



INDUSTRY INSIGHTS

in Agriculture





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in AGRICULTURE



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MARKET DEFINITION

1.1 Scope of the Market

Agriculture within the United Kingdom is divided into three main types:

- cultivable farming grows crops, e.g. wheat and barley
- pastoral farming is raising animals, e.g. cows and sheep
- mixed farming is both arable and pastoral

Agriculture can be intensive or extensive:

- intensive agriculture uses small areas of land with lots of expensive inputs, e.g. market gardening
- extensive agriculture uses large areas of land with fewer inputs needed, e.g. hill sheep farming

Farmers choose the type of agriculture that is best for the place they farm and the human resources they have.

Sector share of output 2018 (%)

	Scotland	England ⁽¹⁾	Wales	NI	UK	EU28 ⁽¹⁾
Cereals	14%	14%	1%	1%	12%	11%
Potatoes	6%	2%	1%	1%	2%	3%
Oilseed rape	1%	3%	0%	0%	2%	2%
Horticulture	10%	12%	3%	5%	10%	20%
Total crops	34%	41%	6%	8%	35%	51%
Cattle	22%	8%	24%	22%	11%	8%
Sheep	7%	3%	17%	4%	5%	1%
Pigs	3%	5%	0%	7%	5%	9%
Poultry	2%	11%	3%	13%	10%	5%

Capital formation	6%	4%	4%	4%	4%	1%
Total livestock	42%	32%	48%	46%	36%	24%
Milk	13%	14%	34%	32%	17%	14%
Eggs	3%	2%	3%	5%	2%	2%
Total livestock products	16%	17%	38%	37%	20%	17%
Other	8%	10%	8%	8%	9%	9%
Total value (£ million)	3,182	19,658	1677.00	2,134	26,651	430,819

Totals may not add up as not all sub-categories are included in the table
(1) England and EU data are 2017

Table source:
<https://www.gov.scot/publications/agriculture-facts-figures-2019/pages/5/>

Farm types 2018

	Number of holdings	Area (ha)
Cereal	2,344	238,714
General Cropping	1,633	260,110
Horticulture	719	22,480
Pigs	260	10,607
Poultry	865	13,363
Dairy	665	105,988
Sheep & Cattle LFA	14,919	3,234,561
Sheep & Cattle nLFA	2,922	119,586
Mixed	4,363	282,027
Forage	20,920	1,272,497

Other	1,547	43,880
Total	51,157	5,603,812
Common Grazing		579,847

Table source:
<https://www.gov.scot/publications/agriculture-facts-figures-2019/pages/3/>

Livestock farming is that of the dominant agricultural enterprise within the UK and is vital for food security, such as for ensuring a vibrant rural economy.

Total Income from Farming rose by £1,774 million (45%) in real terms to £5,711 million. Agriculture contributed £10,285 million to the economy (Gross Value Added), a rise of £1,756 million (21%). The main drivers of this change are:

- an increase of £2,397 million (10%) in gross output to £26,105 million
- an 11% increase in crop output was driven by increases in both prices and production for cereals and industrial crops
- a 7% increase in livestock for meat was driven by price increases
- a 25% increase in livestock products was driven by an increase in milk price
- the cost of intermediate consumption rose by 4.2% driven by higher prices, in particular for animal feed, energy and fertiliser
- a further weakening of the pound led to a 3.0% increase in the value of payments under the Basic Payment Scheme
- total financial gain from Farming per annual energy unit (AWU)¹ of entrepreneurial labour (farmers and different unpaid labour) rose by forty-four in real terms to £29,466.

1.2 Major Players (by turnover)

1. Openfield Group	6. Mole Valley Farmers
2. Fane Valley Co-operative Society	7. Anglia Farmers
3. First Milk	8. Berry Garden Growers
4. Arla Foods UK	9. Fram Farmers
5. United Dairy Farmers	10. Woldmarsh Producers

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MARKET INSIGHTS

2.1 Current Market Scenario

Dairy farming is one of the largest agricultural sectors in the UK, accounting for around 13.9% of UK agricultural production by value in 2016, and 32% in Wales in 2017.

The numbers of dairy farmers in Wales continue to decrease, despite a recent improvement in the global supply/demand balance and increasing farmgate prices. Between 2016 and 2017, the value of Welsh milk and milk products rose by £134 million (35%). This offsets a period of oversupply and sluggish demand, which previously led to a 30.6% (£168 million) reduction in the value of Welsh milk and milk products between 2014 and 2016.

Farmgate prices represent the average price paid to milk producers. The UK average price of milk in February 2018 was 29.64 pence per litre (ppl). This was 2.17 ppl (8%) higher than in February 2017. Milk prices have been climbing almost steadily since July 2016, with a recent drop after the price peak of 31.94 ppl in November 2017.

Average yield per cow in February 2018 stood at 27.54 litres/day, a decrease of 0.2% compared with the same month in 2017. According to the Promar Milk Costings, combining milk prices with the current milk yield gives a total average monthly milk value of £40,869, which was £3,678 (9.9%) more than the previous year.

According to a Rabobank report, the UK dairy industry is 77% self-sufficient. The sector is reliant on a balance of imports and exports that vary with product although it is still a net dairy importer.

The UK dairy sector is subject to EU intervention in the form of a range of policy measures, which include access to funding, subsidies and quotas. The future of the UK's involvement in these initiatives is unclear and will be dependent on the outcome of Brexit negotiations.

Compared to other agricultural industries in Wales, the dairy sector is expected to face fewer challenges. The dairy market is less dependent on subsidies and export markets than the beef and sheep industry and is more dependent on the milk price and local demand.

51% of raw milk in the UK goes to liquid milk and 27% to cheese. 62% of cheese manufactured is cheddar (source: Defra).

Dairy processors are committed to improving their sustainability through the Dairy Roadmap.

**UK DAIRY
PROCESSORS
EMPLOY**

26,000
people

(source: ONS Business Survey).

Achievements include:

- 88% of processing plants have an Environment Management System
- All top five processing companies have a Carbon Management Programme
- Reduction in waste to landfill by 73% since 2006
- 15% recycled material included in High-Density Polyethylene milk bottles

2.2 Forecasts of the Agri-market by AHDB (Agriculture and Horticulture Development Board)¹

Dairy market

Short term, GB farmgate prices are expected to continue to hold or rise slowly through the autumn due to the delayed relationship with market prices. However, after November, we would expect farm prices linked to market returns to come under downward pressure, following on from the weakening commodity prices seen from early September. Farmers on cost-plus contracts, often aligned to retailers, may see their prices increase.

Pork Market

In 2019, UK pig meat production is expected to rise. However, supplies on the market could remain relatively stable, thanks to declining imports and export growth.

Beef Market

The breeding herd has been in contraction for the last couple of years. This trend is set to continue into 2019. After a challenging year, on-farm deaths and slaughterings of cows have been higher than usual. Strong demand for manufacturing beef for much of 2018 has resulted in cow prices being supported, and as of September, over 30,000 head more cows have been slaughtered. As a result of this, the forecast is that the breeding herd in 2019 could decline by as much as 2%.

Dairy male registrations in 2017 were down around 30,000 head, but this was offset by an increase of 44,000 head of registrations from beef animals of both sexes. After beef replacements have been taken into account, heifers used to take the place of culled breeding females, prime supplies available from 2017 registrations should be similar to the previous year, which should translate into sufficient supplies during the early part of 2019. Poor calving conditions in 2018 may affect supplies available in the latter part of 2019 and into 2020.

Lamb Market

Severe weather in early 2018 made lambing hard for many, with reports of higher on-farm mortality and warm, dry conditions later brought challenges to finishing. These difficulties came about despite lambs usually doing well in warm conditions, as forage (both grass and preserved) was lacking both quality and quantity. Farmgate prices recorded some surprising trends this year, reaching record-breaking highs in April as the market reacted to a lack of new-season lambs, quickly moving back in line with year-earlier levels.

¹ Source: https://projectblue.blob.core.windows.net/media/Default/Imported%20Publication%20Docs/Horizon/Horizon-Forecasts1902_190430_WEB.pdf

Cereals Market

'Variable' has been the word that best sums up the harvest of 2018. The impact growers suffered from this summer's hot, dry conditions largely depended on where in the country they farmed, when (and if) the rain fell and whether they were cultivating lighter lands or heavier soils.

Oilseeds Market

Rapeseed markets have been affected by both the weather and political disputes over recent months. Looking forward to the coming season, the current supported price might suggest an increase in the planted area could be recorded for rapeseed. However, there are other large concerns influencing planting decisions this year. Firstly, there has been very dry weather during the planting window. This has meant that the crop has struggled to become established in some regions and on some soil types. Secondly, there is the issue of cabbage stem flea beetle. There have been reports that flea beetle damage is worse this year, exacerbated by beetles favouring the dry conditions. Some growers have reportedly considered abandoning the winter crop or spring cropping due to the impact of these negative factors.

Traditional breakfast cereals have faced long-term volume challenges. An increasingly fast-paced way of life has resulted in a rise in convenience products for on-the-go consumption and a rise in out-of-home breakfast traffic. We anticipate further volume challenges for traditional breakfast cereals but opportunities for on-the-go breakfast products and healthier variants of traditional lines.

Potatoes Market

This growing season has been characterised by extreme weather conditions, which have affected farmers to varying degrees depending on their regionality and access to irrigation.

While a smaller crop is anticipated this year, there is also the potential for a much shorter season. This could alleviate some of the supply pressure. Packers could benefit, both from the ability to use old crop longer and from sourcing supplies from Scotland. Nearly half the area grown in Scotland is for packing and, reportedly, yields are faring much better north of the border. Chipping and processing markets may be under more pressure. There is a requirement for tubers with certain characteristics suitable for frying and these are anticipated to be suffering from a tighter supply situation. In order to mitigate this, processors have reportedly been looking to source from non-traditional markets, such as packing markets with sufficient dry matter. This could potentially cause a further tight supply situation in these markets, as competition for supply increases.

2.3 Technological Innovations

- One trend within the dairy industry today is the **increased incorporation of computers into the day-to-day management** of dairy herds. Computer use aids producers in the management of their herds and allows for better record keeping. The next step in on-farm technology use is the use of **precision dairy farming technologies**. Precision dairy farming technologies are instruments to measure physiological, behavioural, and production indicators for individual animals. Efficient dairy farmers have a better chance at staying competitive and financially secure as milk prices become increasingly volatile. When financially sustainable technologies and good management practices are used in unison, new levels of farm productivity become obtainable.
- Many different kinds of technologies exist in the market today. From **automatic cow back scratchers** to **robotic milking**, a fully automated system where the cows choose when they want to get milked, through to driverless machinery where a distant satellite provides the instruction that steers that machinery.

- Many farmers have **chips or collars on each of the cows**, which monitor their health and wellbeing at all times. They also help to identify any changes in the herd's health quickly and effectively. In fact, farmers can also check up on their herd via the internet, which means that even when they're away from the farm, they can see how each one is behaving using signals sent from collars around the cows' necks.
- Farmers also have the task of being a birthing partner to many of their cows, **using technology to monitor when the cow is about to go into labour**.

The decision to adopt a technology depends on factors such as management style, familiarity with computers, ease of use, type of housing system, and perceived benefit to cost ratio. Technologies monitoring various parameters are available to farmers and often these technologies fall into categories including:

- Nutrition- individual feeders, mixing equipment, and water supplies
- Production- in-parlour controls and monitors
- Animal health- mastitis, rumen health, metabolic disorders, and body temperature
- Fertility- estrus and calving detection
- Environmental- temperature and milk line vacuum

Additional categories exist and as technology continues to advance, new kinds of technologies monitoring new parameters will come into existence.

2.4 Government Regulations and Initiatives

The European Commission and the UK Government have put in place measures to support the industry through the current financial difficulties (e.g. €500m EU dairy package, UK tax measures) as well as looking ahead to increase its resilience to future volatility (EU/UK work on futures markets).

These measures have been welcomed by the farming unions and the dairy industry but they would like to see further action or increased efforts in the following areas:

- country of origin labelling for dairy products
- increased role for the Groceries Code Adjudicator
- longer term contracts
- ensuring the Basic Payment Scheme 2016 runs smoothly to avoid payment delays
- improving price reporting so that farmers can manage their own risk
- the proposed UK Food and Farming Strategy to provide clear strategic direction

EU Agriculture and Fisheries Council (March 2016)

At the EU Agriculture and Fisheries Council in March 2016, Agriculture Commission Phil Hogan presented a package of support measures for agriculture and the dairy industry.

The UK broadly welcomed the package and gained support for measures that would help farmers boost productivity. These included:

- helping farmers access finance to invest in their businesses and boost their productivity and competitiveness - the Commission agreed to prioritise engagement with the European Investment Bank to develop tools that could be made available to farmers
- Improving the transparency of supply chains so that farmers get earlier signals on price and demand to adapt their business models and target emerging opportunities.

- An increased drive to open up new foreign export markets for British agriculture. The Commission committed to intensifying efforts to secure new market access.

UK Government assistance

The UK Government introduced some measures in the April 2015 budget to help ease the general business environment for dairy farmers allowing farmers to tax average their profits over 5 years not 2 and permitting an Annual Investment Allowance of £200,000.

Role of the Groceries Code Adjudicator

The Groceries Code Adjudicator is the independent adjudicator that oversees the relationship between supermarkets and their suppliers. It ensures that large supermarkets treat their direct suppliers lawfully and fairly by upholding and enforcing the Groceries Supply Code of Practice. The short-term problems with milk prices have caused farmers to look to the Groceries Code Adjudicator (GCA) to have a greater role in ensuring fair contracts with suppliers. This is because some farmers are being paid below the costs of production for their milk.

Milk Contracts and the Dairy Code

The dairy industry has a voluntary code to cover contracts with suppliers The Dairy Industry Voluntary Code of Best Practice on Contractual Relationships (the Dairy Code) was published in September 2012 after the milk crisis. (A separate code applies in Northern Ireland). Dairy UK heralded the launch of the Code as a landmark event and highlighted that The Code should give dairy farmers confidence in their contractual arrangements and enable dairy farmers and processors to develop deeper relationships of trust and mutual understanding. The Code is designed to help farmers and purchasers by setting out minimum good practice in terms of dairy contracts. Not all parties signed up to the Code adhere to it and such practice will influence whether the code eventually has to be made mandatory.

Producer Organisations

Any group of dairy farmers in England, Scotland, Wales or Northern Ireland can apply to the Rural Payments Agency to become a Dairy Producer Organisation (DPO) which can then negotiate contracts for the delivery of milk on behalf of its members. Governments cannot fund POs directly so generic business start-up grants or seed core funding under a CAP Rural Development Programme are the key route of grant funding. The UK Government is seeking to support and encourage POs to form to give them more “clout in the marketplace” where the majority of sellers are small-scale producers supplying a small group of major retailers. The UK Government sees its role as facilitating this cooperation for those farmers that want to take the PO route and removing any legal barriers to farmers coming together in this way.



3

MARKET DYNAMICS

3.1 Restraints / Industry Challenges

The UK's agriculture sector faces challenges and opportunities as a result of Brexit. It will need to overcome challenges posed by leaving the EU's Common Agricultural Policy (CAP), not least because CAP funding currently supports many farms across the UK.

Physical and human factors affecting farming

Physical

- Climate
- Relief (shape of the land)
- Soil
- Aspect (direction land is facing)
- Drainage/rock type

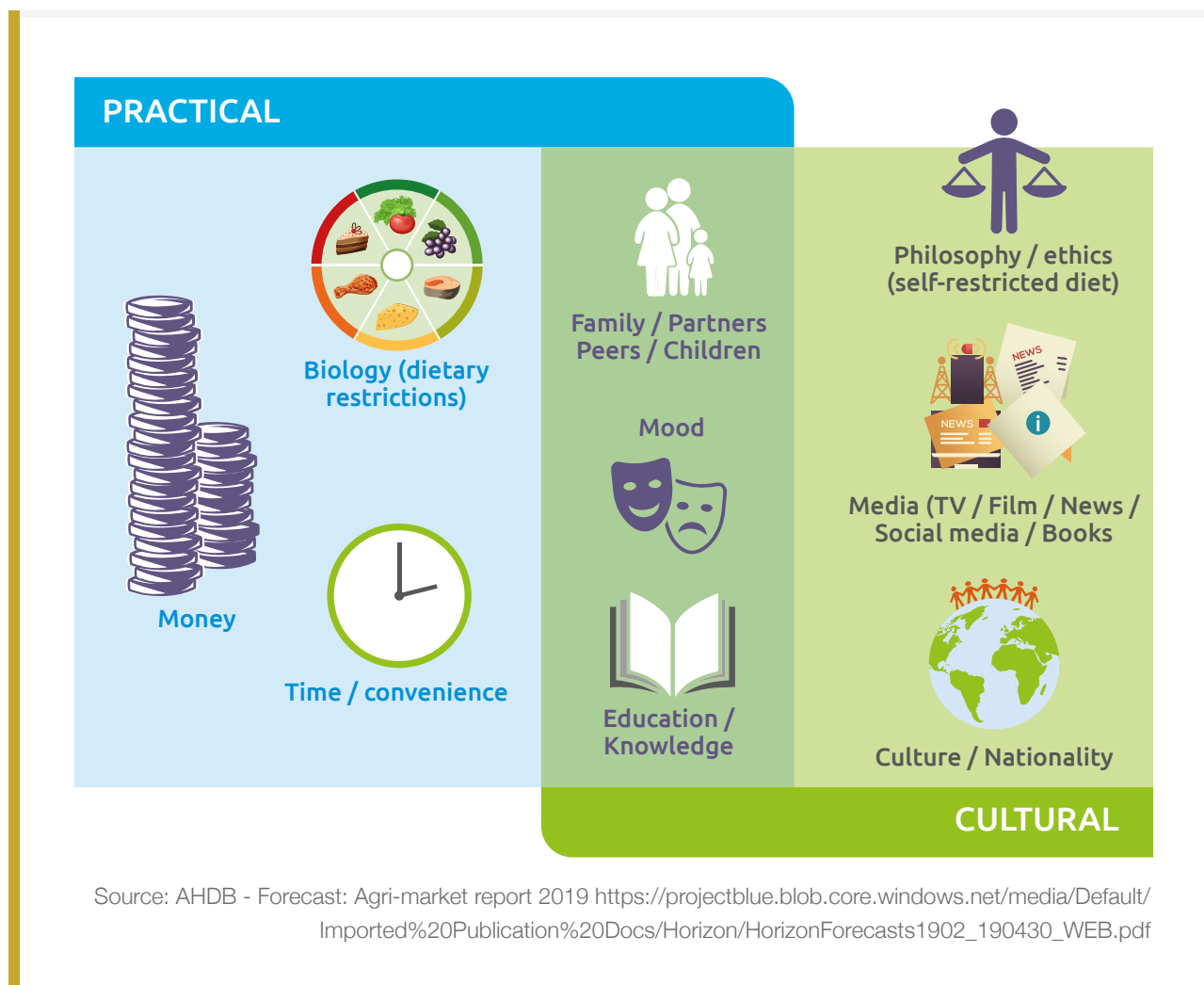
Human

- Distance to the market
- Labour supply (workers)
- Machinery and technology
- Grants and subsidies
- Market price

Table source: <https://www.bbc.com/bitesize/guides/zy6gq6f/revision/1>

Farmers have to select the type of farming, which best suits the local physical environment.

They must also consider which types of produce will make the most money because there is no point in producing things they cannot sell. Although farms can be grouped into three broad categories, the things they grow or produce may change over time.



3.2 Opportunities

Care Farming in the UK

Care farming is the use of farming practices for the stated purpose of providing or promoting healing, mental health, social, or educational care services. Care farms may provide supervised, structured programs of farming-related activities, including animal husbandry, crop and vegetable production and woodland management. Some farms attempt to alleviate the effects of the unrecognized medical condition nature deficit disorder.

- Care farming is an emerging phenomenon within the UK agricultural sector.
- Care on farms is co-produced, transforming lives.
- Care farming is congruent with farmers' cultural constructions of 'proper' farming.
- Animal-human relationships are central to the therapeutic value of care farms.
- Connective agriculture is suggested as a more fitting term for care farming.

4

COMPETITIVE LANDSCAPE

4.1 Mergers & Acquisitions, Joint Ventures, Collaborations, and Agreements

Mergers and Acquisitions:

- Arla Foods UK's acquisition of Yeo Valley Diaries and approval by the CMA (UK Competition and Markets Authority)
- Canadian company Saputo's acquisition of Dairy Crest's Dairy Operations

Joint Ventures:

A Joint Venture is a type of business structure which allows a dairy farmer (owner or tenant) to keep on trading with all of the tax advantages, while allowing a semi-retirement from daily activities. There are three main types of Joint Venture in Britain: Equity Partnerships, Sharemilking and Contract Farming.

A correctly implemented joint venture can bring many benefits including:

- The continuation of a trading business with reduced daily workloads and responsibilities
- Taxation benefits – both income tax and capital taxation reliefs
- More efficient use of machinery and equipment – reducing capital employed
- Access to skilled labour and expertise – giving a long-term solution
- Access to capital and land, allowing young entrants / existing farmers to grow their businesses
- Greater marketing and input buying strength
- Leisure and lifestyle benefits



5

RECRUITMENT CHALLENGES & FACTS

- Agribusiness is an area of labour shortage in the UK and estimates suggest that up to 60,000 new workers will be required in the sector by the year 2020.
- Existing workers recommend agriculture as a great area in which to work.
- Work can be found in some of the most beautiful, scenic areas in the UK and overseas.
- Future prospects are bright, as people always need to eat; food production is important to every economy.
- Average agricultural wages are in excess of the national wage.
- It's not essential to have a farming background.
- Agricultural workers experience high rates of occupational injury.
- The UK agricultural sector has been criticised in an AHDB paper from January 2018 for falling behind other countries on offering training programmes for staff. British farmers and growers under-invest in new skills and training relative to their competitors. The sector is already facing a significant skills gap in middle and general managers, technical staff and low-skilled, seasonal labour, compounded by a lack of agricultural knowledge among young people today.
- The skills gap challenge is going to get worse with Brexit and an increased difficulty in attracting overseas labour; increasing the urgency of attracting young blood into the sector. UK farming can no longer rely on overseas labour.

6

KEY FINDINGS SUMMARY

- Livestock farming is the dominant agricultural enterprise in the UK
- Dairy farming is one of the largest agricultural sectors in the UK. The UK dairy industry is 77% self-sufficient.
- Care farming is an emerging phenomenon within the UK agricultural sector.
- Agribusiness is an area of labour shortage in the UK.

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