liability as supply increases to match or exceed demand. It will be a reduction in supply, rather than representations to multiple retailer buyers about the costs of production, that will ultimately lead to sale price inflation. For the UK grower, the current weakness of Sterling will provide some protection against import competition in the event that production declines.

With such fundamental – and in many cases irreversible – changes to the costs of production of horticultural crops, many growers will feel the need to re-think their business model. For those of the 'glass half full' mindset (almost a requirement for a UK grower in such a variable climate) such an exercise is more an opportunity than a threat.

UK horticulturalists have always been resourceful and inventive, but recent changes present them with probably their greatest test.

Challenging times indeed.

Figure 15 **Soft Fruit Cost Inflation 2022 Compared to 2021**

	Cost of Production Increase - £ per tonne			
Category	**Strawberry**	**Raspberry**	**Blackberry**	**Blueberry**
Employment costs	*223*	*557*	*597*	*796*
Coir	87	*55*	*55*	*50*
Fertilisers / Crop Protection	47	*63*	*71*	*80*
Packaging	123	*246*	*246*	*271*
Transport	43	*75*	*75*	*125*
Total Cost Increase £/Tonne	**523**	**996**	**1,044**	**1,322**
Indicative sale price £/Tonne	*3,500*	*6,750*	*6,500*	*7,000*
Cost increase as % sale price	***15***	***15***	***16***	***19***

Source: Andersons

Then and Now

In celebration of Andersons the Farm Business Consultants' 50th anniversary in 2023, this special article pulls together a range of statistics comparing the economy, society, and our industry in the early 1970's with what we see today.

Society

The population in 1973 was 56.2m. In 2022 it has reached 67.5m (a 20% increase). Average life expectancy for someone born in 1973 was 72 years. For a baby born today it would be around 82 years. The population of the UK has aged considerably since the early 1970's. Back then, the proportion of the UK population over 65 was around 14%. Now it is nearly 19%. The UK has also become far more diverse over the last 50 years. In the early 1970's it is estimated that 2.5% of the population came from an ethnic minority background. Now the figure is over 14% (and the 'white' population will have a much wider range of backgrounds).

Inflation (RPI index) was 94.8 in September 1973 and is now 1,371.3 (Sept 2022). Thus, prices have gone up by around 14 times.

- The average wage was between £1,300-£1,400 p.a. in 1973, now it is just over £31,000 (x 23)

Figure A **Cost of Things – 1973 and 2022**

pence	1973	1973 Inflation adjusted (x14)	2022
Litre of Petrol	9	126	180
Loaf of Bread	11½	161	120
Pint of Milk	5½	77	58
Dozen Eggs	32	448	222
Nescafe 8oz Coffee	54	756	454
Daily Mirror	3	42	90
20 Cigarettes	26½	371	1050
Pint of Beer	18½	259	375
Golden Wonder Crisps	2½	35	60

Source: Andersons

Figure B **Food Consumption – 1973 and 2020**

grammes per person per week	1973	2020	2020 as a % of 1973
Milk and Cream	2,938	1,746	59%
All Meat (inc. offal & meat products)	1,121	949	85%
Beef	179	97	54%
Lamb	126	32	25%
Pork	85	41	48%
Bacon & Ham	151	90	60%
Poultry	173	271	157%
Eggs (number)	4.23	2.22	47%
Fish	134	148	110%
Fat and Oils	318	158	50%
Sugar	388	56	14%
Fresh & Processed Vegetables	2,456	1,147	47%
Fresh Potatoes	1,302	355	27%
Fresh Fruit	708	767	108%
Bread	947	524	55%
Breakfast Cereal	84	128	152%
Rice	17	111	653%
Pasta and Pizza	31	186	600%
Complete Ready Meals (Meat, Fish and Vegetable based)	35	227	649%

Source: Defra Family Food Survey / Andersons

- The average house price in August 1973 was £8,700; in August 2022 it was £295,900 (x 34)

The Cost of Things

Figure A sets out the costs of certain common expenses in 1973. It adjusts those prices to 2022 levels and then compares them to what we are actually paying today.

Food and Drink

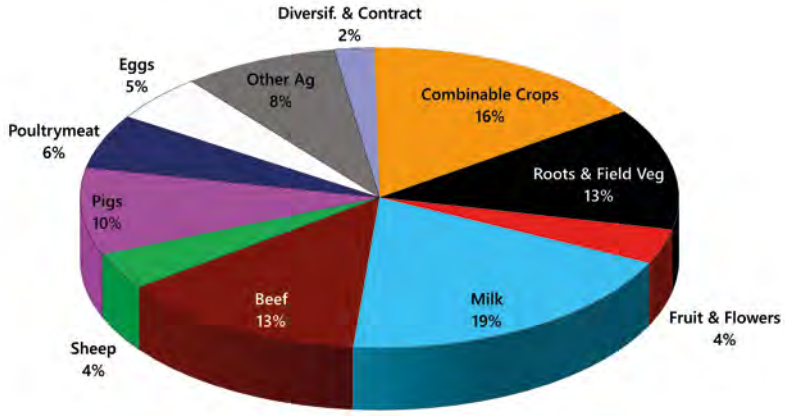
The consumption habits of the British consumer have changed markedly. The percentage of household spending going on food and drink has dropped from 31% in 1973 to 17% in 2020. The way food is consumed has altered too. In 1973, 84% of food was consumed in the home. By 2019 (the last year pre-Covid) this had dropped to 62% - meaning nearly two-fifths of all food is now eaten out of the home. The types of food we consume has changed. Figure B provides some detail.

Structure of the Farming Industry

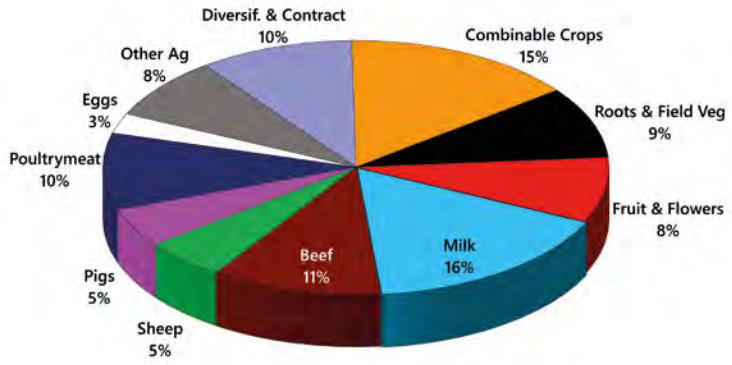
In Figure C the charts illustrate how the output (turnover) of the UK farming industry has shifted and the relative growth or decline of specific sectors. Note that only 'market' outputs are shown and subsidies, whether direct or indirect are excluded. Figure D provides more detail.

Figure C Change in UK Farming Output

1970's* UK Agricultural Output - £44.3bn (at 2021 prices)
(* 5 year average 1973 to 1977)



2020's* UK Agricultural Output - £28.7bn (at 2021 prices)
(* 5 year average 2017 to 2021)



Source: Defra / Andersons

Figure D Structure of the Farming Industry – 1973 and 2021

pence	1973	2021
Total Farmed Area – '000 Ha	19,359	17,406
Permanent Pasture & Rough Grazing – '000 Ha	12,020	11,317
Arable (Crops & Temporary Grass) – '000 Ha	7,339	6,088
Number of Farming 'Holdings' – '000	375	220
Number of Full-Time Farmers - '000	219①	147
Number of Part-Time Farmers - '000	80①	153
Number of Farmworkers② – '000	300	167
Percentage of Tenanted Land③	42%	≅30%
Average Tractor Size - HP	70	166

Source: Defra / Andersons

① 1976 figures; these exclude spouses, whilst 2021 figures include them
② full-time, part-time and casual (not seasonal) ③ GB only ④ source AEA – 1973 is extrapolated

Sectors

More detail on specific crops and animals are set out in Figure E.

In terms of overall food self-sufficiency the UK was 62% self-sufficient in all foods in 1973. The figure for 'indigenous-type' food (i.e. the things we can grow in this country) was 72% at that time. There is not that much difference today. In 2021 the figure for total self-sufficiency was 61% and 74% for indigenous food. However, there has been significant change in the intervening years. The high-point came in 1984 when the figures were 78% and 95% respectively.

Figure E **Sector Changes – 1973 to 2021**

	1973			2021		
	Area Number ('000 Ha/ Head	Output (tonnes)	Self-Sufficiency (%)	Area Number ('000 Ha/ Head	Output (tonnes)	Self-Sufficiency (%)
Wheat	1,146	5,002	57%③	1,790	13,988	89%
Barley	2,267	9,007	107%③	1,150	6,961	110%
Oilseed Rape	14	≅25	≅20%	307	981	52%
Potatoes	225	6,845	93%	137	5,307	73%
Sugar Beet	194	7,427	26%③	91	7,420	66%
Vegetables	202	3,196	-	113	2,548	57%
Fruit	81	198	58%④	33	576	15%
Dairy Cows (Milk)	3,480	13,998①	-	1,850	14,325①	105%
Beef Cows (Beef)	1,819⑤	854	79%	1,485	891	82%
Total Ewes (Lamb)	11,109⑤	236	50%	15,624	277	109%
Total Sows (Pork/Bacon)	783⑤	935	75%	345	982	70%
Broilers (Chicken)	57,225⑤	664	99%	126,693	1,995	97%
Layers (Eggs)	50,503⑤	1,096②	97%	40,568	1,001	92%

Source: Defra / Andersons

① million litres ② million dozen ③ 1975 figure ④ figure for apples only ⑤ 1973-1975 average

Whilst it is relatively easy to look back, as the quote says -'it's difficult to make predictions, especially about the future'. However, in a publication called 'Outlook' we cannot avoid setting out some thoughts on what farming might look like in 50 years' time. Although our predictions of agriculture in 2073 will almost certainly turn out to be wide-of-the-mark, we take comfort from the fact that we are unlikely to be around to be proved wrong (unless the age of retirement has been raised to over 100 in the intervening years).*

Possible features of farming in 2073 might include:

- all field operations undertaken by driverless tractors (robots). Decisions about what to do and when to do it, largely decided by artificial intelligence
- far fewer livestock - the majority of meat and milk is now 'lab grown'. Some grazing animals are kept to manage pastures for wildlife reasons. Produce from these is sold into premium markets but most in the population consider consuming products from animals 'a bit weird'
- many changes in UK land use. Area of grassland far lower with the loss of animals (many nostalgically bemoan the disappearance of pastureland). Fewer crops grown for animal feed grown. New crops being sown to cope with the changed climate – soya, sunflowers and vines. English sparkling wine long ago took over from Champagne as the best in the world. Significant land given over to energy crop production and 'feedstocks' for industrial processes
- the UK is far more forested. The Lake District is covered in trees (shame about the view). The types of trees have changed, as traditional British species struggle with the new climate. All the trees we planted back in 2020's to sequestrate carbon are now being cut down – the industry is trying not to mention the reversal of the sequestration we were all paid for
- farming insects now a significant part of UK agriculture. The countryside has lost its monopoly on food production with a large number of urban 'vertical farms'
- genetic modification widely accepted. 'Augmentation' of people with technology widespread which allows farmers to have their mobile phones implanted in their heads
- the John Nix Pocketbook publishes its 102nd Edition with the foreword written by King William VI
- And, of course, the average age of a UK farmer is still 60, and the successor to Defra is struggling to implement its new agricultural policy.

** the phrase has been variously attributed to everyone from Mark Twain to the American baseball coach Yogi Berra. The most widely-accepted source is that it was coined by Danish physicist Niels Bohr.*

Topical Issue-

Carbon Markets in Farming

JAMES WEBSTER

Carbon markets are going to be key to addressing climate change at the global level. A carbon market works by moving finance towards the most efficient management of emissions. A 2021 report by the International Emissions Trading Association (IETA), estimates that by 2050 voluntary carbon markets could facilitate $1 trillion worth of trade.

In light of waning farm support payments, and a policy drive towards delivering public goods, 'how can agriculture capture some of this value?' is an inevitable question.

There is a clear split in the rhetoric around carbon markets, some are clear advocates and others consider carbon markets as a 'Wild West' – unregulated (and potentially full of cowboys...).

A 'carbon unit' is defined as one tonne of carbon dioxide equivalent (CO2e) sequestered or avoided. To generate such a unit for sale, three things need to be demonstrated;

- Additionality – the carbon unit would not have been generated without the deal to sell the unit
- Permanence – the unit needs to be 'permanently' removed from the atmosphere
- Verifiable – for a company looking to offset or inset carbon emissions, they need a paper trail to prove it is there.

> *Carbon markets are going to be key to addressing climate change at the global level.*

Woodland Carbon

There are two existing, nationally recognised schemes allowing the generation of carbon credits in the UK. They are the Woodland Carbon Code (WCC) and the Peatland Carbon Code. The WCC is the most important in relation to rural land.

The WCC provides credits based on the creation of new woodland. The Forestry Commission estimates that at 100 years old, a new hectare of native woodland can sequester up to 600 tonnes of carbon. In the May 2022 Woodland Carbon Guarantee auction, units sold for around £24 per tonne.

In all instances of carbon markets there is a non-permanence buffer. This is to account for the likelihood of carbon not being removed from the atmosphere, e.g. if trees die. In the case of the WCC the buffer is 15% across 100 years.

Soil Carbon

Planting new woodland usually requires land to be lost to agriculture (although there is increasing interest in agro-forestry practices). Therefore, to really drive carbon markets in farming, a way of measuring, monitoring and verifying carbon sequestration that occurs within agricultural practices is required – especially in the key area of soil carbon. There is work in place to develop a UK nationally verified Soil Carbon Code. However, the direct measuring of soil organic carbon will remain a long-term challenge. At the Paris Climate Conference, a focus was established to increase soil carbon by 4% per annum, globally. To achieve this, we would need to permanently add a teaspoon of carbon to every kilogram of soil each year.

To add soil organic carbon, we need to increase the volume of organic matter added to soil, either through incorporation of green manures, crop residues, or organic

manure. To increase the latter, we would need to grow our domestic livestock output, clearly at odds with some of the climate rhetoric.

Furthermore, in-field variance will make measuring soil carbon a significant challenge. In the short to medium-term being able to establish a robust Soil Carbon Code is a significant challenge; however, science is always advancing.

Perhaps it is better to consider the wider benefits of better soil quality in reducing emissions, than simply the potential for carbon credits, through aspects such as reduced metal wear and fuel use.

Carbon Farming

The area which has garnered the most attention, and most comments about the 'Wild West' in recent years is the idea of carbon farming. In the case of many of the schemes which exist in the UK, the production of carbon certificates is based on changes in behaviour.

Most of the schemes require tillage to be reduced, the growing of cover crops, and an annual yield from the land on which certificates are generated. The systems work by carrying out a mass balance on carbon emitted and a modelled view on what has been sequestered. The balance generates units of carbon which farmers can sell.

> ***To really drive carbon markets in farming, a way of measuring, monitoring and verifying carbon sequestration that occurs within agricultural practices is required – especially in the key area of soil carbon.***

The timeframe for 'permanence' on these schemes is not truly permanent, with contractual obligations varying, but in many cases lasting 15 years maximum. In this time there is the potential for a financial risk if behaviours previously agreed to are not upheld. That said, the schemes that are available can offer financial support for farms making a long-term switch to practices like regenerative agriculture, helping to bridge the financial output gap.

One potential area of concern is the future requirement for carbon reporting through the supply chain. In the future, buyers of farm commodities may require producers to demonstrate that their wheat or milk is 'low carbon' or 'reduced carbon' per tonne or litre. If carbon reductions have already been sold externally, then this may be difficult to prove. Financial penalties could be significant if this became a requirement during the monitoring phase of the existing schemes.

Overall Thoughts

Carbon markets do offer a route to generate increased income when moving to more climate friendly practices. However, they are certainly not without risk. Two key considerations when engaging with carbon markets should be, 'what are the financial risks of non-permanence?' and 'how much is my environmental impact going be a cost of trading in the future?'

Dairy

MIKE HOUGHTON
AND OLIVER HALL

What a change the UK dairy industry has experienced over the last 50 years, and indeed over the last 12 months. In comparison with 50 years ago, the change is staggering; 87% of dairy herds have disappeared, yet milk production has increased; yields have more than doubled and average herd size quadrupled.

The milk price has increased tenfold, but interestingly the farmgate price as a percentage of the retail price, has changed from 50% in 1973 to just 42% today.

The last 12 months has seen unprecedented change. We were forecasting agflation in Outlook 2022, but no one anticipated a milk price increase from just over 30 pence per litre in October 2021, to approaching 50 pence per litre by October 2022. At the same time agflation is running at well over 30%, with very significant increases in feed, fertiliser, energy and labour costs. Margins though, are likely to be higher for the year ending March 2023 than the previous year. However, with the decline in the UK economic outlook and a reduction in the 'world' milk price of 26%, UK milk prices may well be close to their peak; next year could be more challenging for dairy profitability.

> *87% of dairy herds have disappeared, yet milk production has increased.*

Looking to the future, it feels almost impossible to try to predict 50 years hence (given the change seen in the last 50 years), but set out below are some key points the industry will need to address in the short and medium term.

Energy Usage

Even with the promised cap in energy costs, many businesses will see a doubling in the cost of red diesel and a trebling in the cost of electricity. Having a much greater understanding of energy consumption on dairy farms will be key. There appears to be very little data on this, but AHDB are progressing energy benchmarking and it will be critical for those remaining, to understand their costs. Grant aid via the Farming Equipment and Technology Fund in England should be available for improving energy efficiency.

Renewables

The increase in energy costs has led to a resurgence in interest in renewable energy, particularly roof mounted Photo-Voltaic (PV) and simplified Anaerobic Digestion (AD). Roof-top PV should provide a good return on capital for

Figure 16 **Structural Change in the UK Dairy Herd – 1973 to 2022 (and 2032)**

Crop	1973	2022	*2032*
Cow Numbers (million)	3.3	1.85	*1.6*
Milk Producers	80,000	11,000	*6,400*
Yield per Cow (litres)	4,000	8,214	*9,000*
Average Herd Size (cows)	40	160	*250*
Output (million litres)	13.2	15.2	*14.4*
Farmgate Milk Price (pence per litre)	4.4	45.6*	
Retail Price (pence per litre)	8.8	109	
Milk Buyers	690	98	

**July 2022* *Source: Andersons*

most dairy farms, particularly if machinery manufacturers address the electrification of yard vehicles, which must make sense. The lead times for rooftop PV however are now significant, so orders for next year need to be placed now.

Simplified AD still appears to be a long way off, given that the process is relatively inefficient in the first instance, and the capital costs are high for the return currently achieved.

Legislation

Perhaps the most challenging legislation is around increased slurry storage. Grants will be available to increase storage to six months, providing the storage is covered. It is important to remember that the legal obligation (for now) remains at four months storage.

The whole area of storage emissions and utilisation of slurry needs a great deal more science applied to it. In some areas of the UK, grass grows every day of the year, and utilising slurry little and often, may well be a much more sustainable and efficient way forward than storing it for long periods of time. However, legislation is based upon fixed dates, with no reference to efficiency of utilisation of slurry, by bespoke crops and application procedures.

Emissions

The industry desperately needs a single standard. This should include both emissions and sequestration, so that the true GHG output of the dairy sector is understood. With cow numbers at just 56% of 50 years ago, emissions have already declined significantly.

Technology is almost certain to help in this area, with the main focus likely to be on feeding and genetics.

> *Labour and working conditions will continue to be a key challenge to the industry.*

Labour

Labour and working conditions will continue to be a key challenge to the industry to which insufficient value is still accredited by the owners of many dairy businesses. Automation will help, provided it helps to reduce cost of production. Robotic milking is being looked at by many, and in most cases this will only increase the cost of milk production. For family businesses though, this is often seen as a price worth paying, to provide flexibility and allow an acceptable lifestyle, in what is effectively a 24/7 operation.

Summary

The future success of the industry will probably continue to depend upon ensuring the consumer is properly informed about the world class standards of health and welfare achieved by UK dairy farmers, and the importance of dairy as a natural component of a well-balanced diet. The industry's emphasis should be on quality and not quantity, ensuring that demand is not exceeded, which should continue to maintain a strong retail price. Perhaps the key priority for many who see a long-term future in the industry, is to capitalise on the short-term positive volatility, to reduce debt and prepare their businesses for the challenges ahead.

Beef

CHARLOTTE DUN
AND BEN BURTON

Total beef production is expected to increase by around 2% in 2022, bolstered by a high throughput of cull cows. Calf registration and slaughtering data suggests some further moderate growth in UK beef production in 2023, as more beef cross calves come through from the dairy herd due to the increased use of sexed semen to breed dairy heifer replacements.

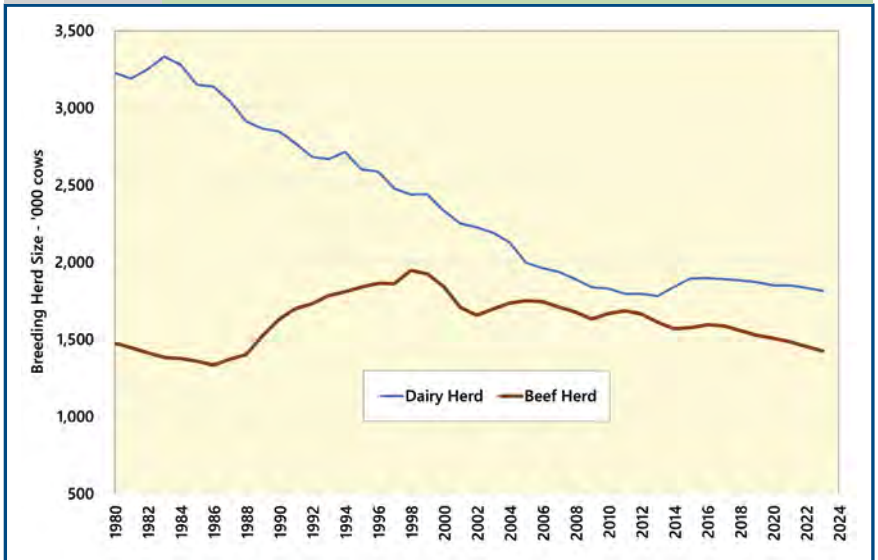
Prices have been at record highs in 2022 for both prime cattle and cull cows. Tight supplies and strong demand from the food service sector as eating out markets re-opened were the main factors. For 2023, prices may well come back as consumers cut back on expensive meats due to the cost-of-living crisis reducing demand. However, falls should be limited by tight EU and worldwide supplies and historically firm international prices.

Higher farmgate prices have gone only some way to offsetting the unprecedented increase in input costs - most notably in feed, fertiliser and fuel seen following the Russian invasion of Ukraine. Fodder shortages following the dry summer of 2022, continued high feed costs, and strong cull cow prices could accelerate the long-term decline in the size of the UK beef breeding herd. The reality for many livestock farmers going into 2023 is that cashflow implications of the increasing cost of fertiliser means they will have to reduce the amount they use. If output and overall business profitability is to be maintained these businesses may have to consider implementing longer-term strategies to reduce reliance on manufactured nitrogen fertiliser.

Prices have been at record highs in 2022 for both prime cattle and cull cows.

Despite clean cattle prices being at record highs, store cattle prices have remained relatively flat. A two-tier market has developed, with good prices being paid for strong stores for quick finishing but weak demand for lighter animals. Finishers have been reluctant to

Figure 17 **UK Dairy and Beef Herds – 1980 to 2022**



Source: Defra / Andersons

pay high prices for cattle that will spend a long-time on farm, given the pressure on margins caused by substantially higher costs, feed being the most notable. Lacklustre store prices, coupled with declining direct support payments, puts the upland suckler herd in a particularly vulnerable place. More reliance is likely to be placed on the dairy herd as a source of beef calves in the future. The advanced AI genetics being used to breed dairy beef cattle are continuing to develop each year to identify and implement heritable traits that can help to reduce the cost of production.

Trade frictions caused by Brexit appear to be being overcome with export volumes increasing significantly in 2022. But shipping and freight costs are up and disruption at ports due to staff shortages could remain an issue.

On the import side, New Zealand and Australian exporters continue to target Asian markets which are nearer to them geographically and to date have offered good returns with lower freight costs than those incurred when exporting to the EU and UK. However, average imports of fresh and frozen beef from European countries such as Germany, Poland and Ireland have increased on previous years.

> ***With the cushion of direct support payments decreasing, beef producers will need to become more focussed on returns excluding these payments.***

With regard to overhead costs, increases in fuel and electricity prices have grabbed the headlines but underlying inflationary pressure across all cost categories will be significant going into 2023 adding to the total costs of production.

With the cushion of direct support payments decreasing, beef producers will need to become more focussed on returns excluding these payments. Performance recording, benchmarking, taking a scientific approach to feed ration calculations, making better use of forage and utilising genetics to improve animal performance are all gradually becoming more commonplace in the sector. We are likely to start seeing a divide between efficient finishing units turning over large numbers of cattle in a short period of time and more extensive native-based units finishing cattle on grass diets over more extended timeframes.

Sheep

DAVID SIDDLE

The 2022 year saw the breeding sheep flock increase by 3% to 14.5 million ewes. With a generally good lambing season the lamb crop increased to an estimated 17.9 million head. At the time of writing, sheepmeat prices remain well above historic levels, with the market appearing capable of absorbing a modest increase in supply despite the economic headwinds.

Rising input costs, winter fodder shortages following drought in many areas in 2022 and attractive cull ewe prices are likely to limit any further significant increase in the breeding sheep flock in 2023.

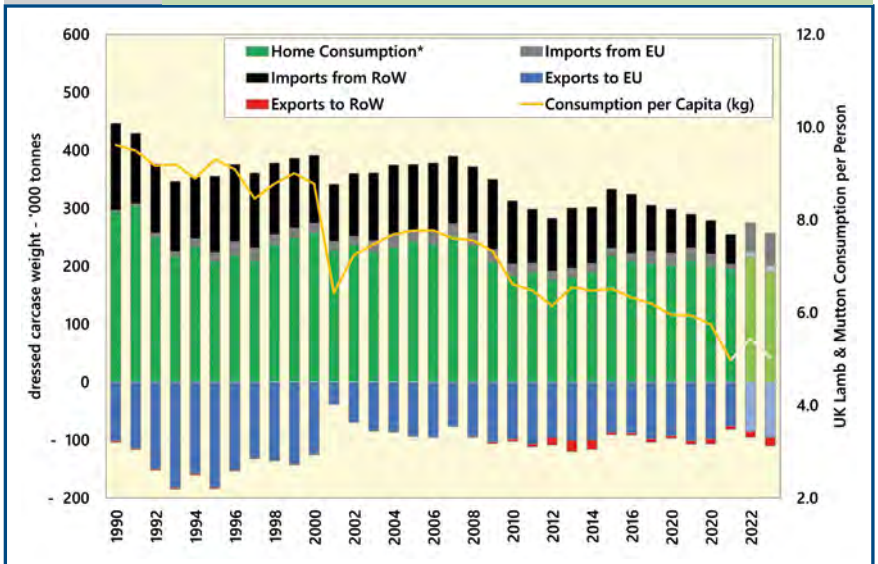
A further effect of drought and lack of grass growth in 2022 may be reduced lambing percentages in the year ahead if ewes go into the breeding season in less-than-ideal condition - not least as high concentrate costs are likely to limit their use as a substitute for forage to boost the body condition of leaner ewes.

The outlook for sheep meat prices in 2023 remains generally positive. Domestic demand will undoubtably come under pressure in the year ahead due to the cost-of-living crisis as lamb is an expensive meat. However, EU and worldwide supplies remain tight and, as demand from the key export markets of the EU, Asia and US seems firm, this will hopefully offset, at least to some degree, any reduction in domestic demand and help underpin the price.

Rising input costs, winter fodder shortages following drought in many areas in 2022 and attractive cull ewe prices are likely to limit any further significant increase in the breeding sheep flock in 2023.

Imports from the key sources of New Zealand and Australia have been at historically low levels for a few seasons now. This is partly due to a reduction in flock sizes in these countries, but also due to them focussing on the Asia-Pacific region and especially China. Low levels of competition from imports

Figure 18 **UK Sheepmeat Trade and Domestic Consumption – 1990 to 2023**



Source: Defra / AHDB / Andersons

has undoubtably helped drive UK prices upwards, there are however signs of a slowing in Chinese demand. In addition, these markets are not always the most stable with, for example, non-economic trade barriers being introduced with little or no warning.

Having left the EU, domestic agricultural and environmental policy looks likely to have a significant effect on the future size and structure of the UK sheep flock. This may be seen most immediately in England with the phase-out of the Basic Payment on which much of the industry has historically depended. The new environmental schemes are likely to favour lower stocking densities.

The sheep sector has been heavily supported for many years, in the 1960s by direct support in the form of deficiency payments from our own Government, then on joining the EU in 1973 by the Sheep Meat Regime which introduced the Variable Premium followed by headage payments. In 2005, support was decoupled from production and all existing schemes were rolled into the Single Payment (now Basic Payment) which many producers have continued to use to cross subsidise their enterprises.

In the years ahead, the sheep sector will become fully exposed to the returns it can generate from the market for the first time, bringing a focus on commerciality which many more traditional producers have been able to avoid to date.

In the years ahead, the sheep sector will become fully exposed to the returns it can generate from the market for the first time, bringing a focus on commerciality.

One effect could be an increasing move away from the traditional and unique stratified three-tiered breeding structure which has existed in the UK for many years.

The first tier based on the high hills and pure hill breeds, for example Blackface, Swaledale and Welsh Mountain, looks likely to come under most pressure due to the negative margins seen excluding support and the fact much of this land looks to have an increasing environmental value, which may offer more lucrative returns than sheep farming.

On the middle ground, where draft or regular aged ewes traditionally produced crossbred ewe lambs to be used in the lowlands, some more progressive businesses are already replacing these flocks to produce finished lambs. They are often based on composite breeds and techniques such as performance recording, pasture improvement, modern grazing techniques, outdoor lambing, low labour and machinery costs and rigorous selection policies are common. Many of these flocks report some impressive financial returns as compared with the average.

On the low ground we see more flocks moving away from the reliance on purchasing replacement crossbred ewe lambs and gimmers to closed flocks involving fewer animal movements and opportunities to spread disease. The use of home-bred replacements of known disease status and the ability to select both male and female stock for commercial traits such as ease of lambing, longevity, milk production, backfat depth, birthweights, lamb growth rates and disease resistance can bring significant economic benefit.

There is much talk of the integration of sheep in particular into more 'regenerative' farming systems. Whilst there are undoubtably a few more sheep appearing on arable farms, the majority of the UK flock will remain in the uplands or based on permanent pasture and long-term leys. It is the economic performance of these sheep which will need to improve if they are to remain a viable enterprise in the future.

Pigs

HARRY BATT

The UK pig sector has experienced significant change over the past 50 years. My predecessor back in 1973 would have been discussing the expansion of UK pig production, which hit a high point of 9 million pigs in 1973. At the time of writing this article, numbers have fallen to around 5 million with further contraction likely. With the rise in productivity per sow, the change in the size of the breeding herd has been even more marked. Sow numbers in 1973 stood at around 780,000 whilst now they are down to 340,000.

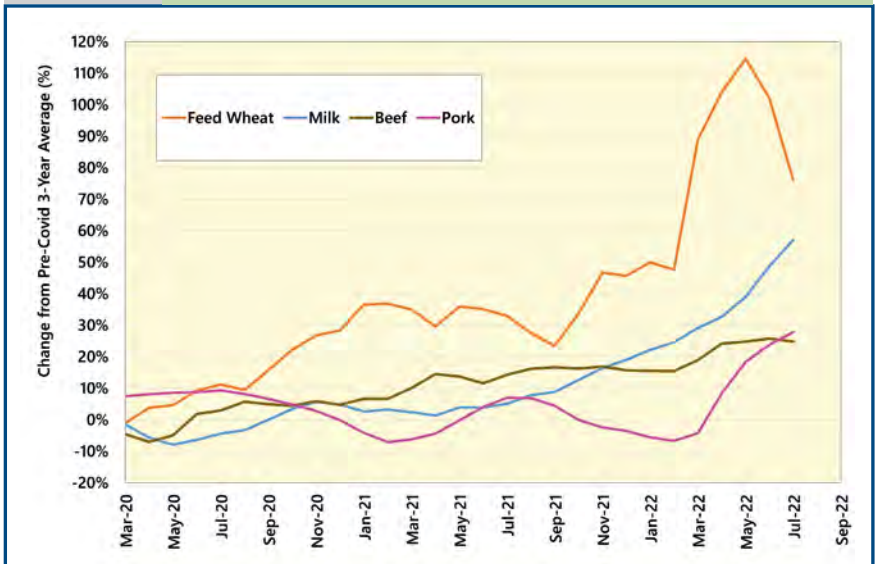
This seismic change can be partly attributed to a number of one-off incidents, not least the unilateral ban on sow stalls introduced in the UK in 1999 whilst the rest of the EU continued to use these systems. This perhaps merely illustrates that the race-to-the-bottom on price is the chronic issue killing the pig industry.

AHDB costings show that producers have lost around £600 million over the past two years, with the NPA suggesting that 80% of producers could go out of business in the next twelve months if things do not change.

Recent times have been incredibly challenging for producers, with pig prices following a different trend (until recently) to other key agricultural commodity prices. The sector has struggled with African Swine Fever, and more recently a shortage of CO_2 and skilled butchers. In addition, there has been unprecedented 'agflation' on key inputs, not least feed (100%), fuel (75%), labour/contracting (20%), and finance costs. Yet the average price that producers have received has only risen by an average of 32% since the start of Covid 19. This is somewhat lower than the average headline wheat (74%) or milk (65%) price increases over the two-year period.

> ***Sow numbers in 1973 stood at around 780,000 whilst now they are down to 340,000.***

Figure 19 **Commodity Price Changes (% difference from pre-Covid 3-year average) – 2020 to 2022**



Source: AHDB / Andersons

How did the industry get here and what can it do to change?

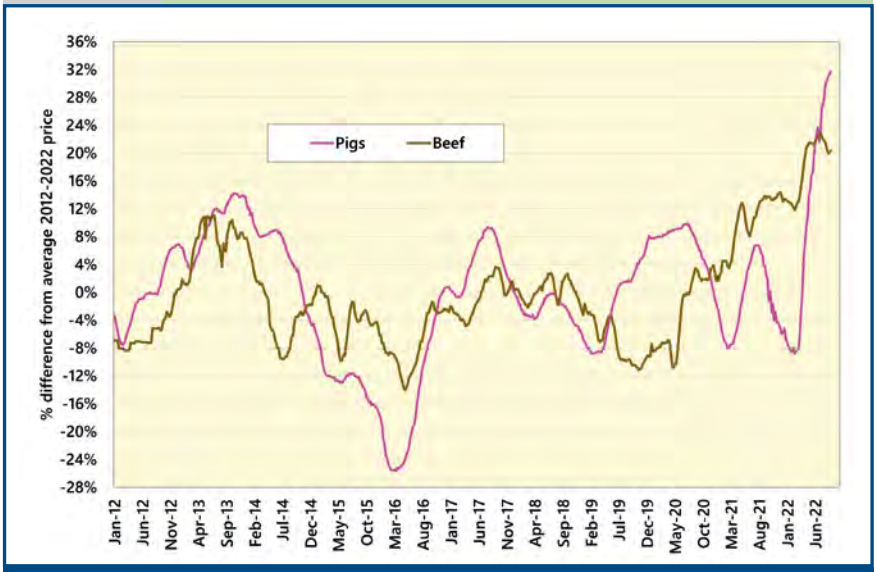
Volatility has always been a factor for pig producers. However, the frequency and the range of the volatility appears to be more significant than in other sectors, which makes running a viable and sustainable business almost impossible.

Feed is the number one cost for producers, accounting for in excess of 70% of the cost of production. Therefore, it would be expected that the pig price would more closely track the feed price than it does.

Over the past 20 years, the industry have seen the consolidation of pork supply chains, with processors now actively involved in production. Despite their awareness of the production challenges, this has not led to an upturn in fortunes for producers. Does this illustrate that processors like farmers are just pawns in the retailer's game?

As in chess, pawns are strong together but weak when isolated. Together the processors and producers control the supply chain so in collaboration can they find a new route to market? For example, Amazon British Pork. Future vision? Change happens, look at the High Street.

Figure 20 **Volatility in the UK Pig and Beef Markets – 2012 to 2022**



Source: AHDB / Andersons

> ***Recent times have been incredibly challenging for producers, with pig prices following a different trend to other key agricultural commodity prices.***

Alternatively, is the future in negotiating a margin rather than the conventional price? Could the future see the majority of producers sell pork for a margin over the cost of feed? Would this drive improvements in feed efficiency. It would almost certainly reduce risk, whilst securing supply for the retailer.

Given the current doom and gloom surrounding the sector it would be easy to say that there might not be a commercial sector in the next 50 years. However, we believe that producers have faced incredible challenges in the past and have remained resilient. There will be different challenges with more focus on breeding/genetics, nutrition and resource/energy efficiency. The sector must be proactive in monitoring, improving and explaining the GHG emissions of British Pork, alongside a clear commitment to animal welfare. This is the point at which the sector must change if my successor is to have something to write about in 50 years' time.

Poultry

LILY HISCOCK AND
EDWARD CALCOTT

In this Golden Anniversary year for Andersons, it is worth taking note of the scale of change in the UK Poultry Sector over the last fifty years. It has been one of the fastest growing sectors and has changed beyond recognition in five decades.

In the mid-1970s poultry production had started to undergo major change, moving away from a cottage industry to one which operated at scale. In the egg sector, this was driven by the introduction of commercial battery cages and the first hybrid strains of layers. In the broiler sector, the first specialist meat birds began to be sold (rather than just a by-product of the laying sector). A 5,000 bird broiler house, with 'Chunky Chicks' reaching 2kg at 63 days with a feed conversion ratio of 2.5 was typical for the time.

Poultry meat consumption was 50.4lbs per capita in 1972 – skip forward to today and that has more than doubled with an estimate of 115.3lbs per capita for 2023. Egg consumption has grown at an even faster rate. Looking ahead, poultry meat consumption is expected to continue growing, with the OECD and FAO forecasting 13.1% consumption growth by 2030, driven by strong demand for cheaper proteins, deemed to be a healthier food choice.

> *[Poultry] has been one of the fastest growing sectors and has changed beyond recognition in five decades.*

Nowadays, it is typical to find average broiler sheds exceeding 45,000 birds, achieving weights in half the time with a feed consumption ratio of 1.7 or less – huge productivity gains! But has the productivity peak been reached?

The change in systems, being driven mainly by the retailers, appears to be pushing us back towards that of the 1970s. A move to free-range, the growth in barn and a ban on enriched colony (by the majority of retailers by 2025) is not dissimilar to that seen pre-70s, with deep litter housing and free range being the norm (in fold units moved daily).

In the broiler sector, there is a push for retailers to commit to the 'Better Chicken Commitment,'. This again goes back to days of old, with lower stocking densities, slow growing breeds and slaughter ages extended.

Many of these changes are being driven by changing consumer attitudes, marketing and aims for higher welfare. The problem is that it will almost certainly result in reduced productivity and production – you only have to look at the example of converting an enriched colony shed to barn, which is at least 50% less efficient (half the birds can be housed) and the cost of production is often prohibitive for producers. This comes at a time when demand is only increasing, but consumer wallets are being squeezed.

A further challenge is presented in the form of Avian Influenza (AI). In the 1970s the comparison was Newcastle Disease (albeit AI was also in circulation). Both are pandemic notifiable diseases causing restrictions for poultry producers, significant mortality and a blockade on trade. Newcastle Disease was clearly identified in 1927 and the first vaccine wasn't available for 45 years until 1972. In the UK and across the world AI is becoming increasingly problematic, with wild bird outbreaks becoming more prolific, making outbreaks

in commercial units harder to contain. There is no sign currently of a vaccine being permitted (only currently in zoo birds in the UK).

This disease is one which inhibits growth of the free range and organic sectors in the UK, with housing restrictions in affected areas sometimes in place for months, if not years.

Broiler and egg producers alike are struggling with increasing production costs (feed, energy, labour, interest) with sale prices not covering the cost increases. This squeezes profit margins for producers. Profit is required to cover re-investment, loan repayments and drawings for business owners. If the profit requirement for businesses is not met, the sector will fail to grow to match consumer demand and may even contract. It is important that cost increases are matched proportionally, otherwise new entrants to the sector will deem it unviable. New build units are currently quiet with farmers now sitting on Planning Permissions as the returns are not attractive. With demand for poultry products forecast to increase, and more floor area and growing facilities required to meet higher welfare standards, it is a sad state of affairs if farmers are not rewarded appropriately for their investments for a product with such promising demand forecasts.

> ***It is a sad state of affairs if farmers are not rewarded appropriately for their investments for a product with such promising demand forecasts.***

With these challenges for the UK poultry sector, it would appear we require a little help from our retailers. There is a need for better education in the industry and for consumers, to understand where their food comes from. With a greater demand for eggs and poultry meat – we need more production, not less. Surely there is a place for higher-welfare housed systems alongside the less intensive free range and organic systems, providing a range of cost options for the UK consumer and highly productive systems for producers?

Topical Issue-

Grassland Management

TOM CRATCHLEY

Whilst the interest in herbal leys and the use of home-grown legumes has increased dramatically in recent years, it is certainly not a new discovery. Frank Newman Turner, author of 'Fertility Farming' was a fervent advocate of herbal leys in the 1940's and 1950's, swimming against the tide of increased inputs to maximise output in the post-war era. Practising what he preached with his Jersey milking herd on the edge of the Somerset levels, he was passionate about protecting the soil and environment, whilst never sacrificing his drive for profitability.

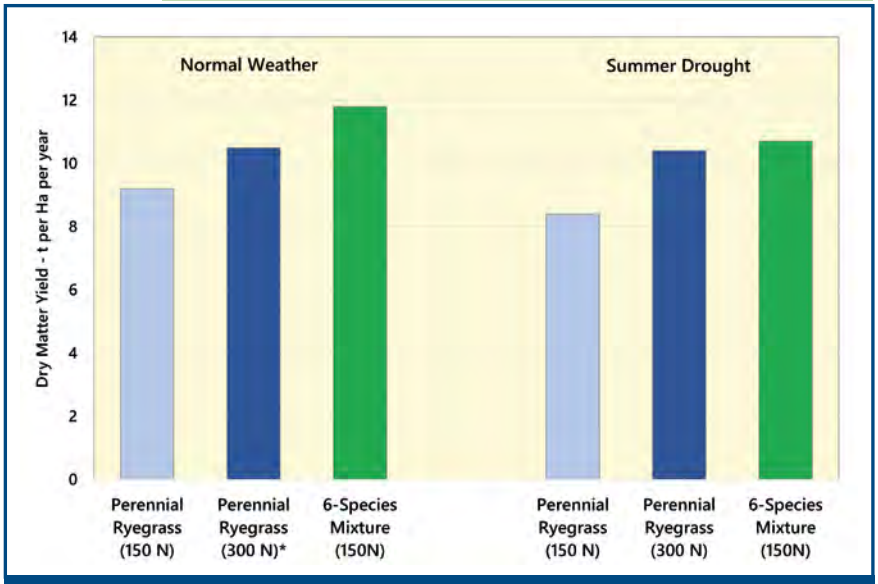
Frank Newman Turner considered herbal leys as the bedrock of both soil fertility and animal health, considering the two completely intertwined. This contrasted sharply with the mainstream views of the time. The nation was amidst a drive towards self-sufficiency in the post-war period with increased yields, inputs and monocultures being promoted to alleviate food rationing and improve living standards. This relentless drive towards increased food production was successful, however, with the UK becoming 78% self-sufficient in indigenous food at its peak in 1984, drowning out Newman Turner's teachings in the process.

> ***Farmers are now once again rediscovering the advantages of herbal leys.***

In recent years a renewed focus on environmental sustainability, reducing artificial inputs and an emphasis on soil health has meant we have come full circle, with Newman Turner's learnings becoming relevant once again. His teachings and experiments from Goosegreen Farm have moved from the side-lines into the mainstream, with his books once again being published. Farmers are now rediscovering the advantages of herbal leys.

So, what is a herbal ley and what are the benefits? A typical herbal ley varies depending on climate, farm type and soil type. Most mixes will include a mix of ryegrasses, clovers,

Figure 21 **Herbal Ley Yields**



Source: Teagasc. For details see - https://www.teagasc.ie/news--events/news/2021/multi-specieswards-grow.php
** even after increasing fertiliser on perennial ryegrass in monoculture, it did not yield as much as the highest diversity mixture*

other legumes and herbs:

- Ryegrasses for their high energy and high sugar properties
- Clovers and legumes for their nitrogen-fixing and high-quality protein
- Deeper rooting grasses and herbs such as cocksfoot and plantain for drought resistance.

This should provide a balanced diet of high energy soluble grasses, a good level of protein and deeper rooting species to provide forage in dry spells.

Are there any downsides with this trend towards herbal leys? Granted they do require some management tweaks to truly maximise the benefits. One recommendation is to allow for a longer rest period between grazing to really encourage deep rooting and to maximise growth. Concerns about establishment difficulties and lower energy values than a ryegrass sward are also well-founded, but not unsurmountable. However, with the current price of fertiliser, fuel and feed, a fully-functioning herbal ley presents a great opportunity. Managed correctly it will fix its own nitrogen, provide ample protein and energy and provide drought tolerance that is second to none.

As Newman Turner said, "Herbal leys are the basis of soil fertility and health", in these times we might be foolhardy to ignore it, albeit 70 years later.

Topical Issue-

Nutrient Regulations

VICTORIA MOXHAM
AND LILY HISCOCK

One of the reasons many farmers in the UK voted for Brexit was a hope that a move to a domestic agricultural policy would result in reduced restrictions and 'red tape.' To date, much of the European legislation has been carried over to the UK and there has been little change. One area where this is affecting farming is nitrate and phosphate concentrations in UK waterways. Agriculture is the dominant source of nitrate and phosphate in water, accounting for around 70% of emissions. Much of this pollution is 'diffuse' rather than 'point source', making it harder to deal with.

High nitrate and phosphate concentrations can result in the following:

- Eutrophication of lowland surface waters
- Acidification and eutrophication of upland waters
- Nutrient enrichment in other sensitive habitats
- Loss of biodiversity in rivers, streams and lakes
- Risk to human health from drinking water after abstraction from ground or surface waters.

EU legislation to deal with diffuse nitrate levels led to the introduction of Nitrate Vulnerable Zones (NVZs) in the late 1990s. They have since been expanded and now 55% of England is designated, primarily due to elevated concentrations in waterways and groundwater. Since the rules were introduced there has been a small reduction in nitrate levels, but in the last two years they have risen again.

> *Agriculture .... has now overtaken the water industry as the most common cause of water bodies not achieving good status for phosphates.*

In terms of phosphate, the focus to date has been on discharges from water sewage treatment works (STW). Significant work has been undertaken to reduce the STW load, and a decrease of 66% (to 7,200 tonnes per year) was achieved between 1995 and 2020. However, agriculture (mainly from manure and digestate applications) has continued to contribute to phosphate loadings and has now overtaken the water industry as the 'most common cause of water bodies not achieving good status for P.' Whilst the problem has been building for some time, it has recently come to the fore in many areas. The phrase 'nutrient neutrality' has become much better known.

The concept of Nutrient Neutrality isn't new. It flows from the EU Habitats Directive of 1992. This is currently transposed into UK law through The Conservation of Habitats and Species Regulations 2017. This requires Local Planning Authorities (LPAs) not to allow development if this would adversely impact an EU 'Protected Site'. A number of land designations count as Protected Sites, including Special Areas of Conservation, SSSIs, Local Nature Reserves and National Parks.

The key change is that the enforcement of the rules has tightened since a ruling in the European Court of Justice in 2018 (known as the 'Dutch Nitrogen Case). As a result, Natural England designated certain European Protected sites as being in unfavourable status due to the nutrient loading in the catchment.

Most development is deemed to have an adverse effect on nutrient loading. This has resulted in a 'stop' on housing supply in those areas. The rules are applied where there will

be a 'net dwelling increase' which has meant the main impact has been on housebuilding. However, because of uncertainty on how to implement the requirements, it has also seen the development of new livestock buildings being stopped in some areas – for example poultry units and dairy farms. Areas such as Somerset (Levels RAMSAR site), Cornwall (River Camel SAC) and The Stour Valley have been affected with an estimate of 30,000 – 40,000 homes currently delayed in the Planning system.

The concept of nutrient neutrality is based on reducing existing sources of pollution to offset the nutrients generated by new development. In theory, if this can be demonstrated, the development can be 'unlocked'. However, the concept is still in its infancy with methodologies and markets being developed. Defra has recently announced the introduction of the Nutrient Mitigation Scheme (NMS). At the time of writing full details were yet to be announced, but it is designed to help free-up development.

The issue of agricultural nutrients is not unique to the UK and, indeed, countries such as Holland and New Zealand have already been imposing a range of restrictions and changes, aiming to reduce concentrations. And to do this quickly.

In New Zealand, following a damning report in 2020 stating that 60% of the country's rivers carried pollution above acceptable levels, with the blame firmly pointed at farmers, new rules now apply. These include a countrywide nitrogen cap, annual nitrogen usage reporting for all dairy farmers and intensive winter grazing restrictions (from November 2022).

In Holland, following the Dutch N Case, in 2021 a fund of €2 billion was made available for the agricultural industry, dedicated to buy-out programmes, innovation and technical measures to reduce emissions. Within the buy-out programme, the Government planned to cut livestock numbers by a third (pigs, poultry and cattle) by either buying out, relocating or even expropriation measures (if farmers were unwilling to move). This isn't the first time a livestock reduction programme has been actioned in Holland, with a dairy herd cull undertaken between 2017 and 2018, which resulted in a reduction in numbers by 190,000 and the closure of 600 dairy farms.

> ***The concept of nutrient neutrality is based on reducing existing sources of pollution to offset the nutrients generated by new development.***

The question is, will the UK follow-suit with similar restrictions? The Welsh Government appears to be the first to move on this, with their new Agricultural Pollution regulations. This is effectively an NVZ introduced across the country, which will come into force in April 2023. AHDB analysis suggests that the stocking density in Wales would need to reduce by 17% to meet new nitrogen limits (or a loss of 336m litres based on current dairy yields), which is significant. It is surely only a matter of time before England also increases restrictions, with a greater expansion of the NVZ areas, and possibly an introduction of new phosphate restrictions.

It may feel like we have many regulations in UK agriculture, and yet, somehow pollution incidences continue to occur regularly and farming's impact on the UK waterways continues to be negative. Sadly, because of these effects it seems more regulation will be the likely outcome. For some, this will be the push needed to reduce numbers, retire from dairying or commit to a more extensive grazing-based system.

On the other hand, by committing to reducing numbers, opportunities may arise. These include the provision of 'offsetting' services by reducing farming intensity through schemes such as the NMS. There may also be a reduction in investment requirements on farms with fewer animals – no expansion of slurry storage, infrastructure and reduced labour requirements? And finally, the supply and demand scenario – a reduction in livestock numbers will almost certainly result in reduced production (in the poultry, pig and dairy sectors). Could this tip the supply balance and provide a period of continued high prices for these sectors?

Scotland

BEN KELLAGHER

2022 was a year in which the changing climate provided a glimpse of the potential future. With record temperatures and very dry conditions in the east of Scotland, it was a year that could have been ruinous, but ultimately has ended positively. The dry weather and irrigation bans threatened to diminish arable and root crop yields, but all was not lost and average or above yields of good quality crops were achieved in many parts of the country. This, combined with favourable harvest conditions, competitively purchased inputs and high market returns, will likely result in a financially rewarding year for many arable growers.

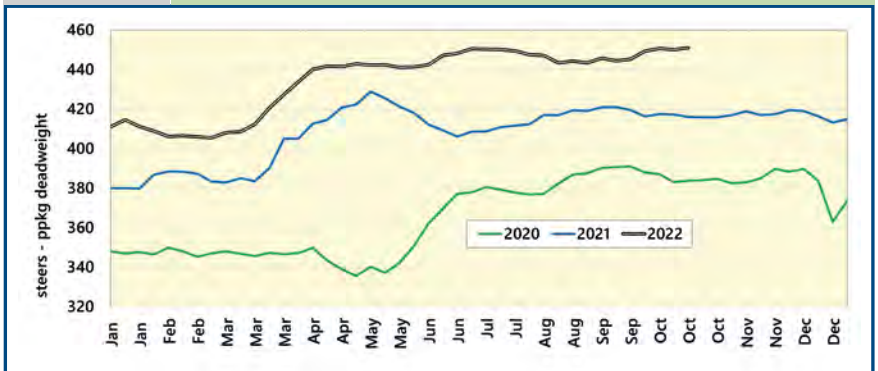
However, it has been a more variable year for livestock producers. Whilst inflationary pressures after the Russian invasion of Ukraine have had a substantial impact across all livestock sectors, it has not been as disastrous as initially feared. Market returns for finished cattle and prime lambs have held up well, despite these inflationary pressures.

Closer to average rainfall across western and central areas has also resulted in normal quantities of forage being grown and ensiled. The one negative amongst the livestock sector has been the store cattle market. Prices for store cattle have been at 2021 prices or lower throughout the year, which, combined with cost inflation, has led to reduced margins and may lead to a further reduction in the national suckler cow herd.

> *A buoyancy and optimism amongst livestock producers remains, regardless of inflationary pressures and uncertainty regarding future agricultural support payments in a post-BPS Scotland.*

However, a buoyancy and optimism amongst livestock producers remains, regardless of inflationary pressures and uncertainty regarding future agricultural support payments in a post-BPS Scotland. Sales for breeding stock continue to be strong, livestock sales are well-attended and strong slaughterhouse and live market prices have provided the base for another good financial year. The long-awaited return of the Highland Show, celebrating a 200th year anniversary after two years' absence due to Covid, was a further highlight for Scotland's livestock sector. The confirmation of at least two further years of BPS payments (2023 and 2024) in Scotland has

Figure 22a **Scottish Deadweight Beef Prices - 2020 to 2022**



Source: QMS / Andersons

provided some short-term certainty, but what lies ahead is still unclear, particularly for beef and sheep farmers in more marginal areas.

In August 2022, the Scottish Government released a consultation on the proposed Agriculture Bill, designed to make Scotland 'a global leader in sustainable and regenerative agriculture'. It provides a general idea of the direction of travel, but is still worryingly short of detail. It suggests the new scheme will be 'implemented at an appropriate point and flexibly from 2025 onwards'. However, this may stretch into 2026. The consultation does provide a small amount of detail regarding how it expects its framework to work, suggesting a four-tier framework for payments.

Tier 1 will form a 'base level direct payment' with conditionality, more stipulations attached and potentially a large amount of bureaucracy. In accordance with the Scottish Government's Net-Zero by 2045 pledge, this will include carbon audits, soil and biodiversity audits and a land management plan, amongst others. Tier 2 will be a top-up of this basic payment with further payments for reducing greenhouse gas emissions and improving biodiversity. The devil will be in the detail.

Tier 3 and Tier 4 will be the indirect payments. Tier 3 will be a more targeted scheme based on elective payments. It will cover funding for conservation of specific habitats or species, alternative forms of farming, and for innovation in agriculture. The payments will not be limited to individuals, but will be available to groups or cooperatives. Again, details are very scant. Tier 4 is classed as 'complementary support' and it is extremely wide ranging. It includes advisory services, support for tree planting, peatland restoration and potentially coupled support for the beef and sheep sectors.

Figure 22b **Scottish Liveweight Lamb Prices - 2020 to 2022**

Source: QMS / Andersons

> ***There is the prospect of another Scottish independence referendum looming in 2023.***

While we have some hints as to the direction of travel, the real crux will be the amount of money available and what allocation will be given to each Tier. There is the possibility that the Scottish Government could provide an increase in funding for these schemes after 2024, but this currently seems politically unlikely. It is more probable that the amount of money available will be lower in real terms and, most certainly, lower base payments look inevitable. Whilst there is more short-term certainty in Scotland in subsidy support when compared to England, it is crucial that the plans are set out in more detail with a clear timetable to allow for farmers to plan and adjust accordingly.

Unaffected by the uncertainty facing Scottish agriculture is the increasing value of Scottish farmland, with a particularly sharp increase in Scottish hill farm values. Continuing the trend from 2021, the price of hill land with forestry potential continues to show a sharp rise from previous years and is attributed to a continuing demand for woodland and natural capital investment. Arable and grassland prices also continue to increase, albeit at a slower rate. With a country-wide economic slowdown already happening, will the demand for more marginal Scottish farmland from non-farming investors continue unabated?

And then there is the prospect of another Scottish independence referendum looming in 2023. A positive result will add further uncertainty to the proposed new system of subsidy support and will probably delay its implementation, due to a likely re-application for EU membership. From an economic point of view, any delay will be good for Scottish agriculture, as the current system of support provides financial certainty during a period of cost price and market volatility.

Wales

KERRY JERMAN
AND ANNA BOWEN

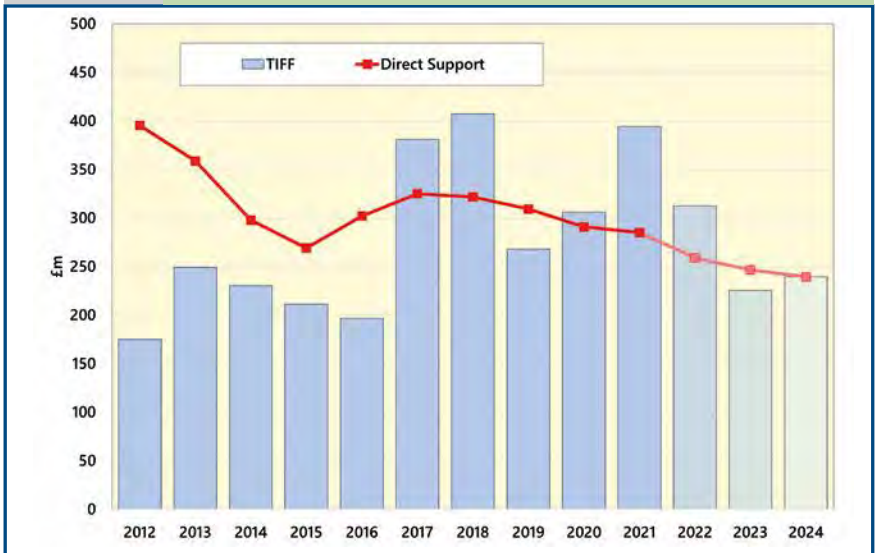
The last 50 years have seen vast changes in Welsh agriculture. As with the other regions, this is due, to a large extent, to policy changes from the UK and EU governments and, now, the Welsh Government. Historically, the push to convert as much land into productive farming as possible, and then moving onto heavy stocking with headage payments, has now shifted towards 'a balance' between protecting and enhancing the environment along with producing food at the highest standards, with the administration to go with it.

The Welsh Government is currently juggling many balls for the farming sector, with definitive decisions allowing businesses to move forward, being thin on the ground. The Water Resources (Control of Agricultural Pollution) (Wales) 2021 has seen a last-minute extension to April 2023 of the 170kg per Ha annual nitrogen holding limit. A consultation is being held this autumn for a temporary provision, likely a licence, allowing farmers over the limit a transition period to 2025 to become compliant. This limit has the potential to require stock numbers to be cut on farms with the most intensive stocking such as dairy units.

> *[Policy] has now shifted towards 'a balance' between protecting and enhancing the environment along with producing food at the highest standards.*

The past year has seen more information released on the Sustainable Farming Scheme (SFS), but greater detail on the scheme is still awaited by the sector. Current proposals have been met with some stiff opposition, not least the requirement to have 10% tree and 10% semi-natural habitat cover to be able to enter the scheme. However, the businesses that would remain profitable without joining the scheme are in the minority. As Figure 23 shows, on aggregate, the Welsh farming sector has been

Figure 23 **Wales Total Income from Farming and Support – 2012 to 2024***



** real terms, 2021 prices* *Source: Welsh Government / Andersons*

highly reliant historically on support to achieve profitability.

At farm level, the summer drought was very localised, with some farmers cashing in on this by having surplus forage for sale. For businesses with dry farms, summer seems to have transitioned straight into winter, with forage stocks being opened early. There is a sense of foreboding that this winter's costs will reduce profitability through increased quantity and prices of feeds purchased. Pig and poultry enterprises are forms of diversification on many traditional beef and sheep farms. The large increase in costs has resulted in losses in the intensive livestock sectors over recent months and it is a question of how long these can be supported by remaining farm enterprises.

The buzz of tourist accommodation has slowed dramatically, with occupancy down from the record highs of 2021. However, more 'pop-up' tourist attractions have appeared, with farms opening to the public with specific attractions such as Pick Your Own wildflowers, sunflowers and pumpkins.

> ***Current proposals [for the SFS] have been met with some stiff opposition, not least the requirement to have 10% tree and 10% semi-natural habitat cover.***

Wales is now entering a transition period until 2025 when the SFS is set to be introduced – the BPS will carry-on until then. It is hoped that businesses do not delay making necessary changes simply because the BPS continues. The transition phase is already seeing a carryover of grant funding available for the significant capital investment for farmers to be compliant with the new agri-pollution regulations. The Glastir Small Grants and Woodland Creation grants have also been carried over, albeit with new names and slight variations. The aim is to encourage business to enhance and create new woodland and landscape features. In preparation for the next scheme, new grants such as 'Growing for the Environment' encourage crops and forages to be grown in order to enhance the overall environment and reduce leaching.

It is believed that Farming Connect will continue under the new policy, providing training opportunities for farmers and offering funding towards business plans and nutrient management plans. When additional detail is offered with a timeline to entering the SFS, funding for these type of plans will help put businesses in good stead for accessing future support.

Final Word

DAVID ANDERSON
AND PETER PITCHFORD

For our Final Word in Outlook 2023, we actually go back to where it all started. Very kindly, two of the original Partners in Andersons the Farm Business Consultants, David Anderson and Peter Pitchford, explain in the following article what the original objectives of the business were and how they went about achieving these.

The autumn of 1973 saw the launch of a new farm business consultancy when David Anderson decided to leave Lugg and Gould after six years to pursue his own ideas of farm business consultancy. These he had set out in a letter he wrote to a senior colleague five years earlier and which can be summarised as follows.

1. The establishment of a network of offices providing advice to farmers on their businesses.
2. A structure providing rewards to consultants who can be part of retention of skills and prevent their defection from the business.
3. A business research department with intellectual weight to provide consistent training to all consultants so that they are giving similar advice.
4. Use of the data generated to advise businesses across the whole food chain.

So, on 1st December 1973, with little notice but with the blessing of Laurie Gould, David started his own business with his wife, Rosemary, who was a trained farm secretary. They relocated from Newmarket to Leicestershire as the four clients they inherited from L&G were in the East Midlands. Over the next two years, new clients were added to the list and in late 1975 Peter was recruited to ease the work pressure which had built up on David. The following spring, Jim Wilson joined the partnership. He had been a colleague of David's in the Newmarket office of L&G and established an office near Bury St. Edmunds, bringing with him good East Anglian contacts. Peter became a partner on 1st December 1975.

> ***"The 50-year journey of the company has been one of continued progression based on the ideas set out in the letter from David in 1968."***

During the late 1970's the business expanded almost entirely by word of mouth recommendation on the back of high quality advice, based on every problem being soluble until it proved otherwise. Clients ranged from large landed estates to tenant farmers, and geographically from the north of England to the south coast.

One tool of the trade which was developed over this period was the concept of the Farming Contract. This gave those businesses wanting to minimise the capital, risk and management input involved an alternative to creating a tenancy which could now be secured for three generations after the 1976 Agriculture Act.

There was a big breakthrough in the early 1980's when we were appointed as advisers to several land-owning pension funds. Clients from more traditional rural sectors were continuing to appoint the consultancy and more staff recruited to cope with the workload. These came from a ready supply of well-qualified agricultural management students, sadly no longer the case. The stress on those consultants working away from their bases in Melton and Bury led to the opening of offices in Salisbury and Hereford. Business opportunities in the far north of England and in Scotland

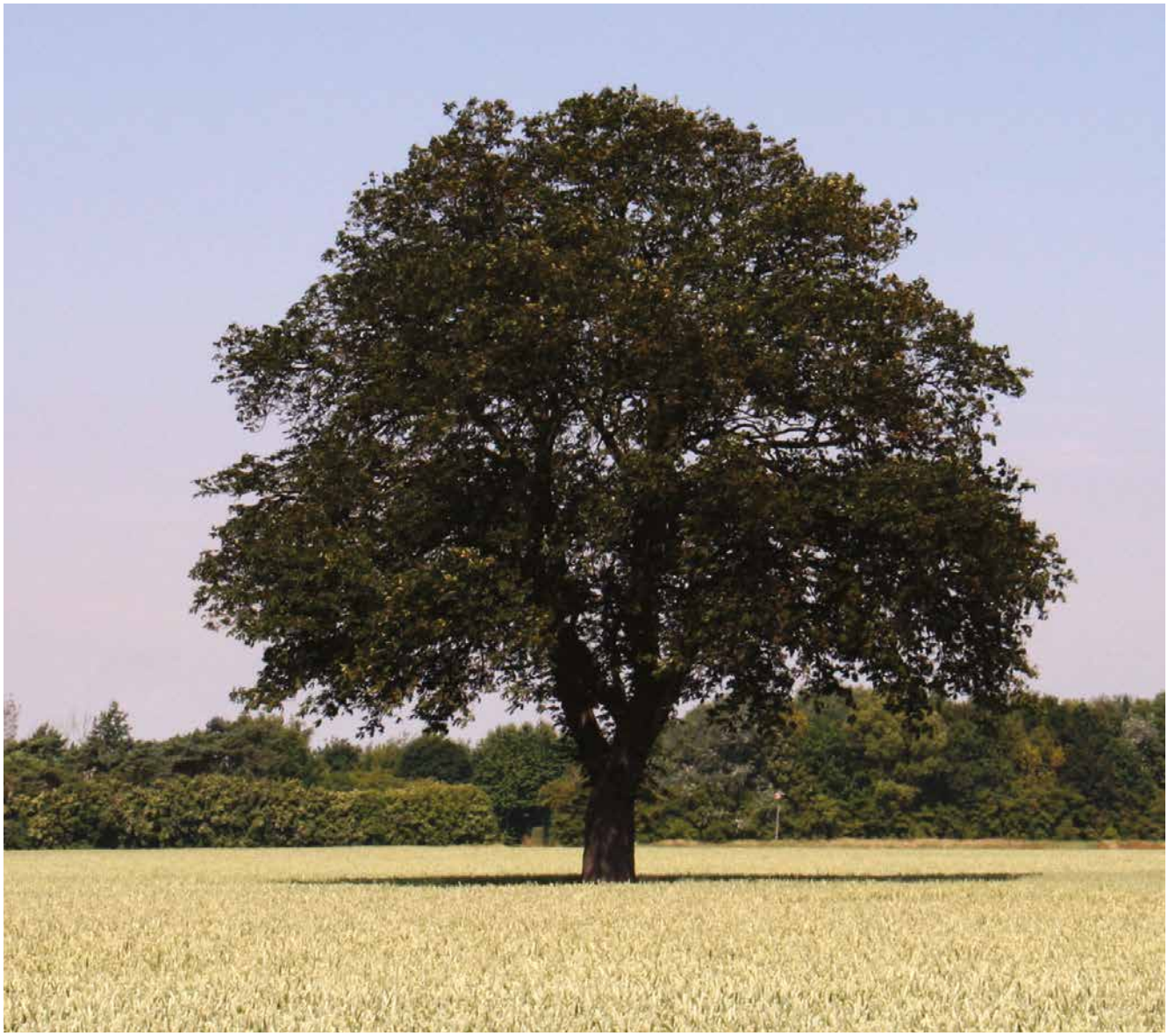
after the bad harvests of 1985 and 1987 resulted in the establishment of an office north of the border in 1988.

In 1992 the MacSharry reforms resulted in a major change in how agriculture was supported across the EU. The understanding and interpretation of these changes was vital to the farming businesses we advised and we found in Francis Mordaunt, already an experienced consultant, the analytical and presentational skills to update his colleagues on these new schemes. This evolved into the last piece of the jigsaw, referred to in his initial thoughts on agri-business consultancy by David, a fully-staffed Research Department.

David retired in December 2001 and after that a final change was made in the structure of Andersons which was devolved into regional partnerships with a co-ordinating Company subscribed to by all the regions. Twenty-one years later four of these businesses remain and they continue to provide quality advice to farmers and landowners the length and breadth of the UK.

The 50-year journey of the company has been one of continued progression based on the ideas set out in the letter from David in 1968. It has provided sound advice, developed new ideas and launched many careers for consultants, some of whom remain with the business today and others who have found success in other areas of agriculture, including banking and finance.

Looking back to the early and the mid 1970's it is something of a surprise that the start by two people, taking a risk to pursue and develop a fledgling profession, should have produced a nationwide business of the current size and reputation. We wish Andersons every success and continue to be proud of what has been, and still is, being achieved.



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- Business Analysis and Modelling
- Benchmarking & European Economic Comparisons
- Acquisitions & Joint Ventures
- IT & Software Design
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