Time for Change

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Time for change

UK agriculture is probably larger and less efficient than had it been less subsidized.

New trade deals…may expose UK farmers to tariff and quota-free access from highly competitive overseas suppliers.

Devising new domestic and trade policies…will not be straightforward or easily compartmentalised.

A large number of farms could be put under considerable financial pressures, with an uncertain impact on farming practices and the environment.

Source: Prof Alan Swinbank writing for UK Trade Policy Observatory (which is a partnership between the University of Sussex and Chatham House)
UK Agricultural Policy 1 – Objectives

What outcomes do we want?
- Food production?
- Landscape and wildlife production?
- Reducing carbon / greenhouse gas emissions?
- Supporting rural communities?

What do we want farming / farmers to look like in 2040?
- Is the number of farmers or farm size relevant?

What is the economic justification of capping?
UK Agricultural Policy 2 – direct payments

Government is asking:
“What do the public want to buy with their money?”

Likely to be lower
Budget for 20% lower in 2020?
Then falling further to zero for some farms?

Payments focussed on fewer sectors
× Arable?
✓ Hill livestock?
✓ National Parks?
✓ Cutting greenhouse gas emissions?

Unlikely we will have an UK Agricultural Policy until 2025
Source: Farm Business Survey. Figures are for Farm Business Income, which is a good proxy for profit.
| Source: Farm Business Survey |

## Net Profit 2 – By Income Type

<table>
<thead>
<tr>
<th></th>
<th>Cereals</th>
<th>General cropping</th>
<th>Dairy</th>
<th>Lowland grazing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Business Income</td>
<td>35,500</td>
<td>62,600</td>
<td>43,900</td>
<td>12,000</td>
</tr>
<tr>
<td>Basic Payment Scheme</td>
<td>30,800</td>
<td>36,700</td>
<td>20,900</td>
<td>12,900</td>
</tr>
<tr>
<td>Agri-environment &amp; other payments</td>
<td>5,900</td>
<td>8,400</td>
<td>3,800</td>
<td>5,800</td>
</tr>
<tr>
<td>Diversification</td>
<td>15,500</td>
<td>17,600</td>
<td>5,200</td>
<td>4,200</td>
</tr>
<tr>
<td>Agricultural</td>
<td>-16,800</td>
<td>-100</td>
<td>14,100</td>
<td>-10,800</td>
</tr>
</tbody>
</table>
Over 60% of cereal farms have a net profit of less than £30,000

Source: Farm Business Survey, figures for 2015/16. Figures are for Farm Business Income, which is a good proxy for profit.
Income volatility almost entirely due to agricultural production

Source: Farm Business Survey
Only 20% of farmers have cost per tonne below £125

All the main forecasting bodies are not expecting prices to go up significantly

Source: Farm Business Survey, figures for 2015/16. This includes an allowance for unpaid labour and a 'rent' for the land. It excludes BPS.
Wheat Cost of Production 2 - £/tonne - International

Source: AHDB, figures are average for 2008 – 2015.
## Brexit: Cereals Farms & Subsidies

<table>
<thead>
<tr>
<th></th>
<th>Average 5 year average</th>
<th>50% BPS scenario</th>
<th>Top 25% 5 year average</th>
<th>Top 25% 50% BPS scenario</th>
<th>2016 Average</th>
<th>2016 50% BPS scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm size (ha)</td>
<td>198</td>
<td>198</td>
<td>184</td>
<td>184</td>
<td>205</td>
<td>205</td>
</tr>
<tr>
<td>Agricultural output</td>
<td>£965</td>
<td>£965</td>
<td>£1,155</td>
<td>£1,155</td>
<td>£902</td>
<td>£902</td>
</tr>
<tr>
<td>Gross margin</td>
<td>£599</td>
<td>£599</td>
<td>£825</td>
<td>£825</td>
<td>£510</td>
<td>£510</td>
</tr>
<tr>
<td>Net margin</td>
<td>-£34</td>
<td>-£34</td>
<td>£251</td>
<td>£251</td>
<td>-£172</td>
<td>-£172</td>
</tr>
<tr>
<td>+ BPS</td>
<td>£198</td>
<td>£99</td>
<td>£198</td>
<td>£99</td>
<td>£181</td>
<td>£91</td>
</tr>
<tr>
<td>+ Stewardship</td>
<td>£32</td>
<td>£32</td>
<td>£34</td>
<td>£34</td>
<td>£34</td>
<td>£34</td>
</tr>
<tr>
<td>Total income</td>
<td>£196</td>
<td>£97</td>
<td>£483</td>
<td>£384</td>
<td>£43</td>
<td>-£48</td>
</tr>
</tbody>
</table>

Sustainable Profits without Payments

**What do the best farming businesses do that makes them so good?**

<table>
<thead>
<tr>
<th>Attention to detail / marginal gains</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deep knowledge of business and costs</td>
<td>4</td>
</tr>
<tr>
<td>Driven people managing the business</td>
<td>3</td>
</tr>
<tr>
<td>Flexible / adapt to changes quickly</td>
<td>2</td>
</tr>
<tr>
<td>Skilled staff (attracting and developing them)</td>
<td>2</td>
</tr>
<tr>
<td>Focus on core activity with diversification where poss</td>
<td>2</td>
</tr>
<tr>
<td>Customer / market focus</td>
<td>2</td>
</tr>
<tr>
<td>Set measures, where possible</td>
<td>2</td>
</tr>
<tr>
<td>Technically sound</td>
<td>2</td>
</tr>
<tr>
<td>Focus on cash generating enterprises</td>
<td>2</td>
</tr>
</tbody>
</table>

**What are the most significant things you can do to make your business successful?**

<table>
<thead>
<tr>
<th>Cost efficiency</th>
<th>11</th>
</tr>
</thead>
<tbody>
<tr>
<td>(variable costs, fixed costs inc land, streamlining, less waste)</td>
<td></td>
</tr>
<tr>
<td>Yield (crop performance)</td>
<td>6</td>
</tr>
<tr>
<td>Higher prices (weaker sterling, selling three years ahead)</td>
<td>5</td>
</tr>
<tr>
<td>Skilled labour</td>
<td>4</td>
</tr>
</tbody>
</table>

*Source: Strutt & Parker and Syngenta*
Improving margin by £200 per hectare – raising output

How to increase yields by 1.5 tonnes per hectare of wheat and 0.6 of OSR

Control variable costs through attention to detail - especially timeliness:

- Early drilling OSR to cut insecticide spend
- Late drilling of wheat where there is blackgrass to cut herbicide spend
- Spot on T1, T2 timings – less fungicide spend

Sell for more

- Sell for a premium price, such as group 3 wheats
- Rent out land for non-food based / energy generation

Only grow where profitable

- Rent out land for non-food based / energy generation
Improving margin by £200 per hectare – cost efficiency

**Labour**

**Typical costs**
- Labour £90 – 110 per ha
- Management £30 – 50 per ha

**Cost saving potential**
- Joint ventures
- Change in cultivation systems

**Machinery**

**Typical costs**
- Machinery £240-280 per ha, Inc depreciation £120 per ha

**Cost saving potential**
- Keep machinery longer
- Buy second hand
- Maintain high residual values
- Flexible fleets

**Land costs**

**Should follow profits up & down**
- But lag due to key money

**Cost saving potential**
- Contract Farming Agreements likely to remain main type of agreement
Only the fittest survive
[by tackling costs, market focus, using technology, using data]

No bonfire of regulations
[as would block exports]