# UK must its find niche in global crop markets

The international competitiveness of UK cereal and oilseed production is under the spotlight with our impending EU exit. **Paul Spackman** reports


**Some of the worlds' biggest producers, such as Russia, have some of the lowest production costs**

Global grain markets set to remain highly competitive for the foreseeable future. As a result, the UK will have to become more opportunistic and less reliant on exporting its way out of high production seasons if it is to compete on markets outside the EU.

So says AHDB Cereals & Oilseeds lead analyst Jack Watts. He believes attitudes to global marketing have to change if UK crops are to find a home on international markets at prices that are sustainable for growers facing some of the highest production costs in the world.

The UK has grown used to having an exportable surplus of wheat and barley of about 3-4m tonnes. However, variations in output, prices and exchange rates create considerable seasonal differences in price competitiveness, so finding a niche among the world's big exporters is key, he says.

### HIGH EXPORTS MAY BE UNSUSTAINABLE

"Competitiveness is driven by price, quality and to a lesser extent traceability. The UK has exported large quantities of grain when prices have dropped to rock bottom, showing we can compete with the likes of Russia, Australia and the US, but there's a real question over how sustainable it is for farmers."

Last year was a classic example, as the legacy of two 16m-tonne-plus wheat harvests and a weak exchange rate saw UK feed prices fall to some of the cheapest around at less than £100/t ex-farm.

This led to exports hitting a seven-year high and many farms selling grain at prices well below the cost of production.

The picture looks very different now, as lower yields in 2016 and a tighter supply and demand balance have pushed UK wheat to some of the most expensive in export markets (£145/t at the time of writing).

However, relatively abundant global supplies and the prospect of falling farm support leave a question mark over how long high UK prices may continue.

### SIZING UP THE COMPETITION

At 2.6bn tonnes in 2016 (according to the Food and Agriculture Organization of the United Nations), world cereal production dwarfs the 21-22m tonnes of wheat and barley harvested in the UK last year.

Argentina, Australia, Canada, the EU, Russia, Ukraine and the US dominate international supplies. Production costs in many countries are far lower than in the UK (see chart below), according to Samuel Balieiro, from the agri-benchmark team at Thünen Institute of Farm Economics in Germany.

There is little sign of this competition diminishing and if anything, he expects global wheat production will continue to rise long-term, keeping international prices under pressure.

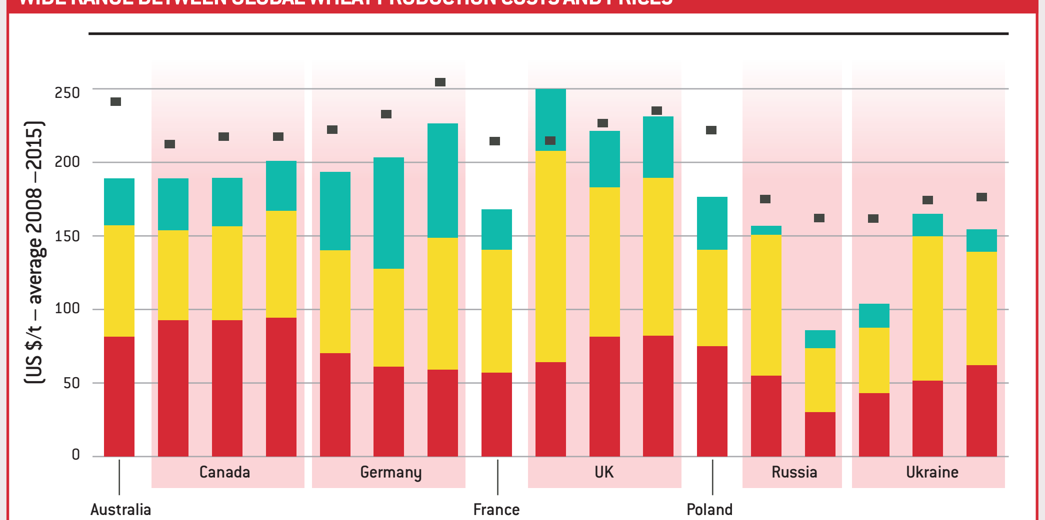
Production in India for example, which accounts for about 13% of world wheat output, has been hit by poor harvests in recent years and that has seen imports, notably of Australian milling wheat, rise. But the Indian Ministry of Agriculture forecasts a recovery to a record 96.6m tonnes in 2017-18, which is likely to mitigate the impact of a drop in US plantings.

### LOW-COST COMPETITION

Agribenchmark analysis of actual production costs on representative farms around the world shows many big producers, notably Russia, Ukraine and Australia, have some of the lowest production costs in the world, whereas UK costs are among the highest.

Land costs in the UK are an important factor, as are our relatively high operating (labour power and machinery) costs. With the exception of Ukraine, the charts show that the UK farms studied have the smallest margin between wheat price and production cost.

**WIDE RANGE BETWEEN GLOBAL WHEAT PRODUCTION COSTS AND PRICES**




Source: agri benchmark team, Thünen Institute of Farm Economics

Yield is a key factor for cost differences on a per tonne basis and yield variations between countries with highly developed production systems, such as US, Canada, Australia, and Western Europe, are mainly driven by agronomic and climatic conditions, says Mr Balieiro.

For example, there is about a 1t/ha difference in oilseed rape yields between typical farms in the UK and Germany. According to Mr Balieiro, there are several possible reasons for this including the UK's tighter rape rotations resulting in higher pest and disease pressure, less detailed pest management and high importance of farm-saved seed usage.

In contrast, yield differences with Russia, Ukraine and Eastern Europe are more down to management, availability of inputs and technical knowledge, with farms in these regions often underperforming in terms of yield potential, Mr Balieiro says.

### YIELD GAP NARROWING

This yield gap is narrowing only slowly, with the bulk of increased output coming from increasing the share of wheat and rapeseed in the rotations and from bringing more land into production.

But the likes of Russia and Ukraine have strong potential to increase yields in future, which could increase competition, he says.

Indeed, annual Russian wheat exports are increasing by more than 10% and Argentina has abolished export taxes for wheat, so there seems little constraint to supply.

"Unexpected weather may trigger annual price fluctuations, but in the long-run, I don't see why prices should go back to higher levels than currently," says Mr Balieiro.

### EXPLOIT OPPORTUNITIES

Competing on price alone is, therefore, unlikely to be sustainable long-term and the UK should try to reduce reliance on seasonal exports to shift the surplus quickly, Mr Watts says.

There are big opportunities from focusing on added-value human consumption markets and using the UK's excellent storage and export infrastructure to smooth out variations in annual production. This could enable the UK to be more opportunistic by reacting to market openings.

"Given our exports are relatively small on a global scale, it should be fairly easy to find a niche," says Mr Watts.

The vast majority of UK wheat exports go to Europe, with Spain and Portugal being key destinations, alongside Belgium and the Netherlands.

Future competitiveness will be greatly influenced by any new trade deal with Europe.

The UK's competitive advantage afforded by superior crop assurance is less pronounced against the likes of France and Germany, which remain the biggest competitors in European markets, so longer-term it may be necessary to look for market opportunities further field, Mr Watts adds.

"For example, we already export barley to Saudi Arabia and there's an opportunity to send wheat there too given their limited support for wheat production due to water concerns."

North African markets such as Morocco and Algeria are already important destinations for UK wheat and there may be scope to build on these markets.

Much is made of the demand growth in Asia, but Mr Watts says such markets are very competitive given the flow of Black Sea and Australian exports into the region, which again highlights the need to find a niche rather than try to compete on a raw commodity basis.

### THE CHINA EFFECT

China remains a very big player in global markets, despite a recent end to its domestic price support programme that is expected to result in lower corn imports, says Mr Balieiro.

Given the close link between corn and wheat markets, this is more of a threat to UK growers, at least until domestic Chinese stocks are depleted.

"However, China is, and will be in the foreseeable future, the major soya bean and vegetable protein importer. Any changes in their policy may drastically affect oilseeds markets."

### IMPACT OF FARM SUPPORT CUTS

The reduction or removal of direct support will have big implications for UK producers, but could ultimately improve international competitiveness for the most efficient, says Mr Balieiro.

Much depends on the shape of UK farm support post-Brexit, but if direct payments fall, farms not operating efficiently will be first to feel economic pressure tighten, speeding up structural change, he says.

"Land will eventually be transferred to the most efficient producers which will lead to lower cost of production. In addition, economies of scale will be realised, which may lead to lower costs and increased international competitiveness of the grain sector."

### COST MANAGEMENT AND BENCHMARKING ESSENTIAL

Given the high degree of uncertainty about future policy though, it is imperative all farm businesses maximise their efficiency and financial resilience over coming years.

This means a strong focus on cost management and benchmarking performance against others to identify areas for improvement, says Mr Watts.

Maximising yield remains a top priority, but it must not be at any cost, he adds.

"Focus should be on finding the economic optimum yield for individual fields and there are real opportunities to use precision farming and big data to achieve this."

The benefits of growing varieties with the flexibility to go into different feed or human consumption markets should not be underestimated.

A number of high-yielding Group 1 and 2 varieties combine outright yield with the flexibility to mobilise wheat into different markets when opportunities occur, he continues.

"The past decade has consistently seen a surplus of generally lower quality feed wheat, while at the same time we've imported quality milling wheat.

"The situation is changing, but there's an opportunity to offset more imports by growing higher quality varieties."

### OSR PICTURE REMAINS TIGHT

With wheat set to remain the most important crop for UK producers, one of the biggest agronomic challenges is finding a sustainable break crop.

Oilseed rape has traditionally been the first choice but price pressure in 2015-16, combined with establishment issues caused not least by cabbage stem flea beetle, has resulted in rationalisation of the area, particularly in south-east England.

Supplies to the UK's two main crushers are relatively tight with little export activity, Mr Watts notes.

"Europe as a whole is in deficit for oilseed rape and has seen major imports from Australia, so the export perspective remains challenging.

Oilseed rape is a relatively small player in global oil markets, which are heavily driven by soya, palm oil and sunflower seed.

"Oilseed rape is already at quite a premium [compared with] other veg oils, which will inevitably check how far prices can go."

The barley area has seen considerable growth over recent years, but in many cases it has been chosen for agronomic reasons such as blackgrass control, rather than being grown for a specific market demand, notes Mr Watts.

This is potentially increasing the UK's barley surplus and will hasten the need to expand export markets, such as Saudi Arabia and China, if the trend continues, he says.

"We've seen the barley area fall in Canada and Argentina, whereas the UK has become something of a specialist producer."

### CEREALS EVENT DETAILS

cereals The Arable Event

* The event is to be held on 14-15 June at the 64ha site just south of Lincoln, with nearly 500 leading suppliers already booked to attend.
* Further discounts are available: for groups of 11-20 the price comes down to £19/ticket; for groups of more than 21 the cost is £18/ticket.
* The Cereals event is organised by Comexposium Haymarket Exhibitions and *Farmers Weekly* is the media partner.

### IN SUMMARY

* Competitiveness driven by price and quality
* Global markets set to remain competitive
* UK cannot compete on a raw commodity cost per tonne basis – it has some of the highest yields but also some of the highest land and operating costs
* Traceability and assurance provide competitive advantage over low-cost producers
* UK should focus on value-added markets and be more opportunistic

**Growers must:**

* Maximise optimum economic yield
* Grow varieties with market flexibility
* Manage costs – benchmark performance
* Ensure rotations are sustainable long-term