BUSINESS

TRENDS By Patsy Hunter

Potential now for headage payments?

‘The 2020s can only be described as the decade of disruption. We have had Brexit, Covid and now war in Ukraine’

David Siddle, Andersons Farm Business Consultants

POLICY makers have to address the growing competition for land and the huge question of food security if Scottish farm businesses are to be able to withstand an era of unprecedented change coupled with ever increasing costs incurred by the war between Russia and Ukraine.

That was the stark warning from the speakers at the Andersons Farm Business Consultants Spring Seminar at Carfraemill, Lauder, where delegates were told of the pressure on individual businesses due to the lack of information on future agricultural policy in Scotland.

“It is very important that the policy makers come up with the right decisions for agriculture when there is so much competition for land from forestry and rewilding,” said Andersons advisor, David Siddle.

“The 2020s can only be described as the decade of disruption. We have had Brexit, Covid and now Ukraine. We need a good base of food production, but if the pendulum swings too far away from food security we will need a diversified range of markets from throughout the world,” he said.

He added that the huge increase of all input costs as a result of inflation and the war would put significant pressure on all farm businesses, with 2.5-3.0 times additional working capital required compared to last year.

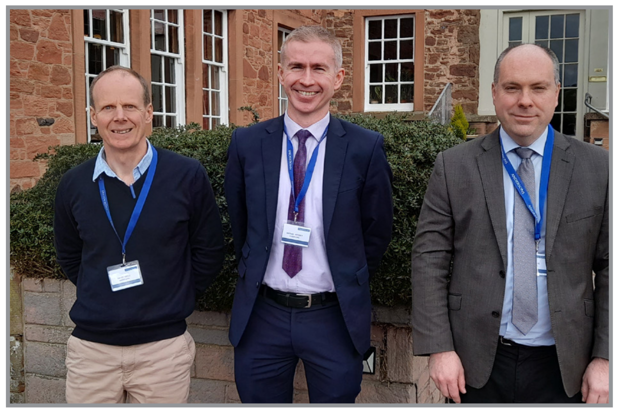
Add in the improved quality of management entailed to run farms, when direct support is falling and increased volatility on a global scale, and the future of Scotland’s family farms is very much at stake, Mr Siddle said.

Backing up these statements, Michael Haverty, Andersons, pointed out that while support is guaranteed until 2024 in Scotland, the Scottish Government does not want to ‘rock the boat’ by highlighting their agricultural intentions when they hope to stage a referendum in 2023 and SNP policy has always been to remain linked to Europe and some sort of CAP.

However, he added that the the Scottish Agriculture Bill requires new legislation by May 2026 and therefore must be reported to Parliament on progress by December 31, 2024.

In contrast to England, Scotland has no specific Environment Act planned, and instead has focussed more on meeting the climate change commitments.

While the final shape of future support in Scotland is very uncertain at present, Mr Haverty believes there will be some retention of direct (area) payments but at a lower level of perhaps 50%, which may be paid on conditionality of a receipt, based on some sort of collection of land, soil, water, air quality and biodiversity data.



SPEAKERS AT the Andersons seminar from left: David Siddle, Michael Haverty and Richard King

There is potential for boosted headage payments in Scotland too, albeit with conditionality on genetics, animal health etc.

Looking at environmental policy, Andersons expect a more ambitious Agri-Environment Scheme Support funding to cover a greater area with support for more training, knowledge and skills and capital grants limited to equipment with positive GHG effect.

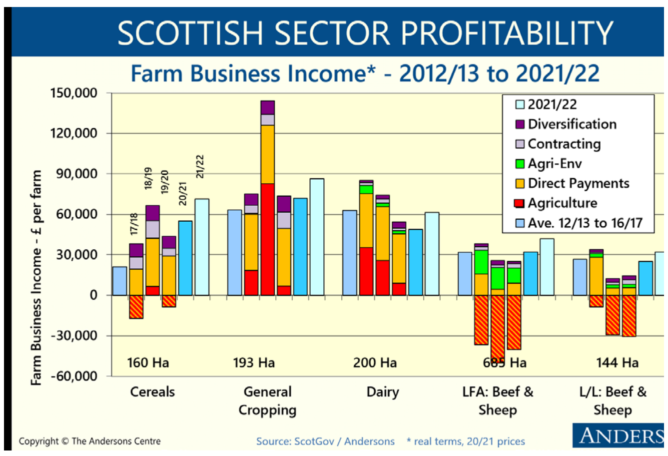
However, while the consultants believe this may be the outcome for future Scottish agriculture, even the date new farm policy might start is unclear.

With the delay up until now, the belief is, that the present system may remain relatively unchanged until 2025 although some preparation may be done beforehand to include the collection of ‘baseline’ data of individual farm performance.

Unlike England, but as proposed in Northern Ireland, some kind of retained direct area-based payments looks probably but with far more conditionality to their receipt.

Despite increased demand for food on a worldwide scale which has accelerated since the war, Andersons does not expect an increased drive for self sufficiency, claiming that change in types of food are more important for the UK when 85% of the land is devoted to livestock production to include the grain required to feed them.

Profit margins set to fall for all



SOARING costs of production caused by inflation and the ongoing war in Ukraine look set to significantly reduce margins in all agri sectors this year, with those farming south of the Border worst affected.

While most sectors enjoyed one of their most profitable periods last year, ever increasing feed, fertiliser and fuel prices are casting a real cloud over 2022 and 2023.

Speaking at the Andersons Seminar, Richard King, head of business research pointed out that Scottish farmers are being sheltered to a certain extent when basic payments will continue as they are north of the Border at least until 2024.

This compares to those in England who will see their BPS partly replaced by new environmental schemes.

As it is, Andersons expects income from farming – based on Defra’s Total Income From Farming (TIFF) – to top £6bn in 2021 – one bn more than in 2021. TIFF figures are predicted to drop to £5bn in 2022.

Looking at cereal farm profitability in Scotland, Mr King said grain values have been at a 10-year high and while barley prices have tracked much closer to wheat than in recent years, the cropping area is expected to fall in favour of oilseed rape which is seen to offer higher margins than barley in 2022.

Andersons’ notional business model – Loam Farm which operates across 600ha running a rotation of winter wheat, spring malting barley, winter barley/oats and winter oilseed rape, performed well throughout 2020 and 21. This year, the same farm is still expected to make a profit from production, despite increased costs. However, in 2023, even higher input costs look set to drive a £43/ha loss from production. It is nevertheless shielded from such a loss due to continued direct support.

In addition, the firm’s Scottish version of a typical 130ha dairy unit milking 200 cows, is projected to continue delivering good profits for well run farms. And, while a decline in profits is forecast for the coming year, good milk prices are expected to offset much of the input cost increases.

Meanwhile, a typical mixed lowland farm in Scotland with a notional 154ha, with beef and sheep and barley grown for livestock feed, can also expect to make a profit this year and next, according to Mr King.

However, he warned that 2023 will be more challenging due to higher costs of production.

DEADWEIGHT CATTLE IN SCOTLAND
week ending 02/04/2022 (p per dwkg)

	R4L steers	R4L heifers	R3 young bulls	0+4L cows
Change	+6.7p	+5.6p	+7.8p	+5.5p
Price	438.1p	439.7p	430.0p	370.9p

STORE CATTLE IN SCOTLAND
week ending 02/04/2022

	Continental 12-18 month steers avg	All breeds 12-18 month steers avg	Continental 12-18 month heifer avg	All breeds 12-18 month heifer avg
Change	+£9.17	-£8.25	-£1.26	+£103.81
Price	£1119.68	£1074.56	£1027.46	£1119.68

SHEEP IN SCOTLAND
week ending 02/04/2022

	Liveweight new season lamb	Total new season live sales	Live ewes per head	Total ewe live sales
Change	+2.3p	+2792	+£14.43	+650
Value	258.21p	15,559	£107.15	5235