INTRODUCTION

Since the last Cereals Event there has been a fundamental shift in the political landscape in the UK. The 'Brexit' vote for the UK to leave the EU has undoubtedly improved the prospects for the arable sector in the short-term. Longer-term, however, a vast amount of uncertainty hangs over future trading and support arrangements. How should combinable crop businesses react to this new environment?

PRICES

At a global level, the 2016 harvest continued the trend of the previous three by increasing stocks of cereals. There are signs that 2017 will see this trend reverse, with production less than forecast consumption. However, any shortfall currently looks like being quite small and not enough to significantly reduce stocks. Thus the world will remain plentifully supplied with grain through 2017 into 2018.

Closer to home, the EU harvest is expected to recover in 2017 after the weather-affected 2016 year. This is despite parts of northern Europe suffering from the same lack of spring rainfall as the UK. The rain in May came just in time to save the majority of crops. Even if there is some yield effects, either at a UK or EU level, it must be remembered that local output changes are fairly insignificant in price terms when taken in a global context.

The major change since this time last year has been the shift in currency. Following the EU referendum there was a sharp weakening of Sterling against both the Euro and the Dollar This is good news for UK farming as it makes our produce (including grains) more competitive. Had it not been for this currency effect UK cereals prices would be up to £20 per tonne lower than they currently are.

The oilseeds market is weaker than that for cereals. This is a result of global trends, whereby farmers have shifted into soya production from maize and wheat as the prices for the latter have been at historic lows.

The situation that has been seen since autumn 2016, with UK ex-farm feed wheat prices being in the range of £130-£140 per tonne (depending on region) looks like it may persist for some time. But there will be variations around this which can provide selling opportunities.

POLICY

With the issuing of the 'Article 50' notice the UK is now on the path to leave the EU at the end of March 2019. Until we formally exit we still retain all the benefits and drawbacks of membership, including the Common Agricultural Policy. Therefore, the BPS will continue to operate in 2018.

There also seems a strong likelihood that something BPS-like will also be in place for 2019 and possibly a year or two afterwards as well. Government will have plenty to occupy it dealing with the process of Brexit and drawing-up new UK farm policies may not be at the top of the to-do list. The easiest approach would be to roll-over the BPS systems with a few tweaks. All EU law will be transposed onto the UK statue books through the Great Repeal Act (including CAP rules). *Whilst this means there will be no 'cliff-edge' in terms of regulation, it means that those who thought that Brexit would bring about a reduction in red-tape will be disappointed.*

The UK Government had already guaranteed funding for farm support at current levels until 2020 (covering the 2019 scheme year). The Conservative manifesto extends this to the 'end of the next Parliament' which is due to be 2022. However, the way support is paid is likely to change during this period. From 2020 to 2025 new arrangements could well be phased-in, including the end of area-based payments.

Current Rural Development schemes will remain open until Brexit, but it is unclear what will happen after that. It may be that 2018 is the last chance to apply for programmes like the Countryside Stewardship, with there then being a gap in provision until new, UK, schemes become available.

PROFITABILITY

Since 1991, Andersons has been using its Loam Farm Model to track the fortunes of UK combinable cropping farms. It comprises 600 hectares in a simple rotation of milling wheat, oilseed rape, feed wheat and spring beans. The table shows figures for four harvests.

LOAM FARM £ per Ha	**2015** Result	**2016** Result	**2017** Budget	**2018** F'cast
Output	1,048	1,061	1,167	1,178
Variable Costs	431	421	395	403
Gross Margin	617	640	772	775
Overhead Costs	404	394	414	414
Rent and Finance	243	242	243	243
Drawings	75	77	77	77
Farming Margin	(105)	(73)	38	41
BPS (SPS)	179	213	213	208
Business Margin	**74**	**140**	**251**	**249**

Harvest 2016 showed an improvement on the previous year. Although physical yields were lower, prices were better. The average price would have been higher, but some grain was sold forward before the Brexit-induced price lift. Cost fell for the year due to lower fertiliser and fuel prices. The value of the BPS also improved due to weaker Sterling.

For the upcoming 2017 harvest, output is budgeted to improve. This assumes average yields and prices remaining at around current levels. Costs have crept up, but the farm returns to making a profit before support payments.

The forecast for the 2018 harvest shows that this improvement is maintained. *Loam Farm illustrates trends in arable returns but every farm is different and there is a vast range in business performance - driven largely by the quality of management.*

BUSINESS MANAGEMENT

Loam Farm shows that returns from arable farming look set to be better than in recent years. However, this is almost entirely due to a favourable exchange rate and masks the underlying issues faced by many businesses - often a high cost base and disappointing yields.

Achieving high yields is a key element of reducing costs per tonne. Part of this is timeliness of operations and input use. However, longer-term issues of fertility, soil structure and weed burdens also play a role. Some parts of the farm, and, indeed, individual fields will be highly profitable, whilst others will generate losses. Are these latter areas known, and can remedial work improve their performance cost effectively? If not, would they be better off not being cropped?

High rental levels have added cost in many businesses. It is worth questioning whether some of this additional land is really contributing to extra business profit or just generating extra work. Great opportunities still remain for the industry to take out costs through increased cooperation and collaboration. Unfortunately, during more profitable times the impetus for these can be lost.

HELPING YOUR BUSINESS

The short-term prospects for arable businesses look far better than 12 months ago. But in two years time the UK will no longer be part of the European Union, with far-reaching consequences for the grain market and the support regime.

Cereals farmers should use the next two harvests to get their businesses 'match fit' for the post-Brexit world. This might range from a few minor changes to fine-tune a successful enterprise, to a fundamental re-assessment of the way the farm approaches crop production.

Andersons already work with some of the most progressive cereals businesses. Our consultants can help arable farmers make the correct strategic decisions and improve profitability.

Through its regional businesses, Andersons are leaders in independent business consultancy in UK agriculture. Please contact one of the offices below for more details on the topics covered in this publication.

York
Andersons Northern
Tel: 01347 837 100

Edinburgh
Andersons Northern
Tel: 01968 678 465

www.andersonsnorthern.co.uk

Salisbury
Andersons Midlands
Tel: 01722 782 800

Leicester
Andersons Midlands
Tel: 01664 821 930

Hereford
Andersons Midlands
Tel: 01544 327 746

www.andersonsmidlands.co.uk

Bury St Edmunds
Andersons Eastern
Tel: 01284 787 830

www.andersonseastern.co.uk

Brecon
The Andersons Centre
Tel: 01874 625 856

Melton Mowbray
The Andersons Centre
Tel: 01664 503 200

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Building Robust Arable Businesses