

Time for Change

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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.

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?

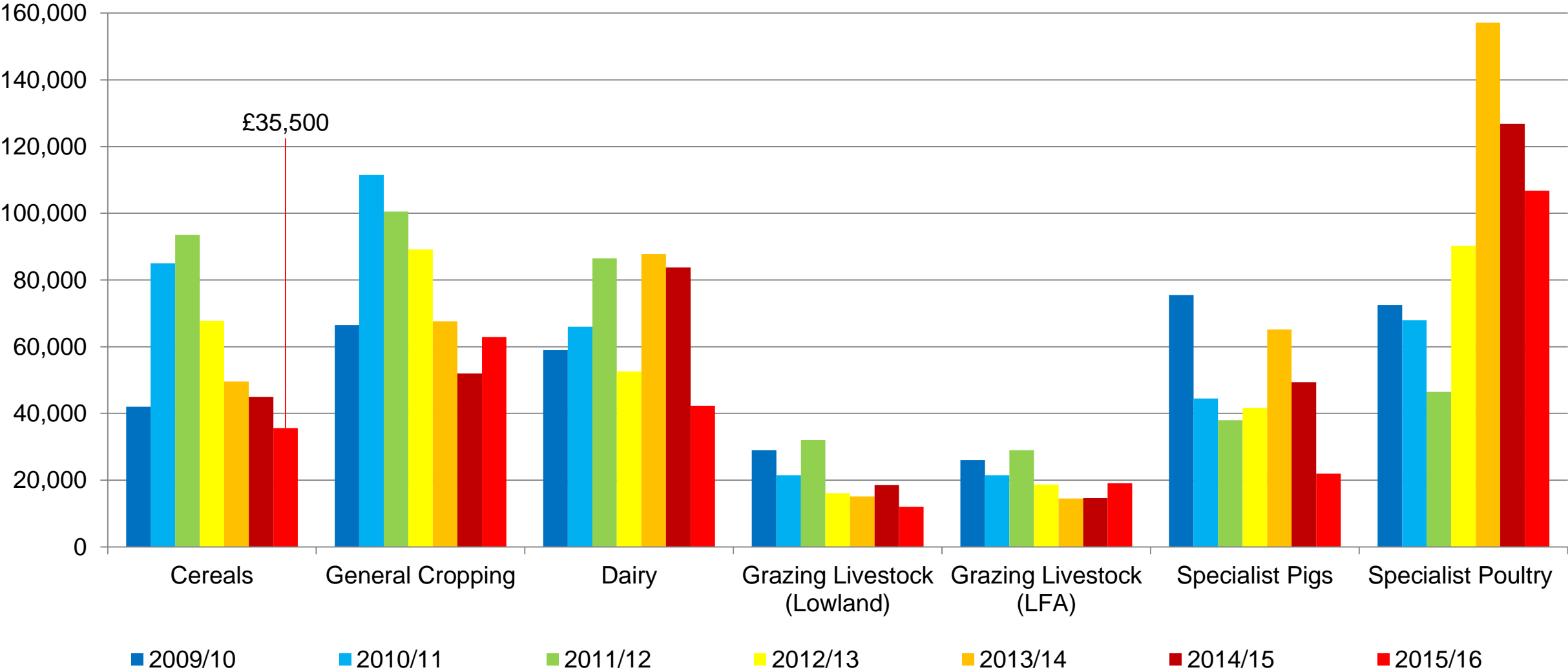
✓ Hill livestock?

✓ National Parks?

✓ Cutting greenhouse gas emissions?

Unlikely we will have an UK Agricultural Policy until 2025

Net Profit 1 – By Farm Type

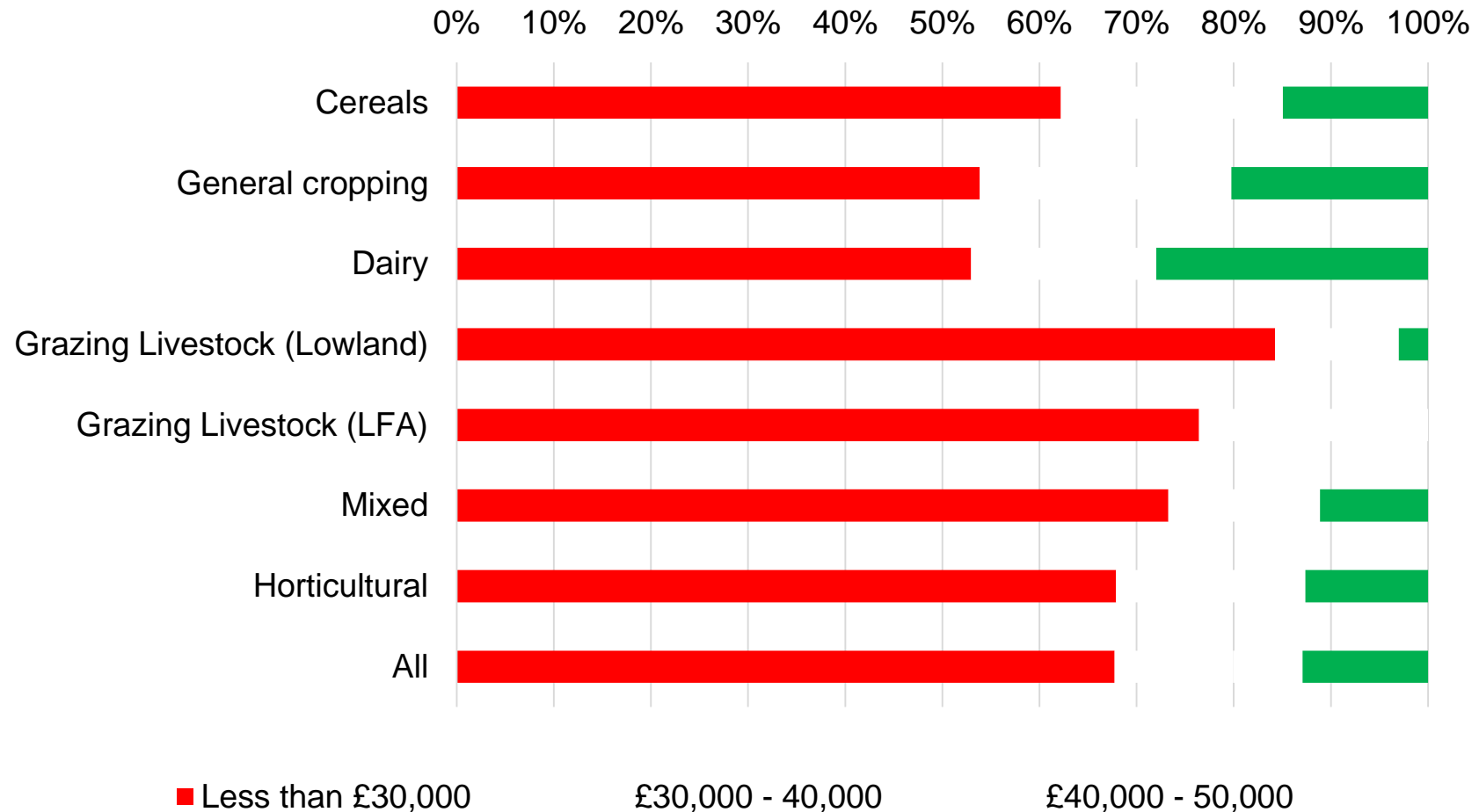


Source: Farm Business Survey. Figures are for Farm Business Income, which is a good proxy for profit.

Net Profit 2 – By Income Type

	£ per Farm (2015/6)			
	Cereals	General cropping	Dairy	Lowland grazing
Farm Business Income	35,500	62,600	43,900	12,000
Basic Payment Scheme	30,800	36,700	20,900	12,900
Agri-environment & other payments	5,900	8,400	3,800	5,800
Diversification	15,500	17,600	5,200	4,200
Agricultural	-16,800	-100	14,100	-10,800

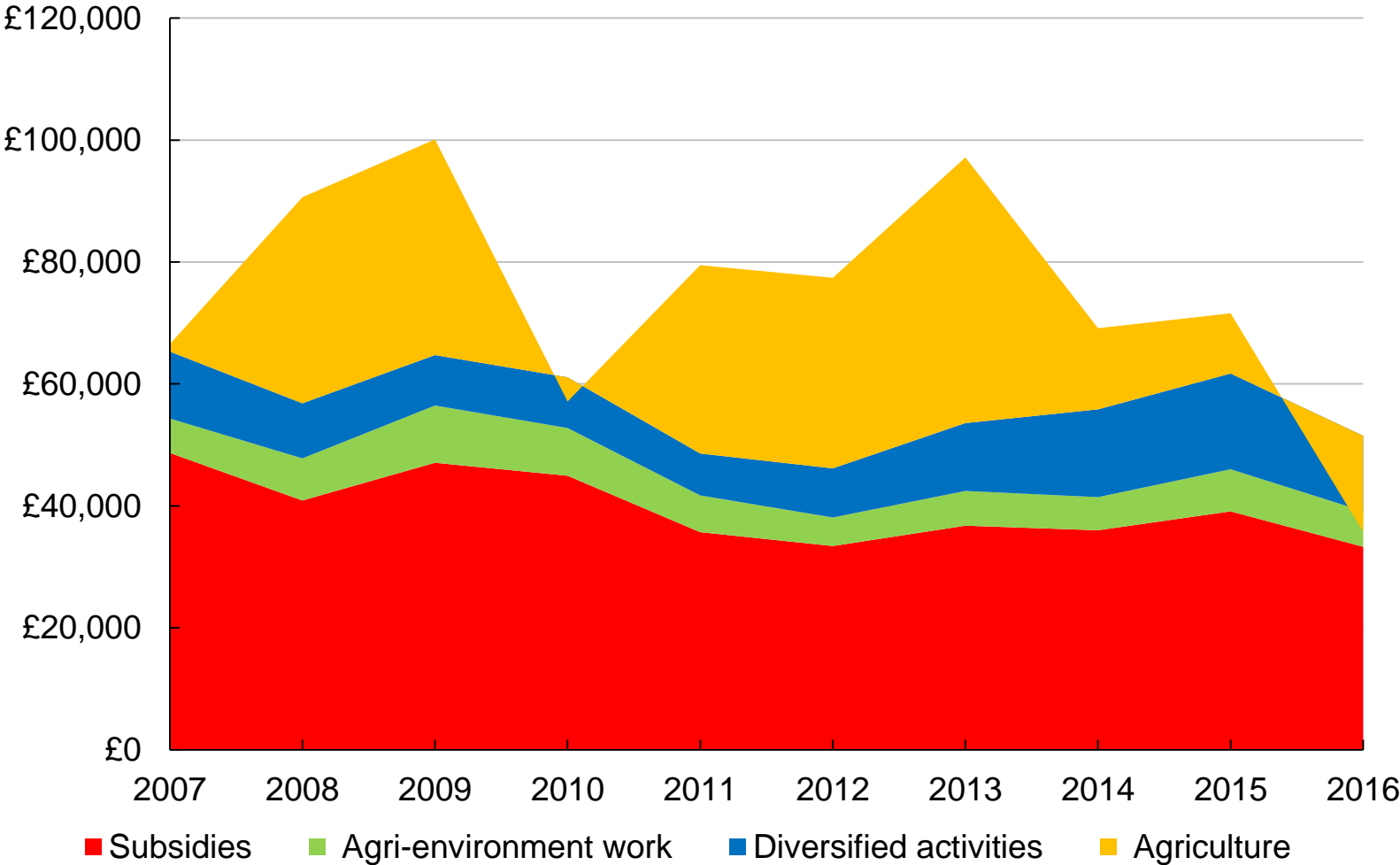
Net Profit 3 – Distribution of Income



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.

Net Profit 4 – East of England Cereal Farms



Income volatility almost entirely due to agricultural production

Source: Farm Business Survey

Wheat Cost of Production 1 - £/tonne - Proportion of Farms

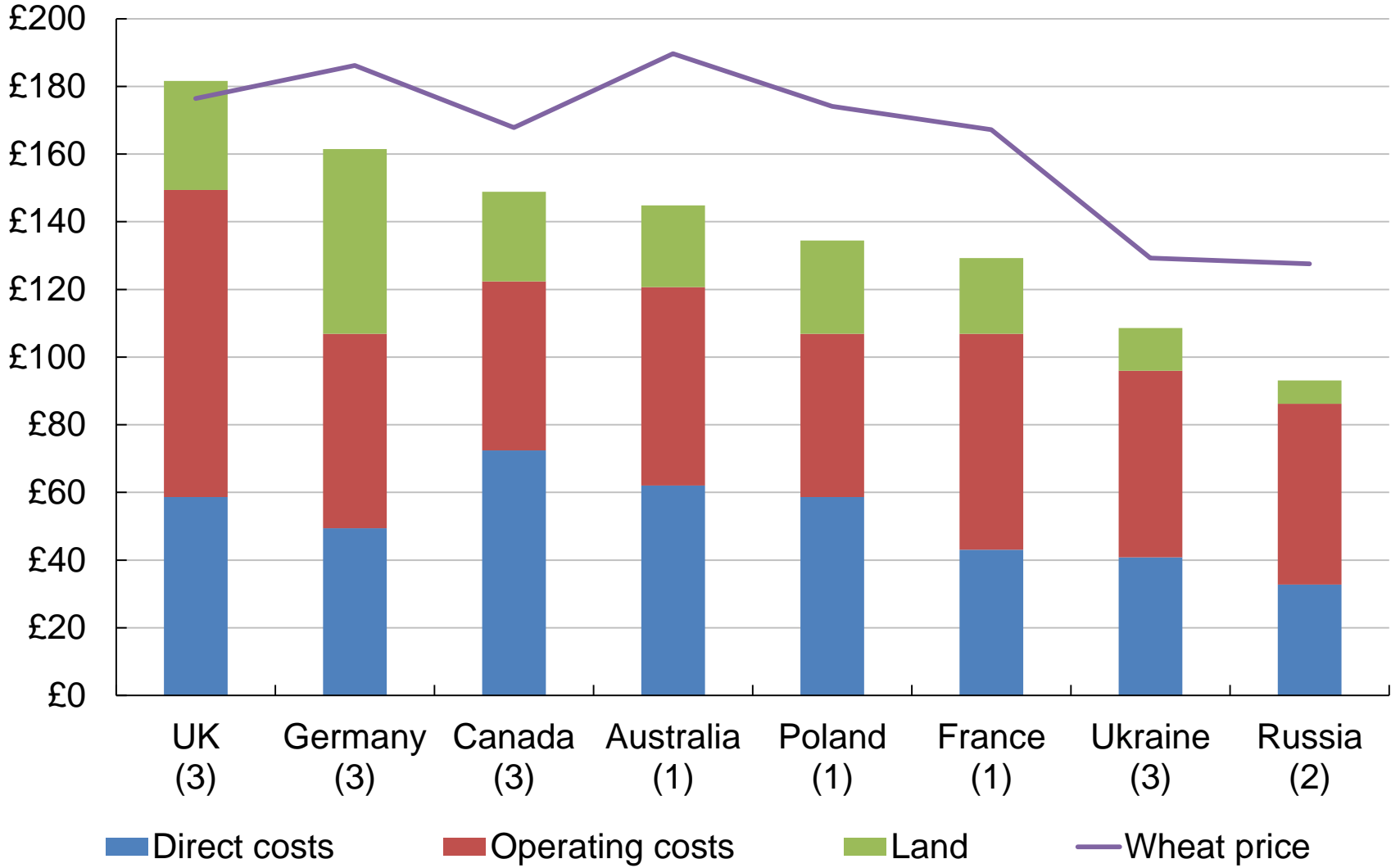


Only 20% of farmers have cost per tonne below £125

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

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

Source: Farm Business Survey, figures for 2011 to 2015.

Sustainable Profits without Payments

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

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

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

Cost efficiency (variable costs, fixed costs inc land, streamlining, less waste)	11
Yield (crop performance)	6
Higher prices (weaker sterling, selling three years ahead)	5
Skilled labour	4

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

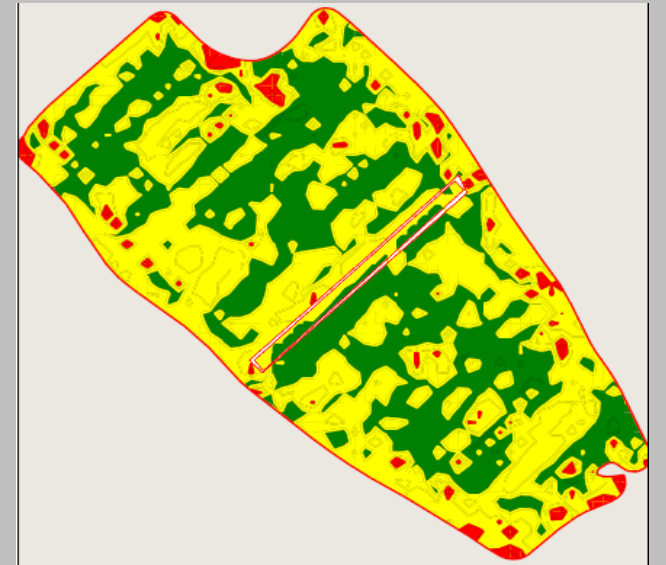
Spot on T1, T2 timings – less fungicide spend

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



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]