



## STATE OF AGRICULTURE

# Mixed fortunes

Director of Agriculture John Taylor looks back on a year of mixed fortunes for Scottish agriculture.

**W**elcome to our Winter edition of *Agbiz*. I thought I would take some time to review the year and the fortunes of our sector.

It has been an eventful year in terms of commodity prices, weather, foot and mouth disease (FMD) and now blue tongue! Just when we thought the FMD crisis was sorted and export markets re-opened it reared its head again and it was back to square one! As I write this in early October, markets have just re-opened again. There is a welfare scheme to cull light lambs and exports are allowed again, subject to stringent conditions.

### Weather

After a warm spring, we have had one of the wettest summers on record. This has made life difficult with many farmers having to take advantage of 'weather windows' to get key tasks done. We have not suffered the large scale flooding and ruined crops seen in England, but it has been difficult enough. Better weather in late August and early September allowed the harvest to be safely gathered in.

### Commodity prices

The harvest has been gathered in and yields and quality are variable. Winter barley yields have been below average mainly due to a lack of sunshine. However, prices are well up on last year. Feed barley has effectively doubled from last year with prices around £150 per ton while malting barley looks to be around £180-£200 per ton as I write this. Wheat prices are also very firm at £170 per ton with OSR over the £220 mark. Little wonder that many cereal farmers have a spring in their step.



The dairy sector seems to be coming out of its problems with milk prices steadily increasing fuelled by global demand outstripping supply. It is being driven by the rising price of milk powder worldwide and the outlook for the foreseeable future is fairly optimistic. Indeed we are starting to see groups of dairy farmers flexing their muscles and telling the milk buyers they need to up the ante if they want their milk.

**“We are starting to see groups of dairy farmers flexing their muscles.”**

What a refreshing change! The sheep sector has had a tough year in terms of prices, compounded by the

recent FMD outbreak and closure of crucial export markets. The relaxation of restrictions has come too late for many and the whole sheep sector faces a difficult time at present.

### Beef

There is talk of meat prices having to rise due to shortages and production costs (see David Siddle's sector report on page 3). There has been some increase and the Scotch premium has strengthened again in recent weeks. The question remains: how far can it go and how much are the supermarkets prepared to pay? There is also the concern that any bi-lateral trade agreements could suck in cheap foreign imports. The high grain price will significantly increase the feed costs of finishing

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LOOK AT THINGS DIFFERENTLY

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store animals. How much are finishers going to pay for store cattle? If there is significant reduction, there is the possibility that suckler producers may decide to cut back. This could impact on the size of the Scottish suckler herd which is crucial to the sector. It is essential that we maintain the critical mass of the suckler beef herd, so producers need to get a fair return for their product.

However, as always, price depends on supply and demand and there is no world shortage. Ireland has abundant beef at a lower price and as long as there is good supply, the price is unlikely to move significantly. The other factor is that, unlike milk and grain, there are several other alternative protein foods like chicken, fish and pork if people perceive beef to be too expensive.

Potato producers have had a good year on the back of the 2006 lifting but as they prepare to lift the 2007 crop there are serious concerns about quality and blight problems which is a reflection on the poor summer. Blight problems have probably been the worst for 20 years and, as we move into the new year, storage may become a problem. It is early days yet but it seems that prices will be lower than last year.

## Looking ahead

There is no doubt that the past year has seen more optimism in the industry, although there are still issues out there. In certain areas there has been an uplift in prices and input prices, particularly for the livestock sector, are still rising. Over the next two to three years, as modulation starts to bite on the SFP, it is even more important that farmers know their costs of production and work to drive down costs. It is becoming ever more apparent that the efficient farmers with sound management systems will be the key players going forward. It is essential that people try to benchmark themselves against the excellent in their particular sector and look to push their performance towards these levels.

We have seen the launch this summer of Scotland Food and Drink. Food and drink is the biggest manufacturing sector in Scotland and the new organisation, supported by all

the key stakeholders, aims to build on our reputation, making Scotland internationally renowned as the land of food and drink and as a leader in collaborative supply chains.

As we approach the end of November, we expect to see the publication of the discussion document for the mid-term review

of CAP which is likely to flag up one or two key changes probably around set aside and milk quotas.

The Scottish Government published its Scotland Rural Development Programme

(SRDP) on 24 July and set out the programme to deliver support measures under the various axes. This will mainly be delivered through Rural Development Contracts and once approved by Brussels, it is hoped that applications will get under way early in the New Year.

Interest rates have firmed over the past year but following the recent 'banking' crisis, may have peaked.

**“Efficient farmers with sound management systems will be the key players going forward.”**

## ECONOMIC TRENDS

### Scottish farmland prices enjoy significant increase

The latest Bank of Scotland Land Price Index reveals a 47% climb in agricultural land prices from 2003 to 2006. The average value of a Scottish farm is now £740,032.

The latest Bank of Scotland Agricultural Land Price Index saw land prices in Scotland rising by 47% from an average of £1,863 per acre in 2003 to £2,736 in 2006.

This increase in agricultural land prices was almost seven times greater than retail price inflation (7%) over the same period but slightly less than the 53% rise in Scottish house prices.

Among the factors that have influenced land prices are: farmers have been looking to expand their farm size to achieve economies of scale; the Single Farm Payments regime introduced in 2005 has seen the supply of decent agricultural land fall; there have been more purchases by 'lifestyle buyers' who purchase agricultural land and then contract it out for farming. Another major player in the

market is overseas buyers particularly from Ireland and Denmark.

Finally, the Inheritance Tax Relief on agricultural land has made it highly attractive to non-farm buyers, who currently account for 50% of the purchaser market. Agricultural land can also help to diversify an investment portfolio.

Despite the rise in prices, Scotland has the least expensive agricultural land in Great Britain with an average price of £2,736 per acre, compared with the highest prices in the South East of £5,705 per acre.

The average value of a farm in Scotland – in terms of agricultural land only – is £740,032, 7% higher than in 2005. Regionally, Scotland is second only to the South East

with our high farm values reflecting the fact that the average Scottish farm size (270 acres) is much larger than the British average (160 acres).

Of the various land uses, land for arable farming in Scotland is the most expensive at £3,616 per acre, 6% higher than the next most expensive category, dairy farming (£3,425 per acre).

The Bank's research also revealed that Scotland had the highest number of farms in Great Britain in 2006 at 51,361, an increase of 2% from 2005 (50,189). On a regional basis, Scotland accounts for 18% of all the farms in Great Britain, followed by the South West (51,094). The North East, at just 2% of the total, has the lowest number of farms.

## SECTOR WATCH



# Coping with rising grain prices

David Siddle, Farm Business Consultant at Andersons Northern, analyses the effect of rising grain prices on the livestock sector.

**G**lobal grain stocks have fallen steadily over the last seven years and suddenly the market has woken up to the tight supply situation. Feed wheat prices have reached up to £180 per ton ex-farm in Scotland during September 2007, compared to around £80 per ton a year ago.

Prices are likely to fall back £30-40 per ton following the 2008 harvest, but an increase of £100 per ton (110%) has to be budgeted for the forthcoming winter for the 'cereal' ingredient of livestock diets. The impact upon the livestock sector will be severe, particularly when compounded with higher fertiliser and fuel prices, a poor forage year, foot and mouth disease restrictions, and now the threat of blue tongue.

This report attempts to quantify the additional costs of production imposed on the various livestock sectors throughout winter 2007/08 from feed price rises, prior to considering the prospects for recovering these cost increases from the food chain.

Straight prices have also risen substantially, with hipro soya (50% protein) now up to £220 per ton (delivered to Scotland) and rapemeal at £168 per ton, up 57% and 87% respectively on the year. So far the full impact of these ingredient cost increases has not been seen in compound feed prices as feed firms have passed on some of the benefit of forward buying cover. The estimated price increase for a number of common rations over winter 2007/08 compared to 2006/07 is outlined in table 1.

As world dairy commodity prices have soared, rising milk prices (now up to 25-28ppl for liquid milk, and soon likely to average at least 25ppl) remain ahead of the increases in the cost of production. A year ago, the average price was 18ppl so that a 7ppl increase covers feed cost increases of 1.5-2.2ppl over a full year's production.

Pigs and poultry are undoubtedly the

Table 1

| £ / Ton                             | 2006/07 | 2007/08 | Change (%) |
|-------------------------------------|---------|---------|------------|
| Dairy (high energy, 18% protein)    | 130     | 185     | +42        |
| Beef (16% pellets)                  | 120     | 165     | +38        |
| Sheep (18% ewe cake)                | 130     | 175     | +34        |
| Pig finishing pellets (19% protein) | 160     | 220     | +38        |

sectors most vulnerable to the feed cost/meat price time lag, as feed represents over 80% of the total variable costs of production. Many pigs are sold forward on contract with a cost of production element to the price, but this component is not proving elastic enough (given the current grain market) to sufficiently raise prices. A £60 per ton feed cost increase for this coming winter adds approximately 24 per kg dead weight to the cost of production of a 65 kg cutter over the whole production cycle. The average pig price has been at 107p per kg dead weight compared to 109p a year ago, but is now back to 109p. This is at least 16p too low to allow a margin over all costs. Tesco has recently announced price rises for pork, but more will be needed to keep producers in business.

**"Tesco has recently announced price rises for pork, but more will be needed to keep producers in business."**

Beef and sheep producers often have longer production cycles and are generally more extensive with feed usage, but rising feed prices remain a significant cost. Table 2 shows the feed cost increase in pence per kg dead weight for some typical beef and sheep production systems, using the cost

increases from table 1.

The table demonstrates the price rises that are needed to cover the extra feed costs for the whole production cycle. For the shorter production cycles (intensive beef and store lambs), the extra costs need to be recouped in late winter 2007/08 and into spring/summer 2008. For the suckler beef the final finishing will not occur until winter 2008/09 when cereals may be slightly cheaper. For the breeding ewe system the lambs will be marketed summer/autumn 2008. At present finished beef prices in Scotland are up 3p per kg dead weight compared to a year ago, but lamb prices are down 26p per kg dead weight. Producer prices need to increase much further to compensate fully for extra feed and for other cost increases and to retain a profit margin.

The immediate liquidity and future profitability of many UK livestock enterprises depend on retailers increasing prices and the consumer being prepared to pay more. This seems to have been accepted for the dairy sector, but is less secure for other livestock with the more intensive concentrate systems being more vulnerable. Alternative feeds such as fodder beet and other forage crops, despite their impracticalities, could cheapen feed costs for the more extensive systems.

Table 2

| Feed cost increases (winter 2006/07 – winter 2007/08) |                 |                             |                        |                                       |
|---|-----------------|-----------------------------|------------------------|---------------------------------------|
|   | Usage (kg/head) | Feed cost increase (£/head) | Dead weights (kg/head) | Feed cost increase (p/kg dead weight) |
| Intensive Beef – Fr x Cont.                           | 2,200           | 132                         | 310                    | 43                                    |
| Extensive Beef – Suckler calf                         | 1200            | 54                          | 320                    | 17                                    |
| Lamb – 150% lambing flock                             | 70/ewe          | 3.2/ewe                     | 20/lamb                | 10.5                                  |
| Store lamb finishing                                  | 15              | 0.90                        | 21                     | 4.3                                   |

FEATURE

# Why biosecurity is essential

Willie Donachie, Deputy Director of the Moredun Research Institute, looks at how the farming industry can tackle and prevent the spread of livestock diseases.

The importance of disease prevention for the health and welfare of farmed livestock, and the long term viability of the UK livestock industry, has been brought into sharp focus by the recent and continuing outbreaks of foot and mouth (FMD) and blue tongue (BT).

These two diseases pose different threats to livestock. FMD is highly contagious and can spread very easily by animal to animal contact while the BT virus is essentially transmitted between animals by certain types of biting midges.

Although their appearance has had an immediate and dramatic effect on the farming industry, there are wider implications for the UK livestock farming industry.

Closely associated with the dramatic measures used to control both outbreaks is the issue of biosecurity and its role in the prevention of diseases. This relates not only to exotic visitations to our shores but also to the vast range of other diseases which are

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endemic in the UK and whose detrimental effects, when considered in combination, are potentially greater than those of FMD and BT.

Tuberculosis (TB) and Johne’s disease (Paratuberculosis) are specific examples of this which require a consistent and properly applied biosecurity plan if transmission and spread are to be controlled.

Biosecurity is a lot more than disinfecting

and cleaning the farm areas and can be defined as the prevention of disease-causing agents entering or leaving any place where farm animals are present. It involves a number of measures and protocols.

This can be applied at individual farm level and would include such things as careful sourcing of new livestock,

**“Biosecurity is a lot more than disinfecting and cleaning the farm areas...”**

quarantining, controlling visits to the farm and using vaccines where appropriate.

There is another set of procedures which would be applied at livestock markets and shows. These would include careful washing and cleaning of any vehicle, equipment or clothing contaminated with animal excreta both going to and coming from the event.

The occurrence of a major animal disease outbreak should force us to ask the question about how we can prevent the next one.

Longer term planning is essential. In addition to government level activities on a national scale, individual farms should develop a health plan in consultation with their veterinary surgeon or other advisors.

The plan should aim to do the following:

- identify the risks of introduction and spread of disease and infections;



- allow early recognition of disease;
- prioritise measures to control existing problems and manage risks, including the responsible use of medicines.

The plan could assess the local risks of certain diseases, consider which specific vaccines would offer protection and identify whether membership of an accreditation scheme would be worthwhile.

A literal interpretation of biosecurity is “safe life” and it is useful to keep this in mind when attempting to prevent infectious diseases in our livestock.

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