



FG | **INSIGHT**

INTELLIGENCE GUIDE: VOLATILITY IN FARMING



YOUR GUIDE TO

Global price swings and why farmgate prices can so often be dictated by economic factors on the other side of the world

INTRODUCTION

Volatility has been one of the major buzz words of the farming industry in recent years.

Whether running a dairy, livestock or arable unit, all farmers will need to know the month-to-month swings in price which can be a crucial factor affecting profitability.

This guide takes a look at how the UK's major farming sectors are changing to deal with a global food industry becoming

continually more

co-dependent and

analyses what farmers

can do to manage

global risks within

their own businesses.



JOEL DURKIN

BUSINESS AND DATA ANALYST

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ARABLE MARKETS



Seldom is farm business discussed in person or in the media without the word ‘volatility’ appearing. The phrase is a key feature of almost every conference on agribusiness, as farmers are told they must be aware of its dominance in dictating profits and returns.

Discussed far less frequently is why volatility overhangs most business decisions and how farmers can deal with it.

Arable markets, often viewed among the most globally traded of all food commodities, have experienced volatility for decades as a result of the global mixture of supply and demand, but the huge swings we now see in price have been present for about a decade, experts have claimed.

TRACING BACK

James Bolesworth, from [CRM AgriCommodities](#), said: “The core of price volatility can be traced back to 2004–05 when US President George Bush implemented the [Renewable Fuels Standard](#). This effectively mandated a percentage of biofuel into regular fuel.

“Substitutes were required for animal feed and we see a big correlation between wheat corn and barley.”

This new demand on global crop markets has meant the balance between supply and demand has become more fragile over the past decade, which has coincided with an increase in demand due to a growing world population.



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James Bolesworth

Mr Bolesworth highlighted how, globally, producers tailored production to price prospects each year.

He said: “Price controls the imbalance between supply and demand. If prices are high, we see more production because people take advantage of the price, then it gets pushed lower.”

But layered on top of this price-driven production cycle is a variety of economic, political and logistical factors which drive

JAMES BOLESWORTH'S THREE MAJOR GLOBAL PRICE INFLUENCING FACTORS:

1 PRODUCTION RISK:

“Large chunks of the global crop are exported. If we do not have those exports in place, we get price movements. Production risk boils down to weather.”

2 ELASTICITY IN DEMAND:

“There is different demand from different countries at different times. This comes from changing eating habits.”

3 PRODUCTION LAGS:

“We tend to see these changes in the supply chain and because of the nature of commodities, the world cannot [quickly] adapt to changes in demand.”

rallies and falls in arable markets. The political tensions between Ukraine and Russia have sent ripples through global arable markets recently.

Initially, Russia's annexation of Crimea raised issues over the important port in Sevastopol. Now the focus is much more on Ukrainian farmers' ability to afford seed and fertiliser as a result

of currency devaluation relating to tensions. This has the potential to affect global supply.

[Mike Lee](#) was an agribusiness consultant and farm manager in Ukraine. The tensions forced him and his family to move to Russia, where he currently works conducting crop tours which are sold to the global market.

PROBLEM

He said: “The real problem for farmers in Ukraine is likely to occur this autumn or next spring when cash will have run out.

“Yields will be down this year as inputs are cut back and winter crops are not in as good a condition as is officially reported.”

“Low yields and low prices will further compound the cash flow shortage, credit options are unlikely to appear and businesses will run out of money for planting in autumn and next spring.”

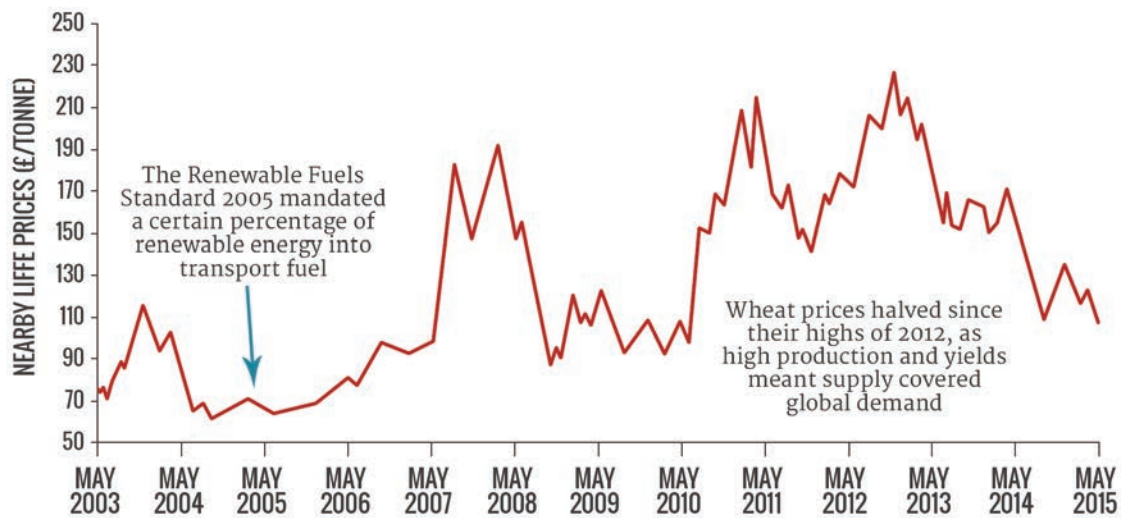
Despite such logistical issues remaining an ever-present theme in arable markets, good weather has led to high yields globally since 2014 and ample supplies have pushed prices of grain lower.

Throughout much of 2015, [UK wheat prices](#) were about half the £225/tonne they were in December 2012, while in June 2015, MATIF rapeseed prices lost €150/t (£106/t) since September 2012.

This makes use of futures market an important tool for those with large amounts of grain to trade in order to take greater control over prices.

NEARBY LIFFE WHEAT FUTURES FROM 2003 TO 2015

SOURCE: AHDB/HGCA



USING FUTURES

THE futures market trades contracts for a specific quantity and quality of a commodity for delivery at a specified point, although little grain is sold directly through futures. Taking a futures position allows farmers to fix price of a forward sale to hedge against the chance they will later receive a physical price from a grain trader which closely reflects the value of wheat.

A farmer may take a futures position at £140/tonne. If the physical price increases to £200/t, a farmer will need to buy back his futures contract for £200/t, making a loss on futures, but gaining a better price for his physical crop. If physical price decreases to £100/t, he will be able to buy back his contract for £100/t, making a £40/t gain to offset the lower physical price.

Simon Barry, chief executive at malting barley co-operative [Highland Grain](#), uses futures to fix profitable prices for the organisation's members.

He said: "I think there is a general principal in buying and selling grain the buyer wants to buy when you do not want to sell. Futures allows us to sell when we want to sell."

But futures trading requires a large amount of liquidity and Mr Barry urged caution on using such markets without thorough research and knowledge.

MANDATES

But as well as the political influences on global arable markets, political mandates also affect the futures markets they trade on.

In recent years, the presence of banks and speculators operating on these markets has been blamed for the large hikes and falls in commodity, and therefore food prices.

This has worried the NFU, and the union's chief arable adviser Guy Gagen has argued such markets need a large amount of liquidity to be able to function well.

"Farmers may use the LIFFE futures market or the MATIF. It is really useful for UK farming to have a London market as the benchmark."

ANDREW WARD, LINCOLNSHIRE

Andrew Ward, arable farmer in Leadenham, near Lincoln, does not use futures, but often sells forward and uses options. Farmers can buy options after selling grain forward to protect them from losing out if there are large gains in arable markets.

He said: “It allows you to lock in a price, but then if it goes up after you have sold, you can get some [of the money] back.

“The biggest problem is it is so difficult to know what the market will do. You spend 10-11 months growing and after all the effort you put in you can make or lose more money in one phone call.”



DAIRY LANDSCAPE



The dairy sector is in the midst of a significant, yet slow-moving, shift to a globally-traded commodity market. In past decades, the industry was heavily managed, with various marketing boards and EU buying strategies ironing out bumps and dips in prices back to the farmgate. There was always a guaranteed market for milk, but the industry was not fully exposed to changes in demand on a global scale.

A gradual deregulation at both national and international level has meant an end to these days and, despite a largely liquid-focused domestic market which brings its own pressures to farmers, the UK is unable to ignore the highly commoditised nature of the global dairy industry.

SWINGS

The large swings in price have come, in part, as a result of moves from the EU in 2003 to cut the amount of surplus dairy stocks it held, which tightened world markets. The other major factor was food price spikes in 2007-08, as a result of the financial crisis.

[Kevin Bellamy, dairy analyst at Rabobank](#), said: “The global financial crisis prompted huge swings in most financial commodities. Speculators moved out of financial markets and into other commodity markets. I think this has continued and, as globalisation has taken place, it has become more difficult to balance supply and demand.

“Those pressures came at about the same time as a change in EU attitudes to global markets.”

John Allen, of [Kite consulting](#), said changes in the world industry had led to a general improvement in prices, but the fine balance meant small surpluses could change markets significantly.

This was underlined by [Promar](#) divisional director John Giles.

He said: “In the last few years, we have had a combination of high and then low oil prices, the impacts of climate change, population growth, changing dietary patterns and the gradual deregulation of world markets. Put these all together and you get the volatility we are now experiencing.”

DOMESTIC INFLUENCES

While the UK’s large volumes of liquid milk mean domestic influences play a big part of determining farmer returns, significant imports and exports of dairy into Europe and around the globe mean UK prices are intrinsically linked to global trade.

This link to the world market is strengthened by the fact UK farmers’ two largest customers are pan-European companies.

Robert Harrison, dairy board chairman at the NFU, said Arla’s global focus meant the UK was reliant on European price trends.

“Ultimately, Arla is a global company setting its milk price in Europe. Every UK farmer is exposed to what is happening in Germany and other countries.”



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Robert Harrison

A prime example of global volatility's influence on the UK farmgate is in commodity downturn.

High production globally between 2014 and 2015 meant world markets were well-supplied. This, combined with falling demand in China and a [Russian import ban on Western goods](#), meant UK average dairy prices fell back from 33.7 pence per litre to 25.45ppl in the year to March 2015.

While farmers in the arable sector have a variety of forward selling and hedging strategies to help manage volatile markets,

THE GLOBAL DAIRY TRADE

THE Global Dairy Trade (GDT) auction, held twice monthly, sells globally traded dairy products with sellers based in Europe, USA, India and Oceania.

The market's transparency means the index price is often viewed as a barometer of global dairy sentiment. Experts advise farmers to keep track of the GDT's results if they wish to adapt their business plans to cope with volatility.

the structure of the UK dairy industry means farmers are often reliant on the fortunes of their buyer in determining prices.

Gwyn Jones, chairman at [AHDB Dairy](#), noted the huge differences in contract prices between UK farmers in mid-2015.

“We have a big gap between the top end and the bottom end of contract prices. We are up to about a 14ppl gap and we have never had this before,” Mr Jones said.

Experts often speak about the need for better tools to allow the dairy supply chain to manage commodity volatility cycles, and at the forefront of these is the possible creation of a viable dairy futures market.

Mr Jones suggested this would bring its own issues to the sector, as milk would often need to be sold forward at low prices.

He said: “If you are talking about dairy futures, people will need to talk about selling forward and what could be a good price to sell. Not many people can afford to sell too much forward at a lower price.”

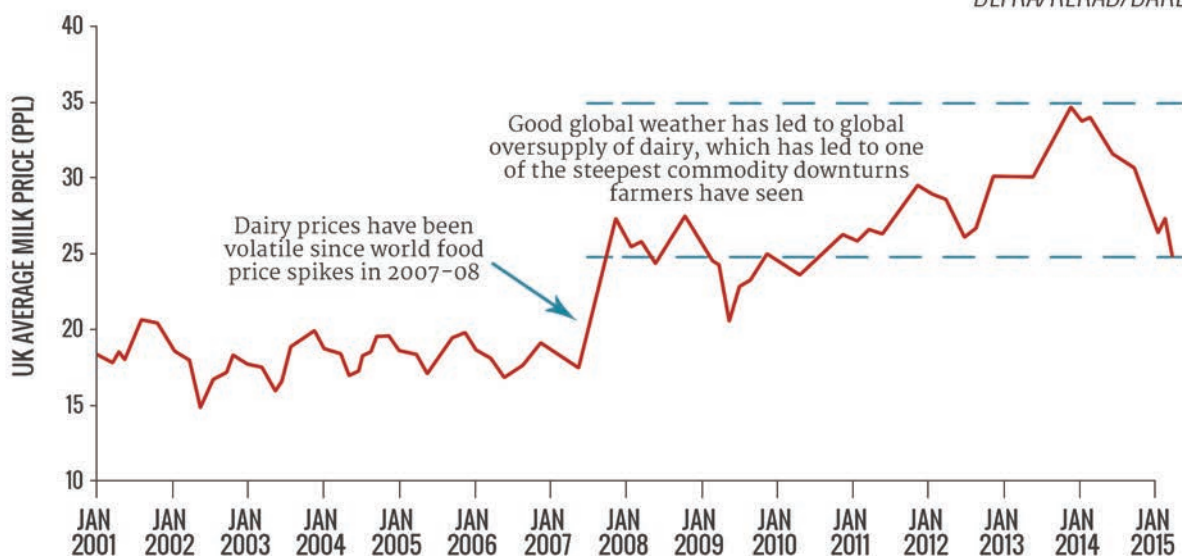
Experts speaking to *Farmers Guardian* underlined the need for farmers to be constantly viewing information on the sentiment of dairy markets from AHDB Dairy and the Global Dairy Trade auction.

But one of the overarching attitudes to volatility in the industry was it should not always be viewed as a threat.

Mr Giles said: “Processors probably need to develop better tools to deal with volatility, but none of these factors on their own will be a silver bullet. In our view, the market is still going to be a volatile place, but for the well-informed and well-prepared, volatility can bring opportunities too.”

MONTHLY UK AVERAGE MILK PRICES INC. BONUS PAYMENTS

SOURCE: EUROSTAT/MMB/DEFRA/RERAD/DARD



JOHN GILES' TOP TIPS FOR DEALING WITH VOLATILITY

“I think it is difficult for farmers to have any influence [on price] now – you need to manage your business as effectively as you can.”

1

Understand cost of production:

“This is vital and farmers should look to be part of a benchmarking group.”

2

Join a buying group:

“Think about joining a buying group and attending processor meetings.”

3

Think about capital expenditure:

“Think about delaying capital expenditure if at all possible, but do not cut back on genetics because this will be needed when the upturn in dairy markets finally comes.”

4

Keeping track:

“Looking at the GDT auction and Fonterra’s price on a regular basis is vital.”

TOM RAWSON, EVOLUTION FARMING

Tom Rawson is a director at Evolution Farming, a large dairy operation in Yorkshire and Lincolnshire.

He said the last time prices were at the levels they were at in early 2015, the downturn did not last as long.



As farmers have little control over farmgate milk prices, Mr Rawson's focus was on reducing costs and making the most of his contract.

He said: "Making the most of your milk contract is an old and boring statement, but it has never been truer. The more litres of milk per cow I can get the better price I will receive. Spring-calving is not right for every farm, but it works for me. I have to get costs as low as possible."

BEEF SECTOR



A phrase which surfaces continually when referring to the UK's place in the global beef marketplace is 'stepping out of the shadow of BSE'.

Emergence from this metaphorical shadow is an ongoing process and one which brings economic, political and logistical pressure to UK beef farmers, as well as a wealth of benefits largely unseen in recent decades.

But while other agricultural sectors point to far flung areas of the world when analysing the reasons their prices are becoming increasingly volatile, the beef sector still faces arguably greater pressures from the supply and demand balance within UK borders and, to a certain extent, the European Union.

Richard King, partner at farm business consultant [Andersons](#), said: "The EU beef sector still has some protection from imports from the rest of the world. Whereas cereals and dairy are in a complete world market, beef is not."

EVOLUTION

But with the beef sector evolving, the face of the industry has changed in recent years, as several seasons of steady price increases, compounded by the horsemeat scandal, came swiftly to an end in 2013.

Charles Sercombe, livestock board chairman at the NFU, said prices had risen over the five years to 2015, as world beef supplies

tightened, a trend which was compounded by the horsemeat scandal in 2012.

He said: “There have always been slight ups and downs, but [in the past] they have followed the usual seasonal patterns.

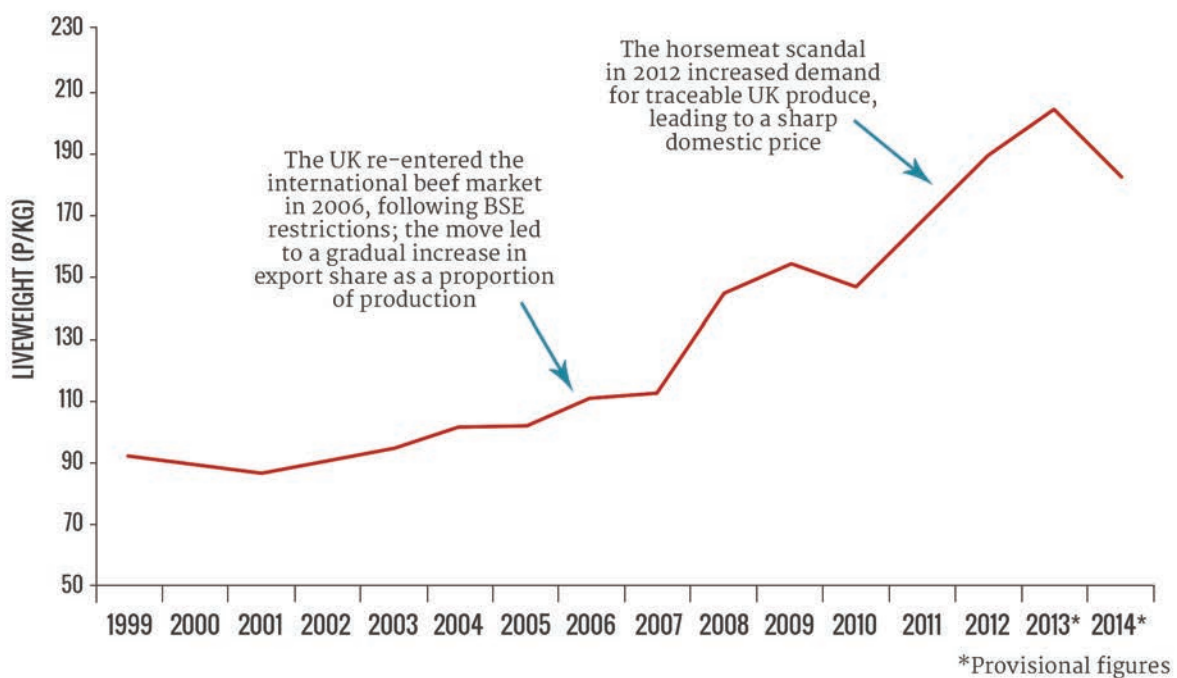
“The volatility in [2013 and 2014] has been caused by a strong spike since horsegate. Retailers have set out to improve their [public] image.”

The horsemeat scandal brought a new dimension to the market, with a sharp increase in domestic demand for traceable UK beef which drove prices up through 2013.

Debbie Butcher, senior analyst at AHDB/Eblex, said those prices were unsustainable and as this short-term demand declined, prices fell back rapidly.

ALL PRIME CATTLE AVERAGE LIGHTWEIGHT PRICES SINCE 1999

SOURCE: DEFRA



“It appears we are almost in a new norm. Markets have possibly been more volatile since horsegate,” she said.

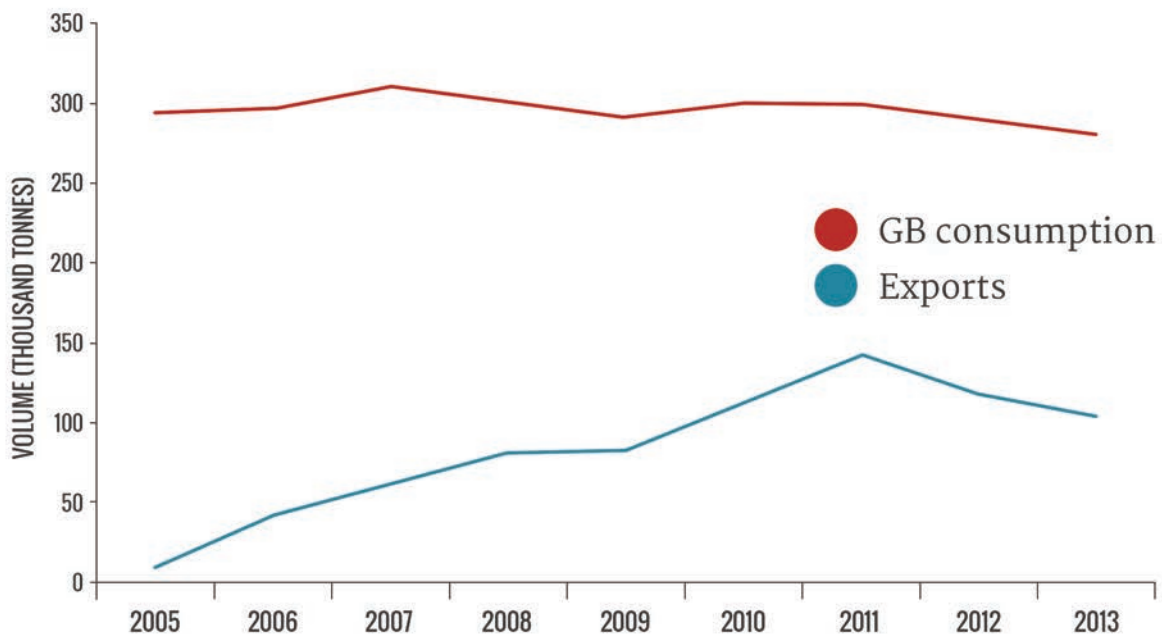
The fact the UK consumes 85 per cent of its beef domestically means prices can sit at odds with the rest of Europe and UK beef is among the world’s most expensive produce. While the domestic industry does face some import pressure from mainland Europe, its main exposure is to the competitiveness and export-driven focus of Irish beef.

EXCHANGE RATE

One factor the UK sector cannot control is the global exchange rate and these imports are particularly sensitive to currency movements.

GB BEEF CONSUMPTION & EXPORT VOLUMES SINCE 2005

SOURCE: AHDB BEEF & LAMB



MANAGING THE DOWNTURN

IN May 2015, deadweight prices fell beneath their lowest point of 2014, a confirmation the UK sector had seen two consecutive years of deep seasonal downturn.

Speaking on managing downturn across the agricultural sector, Oliver McEntyre, national agricultural specialist at Barclays, urged farmers to focus on input costs, controlling their cost of production through negotiation and planned forward buying.

→ Get some budgets together to revisit when prices change

→ Split costs into those you 'need' and those you 'want'

On February 23, Irish steers were selling at about €4.15/kg and the exchange rate at the time meant these were worth 301p/kg, compared to the UK beef price of 359.1p/kg.

The UK beef price was dragged down as producers attempted to compete with imports from Southern Ireland.

Mr King said: “When the pound strengthens, imports become more attractive in sterling terms and Irish product takes a bigger chunk of the market. This drags down the domestic price.”

Henry Burns, Irish Farmers Association national livestock

chairman, spoke of the UK market's importance to the Irish trade.

He said: "We export about 500,000 tonnes of beef and half goes to the UK market. The UK is very close, but we also produce similar types of beef. We have a lot of the same slaughter companies operating in the UK and the Republic of Ireland."

Another major factor on the domestic price is beef's annual production cycle. High slaughtering on both sides of the Irish Sea in the early part of 2015 meant surplus supplies of beef, which drove price pressures.

SUPPLY & DEMAND

While short-term supply and demand changes were compounding seasonal price volatility, the UK also faced an overarching question over its domestic sales.

Consumption has fallen in recent years, a trend which has been mirrored across red meats as household budgets continue to be squeezed. Eblex noted how the red meat sector needed to do more to attract convenience shoppers.

But the industry has also looked to increase sales in other areas of the world to offset these declines. Mr King said: "Consumption has been sluggish for a few years now. If you look at statistics, exports have been growing quite steadily. This includes Scotch beef, which is world-renowned. If prices are sluggish, selling to someone else helps to put alternatives in."

Opening new markets is one of Eblex's top priorities for the beef sector, and the levy board hopes to follow in the footsteps of the Republic of Ireland, which opened the market for prime beef exports to the US.

Markets with different eating habits also allow processors to sell different parts of the carcass not generally consumed at UK dining tables but, again, it is the exchange rate which holds so much weight in international trade.

PRODUCTION CYCLES

With beef producers operating on a longer production cycle than most agricultural commodities, these strains of volatility have put significant pressure on the UK sector in recent years.

Adam Quinney, beef farmer in Redditch, Warwickshire, told *Farmers Guardian* he worries about exits from the industry in the coming years.

Neil Wilson, regional agricultural director for HSBC, said the amount of cash tied up in each animal meant there was a push for better tools to deliver a more guaranteed end price to producers.

He said: "There is more volatility in beef than we may have seen in the past. There are people saying we need firmer ideas [about price structure]."

CASE STUDY

ADAM QUINNEY, WARWICKSHIRE

Adam Quinney finishes 300 beef cattle on 200 hectares (494 acres) in Redditch. He said some producers had grown their herds in recent years in an attempt to benefit from economies of scale, but this made price volatility more dangerous.

Mr Quinney said: “As with other sectors, volatility is having a big effect. 15-20 years ago we might have had 50-60 cattle. Now we have up to 350, but sometimes as many as 500.”

He said an important part of dealing with volatility was looking at costs and developing different low-cost systems, including more grazing.



GLOBAL SHEEP TRADE



Changing trade patterns and a raft of new global impacts are causing the ground beneath the UK sheep sector's feet to move in the international market.

Most major UK agricultural sectors are grappling with volatility as a symptom of increased exposure to the export trade. In comparison, the sheep sector is a veteran in the export market, but is having to re-evaluate the markets it supplies.

Neil Wilson, regional agricultural director at HSBC, said: “We have always been fairly reliant on the export trade. The sheep sector is one agricultural sector which has been ahead of the curve. We are a net exporter, but markets may be changing.”

Experts believe these changing markets are causing increased volatility in sheepmeat prices as a plethora of economic factors come to the fore.

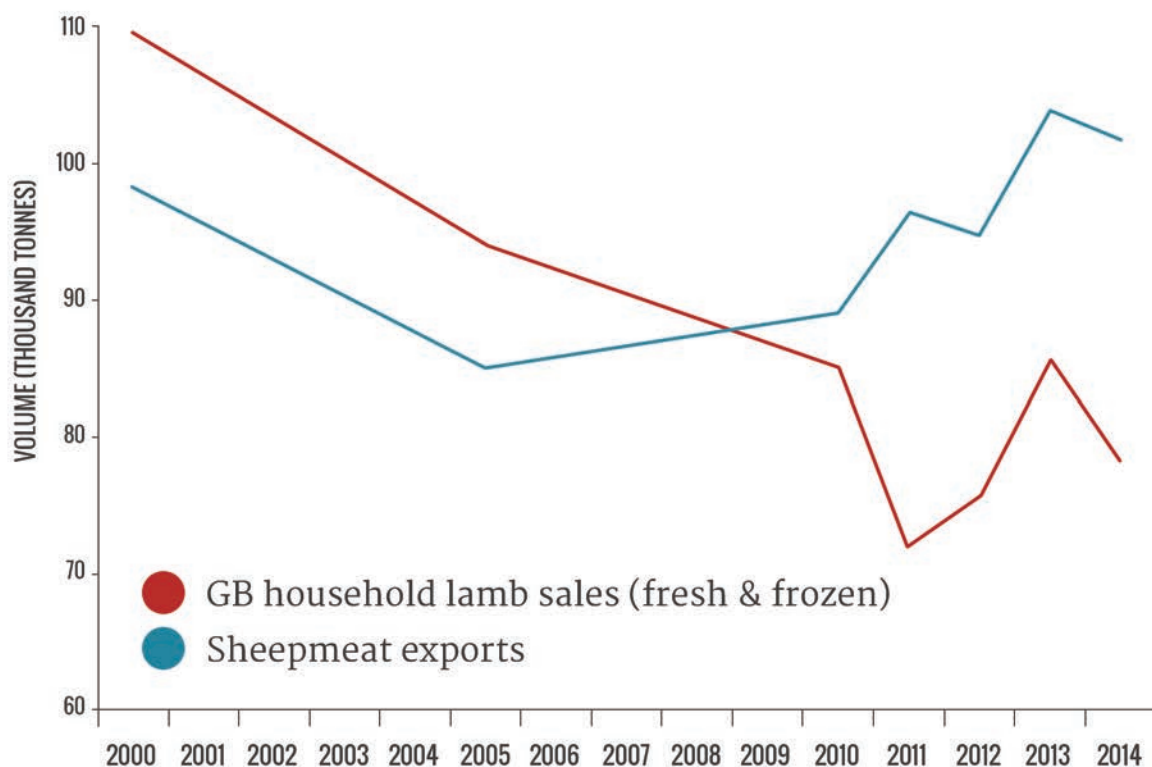
UK producers have enjoyed steady price growth for much of the past decade as the sector increased its international trade volumes to about 40 per cent of production. This increased presence on the world stage has led to greater global exposure.

Prices are often highly dependent on the main export, France, and the main import market, New Zealand.

New Zealand imports are often used when UK lamb is less in season to supplement domestic supplies, but these imports may be used more heavily when prices are favourable.

GB HOUSE LAMB PURCHASES & SHEEP EXPORTS BY VOLUME

SOURCE: AHDB BEEF & LAMB



Debbie Butcher, senior analyst at AHDB Beef and Lamb, said: “We are affected by our key markets. New Zealand is one key market and France is another.”

DOMESTIC PRICES

Charles Sercombe, NFU livestock board chairmain, noted how the UK’s presence in international trade could mean exchange rate and supplies affect domestic prices.

He said: “Sheep prices rose in price through 2008-09 and we had good strengthening into 2011. It has been fairly stable since then, apart from 2012-13. We were affected by a massive influx of New

THE WAY FORWARD

The UK sheepmeat sector needs a better understanding of domestic markets in order to move forward, National Sheep Association chief executive Phil Stocker said.

“It is about understanding the market, reducing waste and increasing efficiency.”

Mr Stocker added a better use of data was needed to increase attention to detail at farm level, which could lead to more targeted pricing from processors.

Zealand product onto the world market at short notice. This hurt the market in the short-term.”

While many factors in international markets are out of producers’ control, the sector is exposed to factors playing out in markets not directly related to the UK, further increasing volatility to the farmgate.

New Zealand, the world’s biggest lamb exporter, is increasing its export focus on China. The country’s volatile buying patterns often lead to large surplus supplies which can often find their homes in UK stores.

This tale of Chinese buyers influencing domestic prices is

mirrored increasingly across agricultural commodities and was the case in spring 2015 in the sheepmeat sector.

Mr Sercombe said: “Product has been diverted from China to the UK. There is less demand in China, which has led to more lamb in our market.”

The UK also faces pressures at home, which is turning the heads of the industry away from Europe and its own shores. A greater focus on markets with a new demand for UK produce could mean the domestic trade is further liable to large shifts in foreign demand affecting prices.



Mr Wilson said: “Consumption is waning and the industry has a challenge to reverse the trend. How they do it I do not know.”

RETAIL PURCHASES


Household retail purchases of fresh and frozen lamb in Great Britain declined from 131,300 tonnes in 1995 to 78,300 in 2014. Promotional work at EU level is attempting to stunt this decline, but AHDB Beef and Lamb’s export team is looking to increase export volumes by targeting new markets.

Phil Stocker, [National Sheep Association](#) chief executive, said: “Everybody is talking about China being our great hope for the future, but at the moment, there is a downturn there.”

Mr Wilson said it remained to be seen how big a share of the Chinese market the UK could take.



WE HAVE TO REALISE THE HIGH IMPORTANCE OF FOOD PRODUCTION



John Geldard

He said: “The Asian market is becoming more prevalent and currency for lamb prices is a huge driver. I think it is an aspiration to look further afield than the EU. The wider the market, the more opportunities you have, but I still think for some time the EU and home market will be the ones to look after.”

Targeting markets with different eating habits to traditional UK consumers’ means greater opportunities to use different parts of the carcass, which would previously have been wasted.

But while the UK market moves more into a world at the mercy of international trends, John Geldard, Kendal sheep farmer, said there was a need for greater communication in UK supply chains.

He also noted the need for a Government which supported the UK on the international marketplace.

Mr Geldard said: “We have to realise the high importance of food production going forward. Defra has a responsibility to look at [sheep farmers’] costs of production and make sure support goes in in the most efficient way.”



CASE STUDY

JOHN GELDARD, CUMBRIA

John Geldard farms about 1,100 sheep on 283 hectares (700 acres) near Kendal, Cumbria.

He said: “I think there has always been a certain amount of volatility, but we are seeing more of it since we have moved away from headage subsidy to a more market-driven industry.”

He claimed there has been more of a move to producing specifically ‘what the market wants’. He added understanding cost of production was vital.

“Understanding cost of production is more important than ever.”

POTATO PRESSURES



The potato sector could be viewed as one of the purest supply and demand-driven markets for UK farmers. The industry's cyclical price trends often follow the sentiment of a large domestic crop leading to surplus supplies and subsequently price pressure.

But a long-term trend of falling fresh potato consumption is causing the industry's gears to change and the UK supply chain has questions to answer about its future.

Rob Clayton, director of [AHDB Potatoes](#), claimed the potato sector was much more domestically-focused than many others.

“I think [volatility] has always been there. In a sense, we are an island and we are somewhat protected,” he said.

Mr Clayton said the sector broadly operated on medium-term cycles, in which every couple of years of poor prices would be followed by better years.

HISTORIC

“Growers are a bit historic in their decisions. They look at previous years in deciding whether to increase areas,” he said.

This trend of price reaction dictating future supply was echoed by RBS' Roddy McLean.

“You would expect when there has been a challenging year there is a bit of a cut back in acreage planted,” he said.

Much of the UK's potato crop is grown on contract, but a

proportion is also sold on the free-buy market. Mr Clayton said the industry was seeing the proportion of contracts falling.

“The ratio of contracts to free-buy is going to drop off [in 2015]. Buyers appear to be offering less on contract,” he said.

Simon Leaver, commercial manager at potato supplier [Fylde Fresh and Fabulous](#), is also a delegate on AHDB Potatoes next generation programme.

SPECIFIED MARKET

He suggested this was the wrong way for the industry to be heading and claimed growing for a specified market was a key element in controlling volatility going forward.

“As a producer, we need to be more confident about the market and developing relationships with customers,” he said.

Part of this current short-term buying habit in the potato market is due to evolving consumer patterns which are posing tough questions of the domestic industry.

A long-term trend of changing eating habits which continued over the year to May 24, 2015, meant GB fresh potato consumption by value had declined 15.3 per cent on the year.

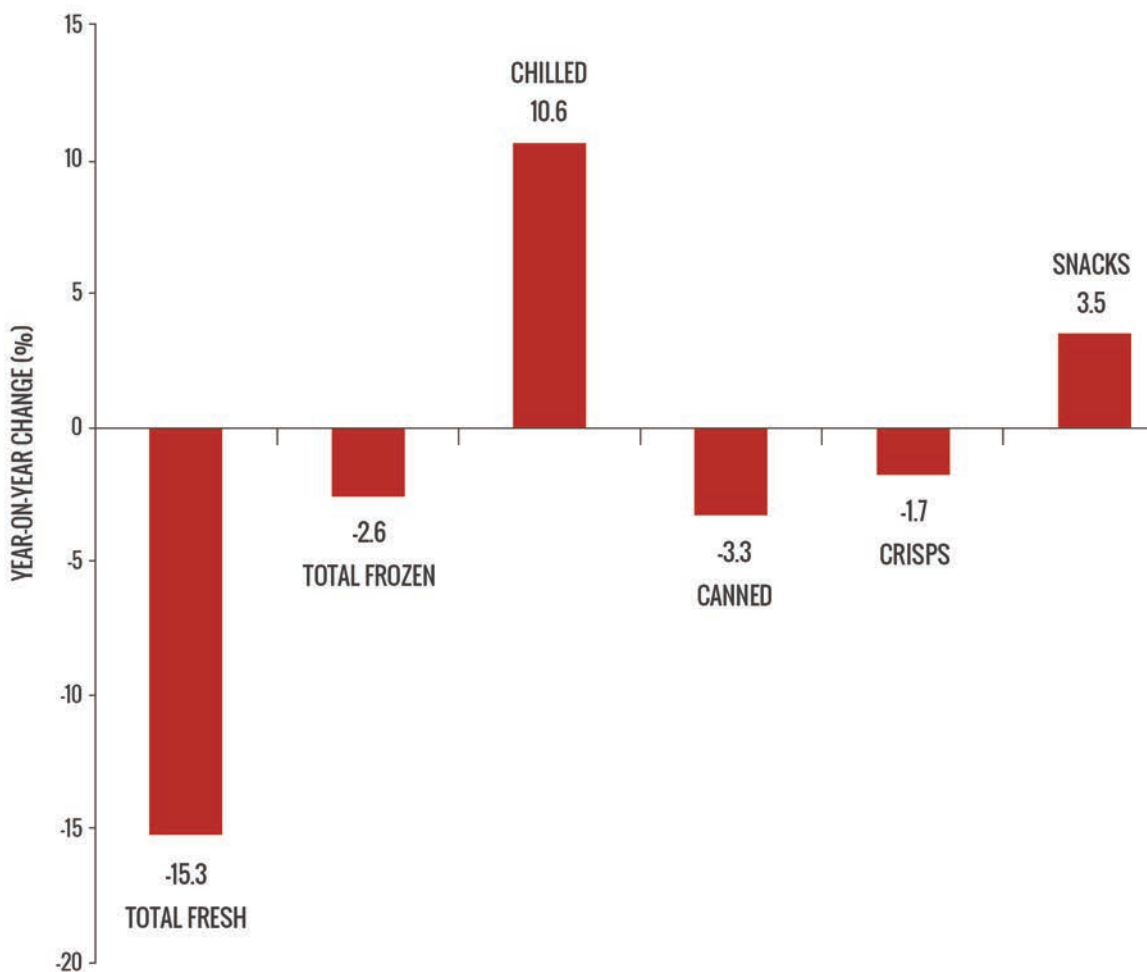
AHDB Potatoes believed this falling consumption was beginning to come to an end, but the type of potatoes people consume are changing, with shifts to chilled and snack-based potato products seeing consumption gains.

As the potato supply chain shrugs its shoulders looking at how to change focus, price pressure has hit the farmgate.

BALANCE

The potato season in 2014 was a prime example of shifts in the supply and demand balance. High production compounded demand issues and a large build-up of potato stocks caused sharp falls in prices.

POTATO RETAIL SALES VALUE YEAR-ON-YEAR CHANGE (52 WEEKS ENDING MAY 24, 2015) SOURCE: AHDB



During the week to June 13, 2014 the GB weekly average contract price was £157/tonne, down £100/t on the previous year. The free-buy price was £124.38/t, down £245/t on 2013.

Allan Bowie, NFU Scotland president, said: “Growers need to look at alternative markets. There is a different outlook and opportunities for added value products.

“From a Scottish perspective we would be quite keen to do that.”

Growers argue, however, it is difficult to look at expanding adding value with a shrinking number of contracts in the sector. While this cat-and-mouse situation continues, the UK faces continuing continental potato imports, capping domestic prices relative to the EU as the UK attempts to compete.

POOR SUPPLY OF INFORMATION

During 2014’s downturn, some in the industry pointed the finger at a perceived poor supply of information from the Potato Council, now AHDB Potatoes, to allow growers to make informed decisions. One area experts agree on, however, is better communication between all industry stakeholders will be required as the British potato sector attempts to shift in line with changing market demands.

Jim Godfrey, former chairman of the Potato Marketing Board, said: “I have always been keen on increased information as early as possible. AHDB Potatoes could play a vital role.”



FARMER VIEW

SIMON LEAVER, FYLDE FRESH & FABULOUS

Simon Leaver said the number of growers in the industry was still reducing, and people were becoming more unlikely to put potatoes on marginal land. He claimed better relationships were needed to keep grower numbers up.

“It comes back to knowing your customer and developing relationships,” he said.

He said it was important for farmers to know the market they were supplying for and concentrate on delivering the best quality products possible.

UK PIG INDUSTRY



When asked about the competitiveness of UK pig prices compared to their European counterparts, pig farmer Cameron Naughton can reel off a list of figures about the relative costs of British production premiums compared to the cost of transporting meat across the Channel.

“It costs about 10p/kg to get carcasses across the channel,” he told *Farmers Guardian*. “The problem is, it costs about 10–15p/kg to produce a pig to British welfare standards. Imports have always been there, but the gap [in prices] is now following the commodity exchange rate. The pig industry is so aware of its costs of production because it is such a volatile marketplace.”

The sector is largely unsubsidised, with many farmers rearing on tenanted land. This, combined with large price swings due to import and export volatility, has meant a forensic knowledge of input prices at farm level.

POINTLESS

Grant Walling, managing director at [JSR genetics](#), said: “Looking at the pound–euro exchange rate is pointless. Let us look at being in the top 10–15 per cent of producers in the sector.”

The industry’s millennial exits also forced consolidation of the supply chain, which experts believe aided the domestic industry. Mr Walling said many processors had their own herds, which meant they understood the challenges of production.

“It gives them a better understanding of their suppliers’ issues,” he said. “This means farmers do not have to convince processors when feed prices are high.”

Mr Walling said, however, many processors operating within the chain were producing outdoor pigs which sell at a premium. He suggested there was an argument this allowed them to extract much of the value from the pig supply chain.

More than half of pig farmers’ costs are spent on feed, meaning returns are as much dictated by global grain as UK retail demand.

PRIORITISING

Contracts are being developed in the sector to mitigate against the dangers this brings to the farmgate, but experts have suggested this needs to be a priority for the sector to move forward in as efficient a way as possible.

Lizzie Wilson, policy services operator at the [National Pig Association](#), said: “Producers need to be able to manage fixed costs as much as possible. What they really need are more market contracts with retailers and there needs to be some sort of mechanism to manage volatile costs.”

Pig production is often held up by other livestock sectors as a comparison for efficiency and collaborative supply chain relationships, but it has only arrived at its current position as a result of several difficult years at the turn of the millennium



**LOOKING AT THE
POUND-EURO
EXCHANGE RATE
IS POINTLESS.**

**LET US LOOK AT BEING IN
THE TOP 10-15 PER CENT OF
PRODUCERS IN THE SECTOR**



Grant Walling

which cast questions over its future. The industry suffered large-scale exits but an increased focus on genetics meant a steady rise in pig numbers in recent years, despite a largely static breeding herd.

Stephen Howarth, analyst for [AHDB Pigs](#), said: “There was a big drop in numbers from the mid-1990s to the early 2000s.

“People were not making investment, there were welfare issues and foot-and-mouth disease. We lost about half the national herd in a few years.

“[Since then] the breeding herd has been stable, but improved

FARMER VIEW: CO-OPERATIVES

CAMERON Naughton runs a 600-sow outdoor unit in Wiltshire. He is part of pig marketing co-operative Thames Valley Cambac.

“By selling through a co-operative, I am confident I get the best prices available on the day,” he said. “As a co-operative, we have a close working relationship.”

“The supply chain is small and we have to work together.”

productivity means overall herd numbers have been going up.”

Since 2010, UK pigmeat consumption has grown from 1.51 million tonnes to 1.6m tonnes [2015 forecast]. UK production grew from 758,000t to 875,000t over this period, but the UK pig sector also grew exports over this time, meaning the domestic market remained below 40 per cent self-sufficiency.

DIP IN NUMBERS

Mr Howarth said the dip in pig numbers from the late 1990s forced the UK to import. This exposure to the global market has continued, but there is recognition within the sector farmers cannot control what happens beyond their own borders.

POULTRY & HENS



At 2015's [AHDB export conference](#) covering the red meat sector, there was a feeling long-term prospects for new markets were promising.

But the view of the domestic market was summarised by Rizvan Khalid of [Euro Quality Lambs](#).

Mr Khalid, senior director of the Shropshire-based Halal processor, said: “We need to develop more products as well as doing the marketing. Poultry is bland, but the industry has developed so many products it can use.”

It was a theme underlined by AHDB chairman Peter Kendall.

The former NFU president said: “I can see the appeal of chicken nuggets and why they work. It is about eating on-the-move and having the right products in place at the right time.”

Whether through new product development or economic factors affecting food spend, poultry consumption is on the rise. In 2004, 805.8 million birds were slaughtered in the UK, compared to 900.4m in 2014.

Andrew Large, chief executive of the [British Poultry Council](#), said: “Poultry appeals across the national cuisine and is not banned by any religion. You can eat chicken in any cuisine, for example, a roast dinner, Chinese or Indian. The poultry sector, like the pig sector, is, on the whole, unsubsidised. Because the industry has never been covered by the Common Agricultural Policy, it has had

to forge close relationships with its customers in terms of cost control, but also sensitivity to market demand.”

The British broiler sector is a largely fresh, whole-bird market and is about 80 per cent self-sufficient.

Experts said the way the industry is structured cuts down on much of the volatility other livestock sectors face.

The poultry sector is dominated by four major processors which slaughter about 85 per cent of the UK’s birds and farmers generally fall into two categories.



TWO FARMER TYPES

Integrated farmers are provided with chicks and are usually paid a flat production rate with performance bonuses, while independent producers are more open to the mercy of the market, but can take greater control over costs.

Gary Ford, NFU chief poultry adviser, said: “Eighty per cent of the industry is integrated. This means you are farming on your own farm, but managing these birds for [processors].”

While there are questions in the industry as to whether farming on an integrated system stops producers benefiting from peaks in demand, it means they are able to keep a stable profitable price.

Tom Warnham, Hertfordshire poultry farmer and NFU poultry board member, said: “We want a consistent rate. People say they do not want volatility and [the system] gives a consistent return.”



**“ WE WANT A
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CONSISTENT RETURN**

Tom Warnham

Growth and stability in the sector has made it attractive to farms looking to diversify in recent years. However, significant investment is needed by new entrants to make profitable returns and planning restrictions are an increasing problem for the sector.

Mr Large said: “It is an attractive sector because you are growing seven or eight crops of chickens per year, so cashflow is good.

“If you have a bit of a field which is not growing very well, there is no reason you cannot put up a poultry house on it.”

But he said planning was a ‘very significant’ issue for the sector.

“We need a way of balancing what you would call the national requirement for food security with the local requirement for environmental landscape amenity.

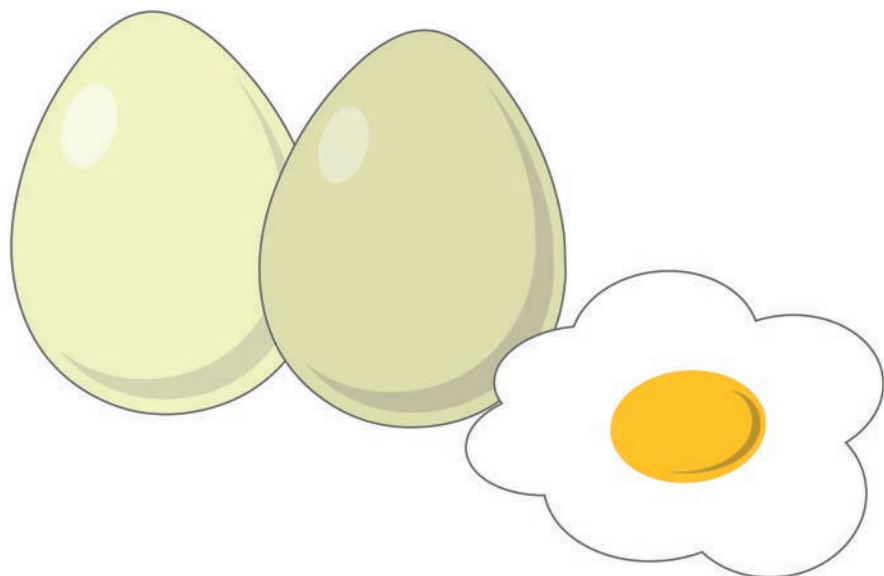
“The planning system needs to be set up to provide a balance between local priorities and national priorities.”

EGG PRODUCTION

The egg production sector may also provide a viable diversification for farmers able to invest significantly, experts have said.

Mark Williams, chief executive at the [British Egg Industry Council](#), said: “Egg consumption is increasing in the UK. The sector has never had subsidy, so has had to respond to what the market wants.”

Mr Williams said units may cost about £30/hen to set up initially with a sizeable investment of several thousand birds often needed to make production profitable.



TOM WARNHAM, HERTFORDSHIRE

Tom Warnham operates a 200,000-head broiler unit supplying 2 Sisters on an integrated system.

He said the business gets a steady, profitable return for production.

“Ownership of everything from the abattoir to breeding stock is vertically integrated,” he said.

“We are not subsidised and we have a very good relationship [with our processor]. They are very good and open.”



VIEWS FOR THE FUTURE



→ARABLE

The growing world population dominates discussion on future volatility across commodities.

With this factor, the prospect of greater Chinese purchases from the global market and the increased impact of climate change on crops, experts who spoke to *Farmers Guardian* said volatility would continue and even grow going forward.

But with farmers moving to satisfy growing cereals demand in recent years, these factors may be unlikely to draw a large shift in prices before 2017.

→DAIRY

Experts speaking to *Farmers Guardian* discussed a self-fulfilling cycle of increasing volatility. Prices rise so farmers produce more, then stocks build up and these prices fall.

Industry chiefs believe, with the global supply and demand strains on dairy commodities increased, the severity of these cycles could grow unless tools are developed to manage volatility.

→BEEF

Experts said the more foreign markets the UK operates in, the more exposed it becomes to world prices and currency trends.

With exports continuing to take a greater share of production, this could be the case going forward.

However, those speaking to *Farmers Guardian* also noted a greater amount of markets to sell to meant potential opportunities to iron out changes in demand within certain areas.

→SHEEP

As UK consumption declines, processors will increasingly look at more volatile export markets, bringing bigger price swings to the farmgate.

Exports have said, however, the European and specifically French markets would remain important to UK exports. This potentially brings the pound-euro exchange rate further into the focus of the UK sheepmeat industry.

→POTATOES

With fresh potato consumption continuing to decline at UK dinner tables, experts believe there would likely be further moves to the processed sector.

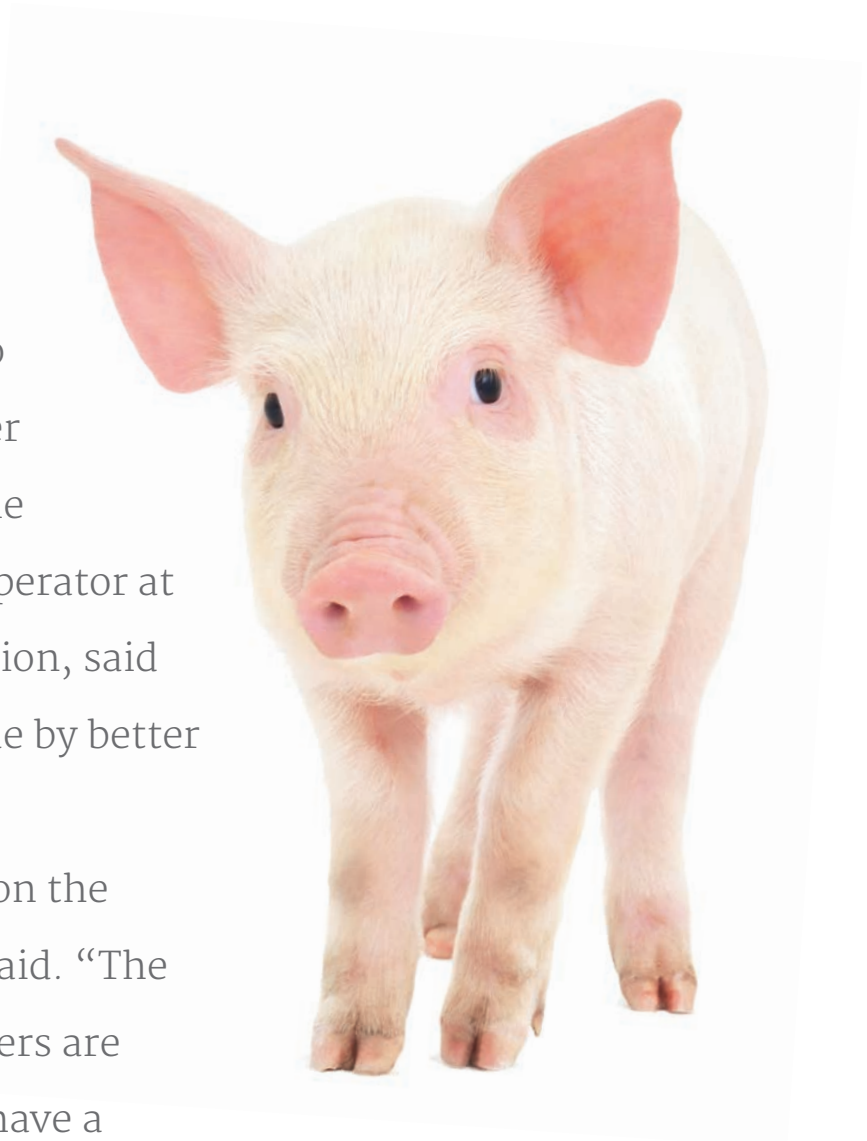
The shifts are likely to require a focus on producers growing more directly for these outlets which would likely require a high degree of communication and supply chain investment.

→PIGS

While the pig industry is arguably more attuned to global markets than other agricultural sectors, Lizzie Wilson, policy services operator at the National Pig Association, said efficiencies could be made by better use of data.

“The focus needs to be on the collection of data,” she said. “The top 10 per cent of producers are very good at it but most have a long way to go.”

She also raised concerns about legislation at EU level which was restricting pig production methods.



→POULTRY & HENS

The poultry sector is in a period of expansion mirrored by increasing UK consumption, making it attractive to new entrants.

But experts said planning issues the sector was facing could impede the building of new units.

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